Written by **Bruce Walker** on October 27, 2012

Spain's Unemployment Rate Rises to One in Four

Spanish unemployment has risen again, this time to a level of one quarter of the workforce. Only Greece has a higher unemployment rate in the European Union. Spanish unemployment today is the highest in modern history and higher than at any time in the 36 years since the death of Francisco Franco. The current unemployment rate is more than double the average in the other nations of the eurozone.

This news comes when other bleak economic data from Spain shows that the plans to save Spain from economic disaster are not working. Earlier in the week, the GDP of Spain was reported to have shrunk by 0.4 percent in the last quarter, making it the fifth consecutive quarter of economic contraction in Spain.

Ebrahim Rahbari, an economic analyst for Citigroup in London, summed up the situation: "There is a huge amount of uncertainty in Spain right now. There are question marks about the banking sector and public finances and economic fundamentals suggest we will see a bailout sooner than later."

Ricardo Santos, an economist at BNP Paribas in London, was quoted by Bloomberg saying: "The situation is serious.There is still room for deterioration in unemployment. Activity is weak and the government will reduce jobs as there are strict targets to adjust the number of public sector temporary workers, especially in health and education."

Justin Knight at UBS in London also viewed the new data with concern, and cautioned that more than unemployment was involved: "Unemployment is one part of a multifaceted problem in Spain. There recession is looking very bad and it looks like it will be worse than forecast. Spain's public and private net external debt is the same size as Greece."

Sara Balina, an analyst in Madrid, noted: "It's unlikely that the government's forecasts will be met next year as fiscal consolidation accelerates…. Third-quarter data were better than expected because they were distorted by a temporary increase in demand before a value-added tax increase and by exports that may suffer from weakening growth in the euro zone." Elwin de Groot, a market analyst in Utrecht, said: "Contracting pressures in the economy persist. It will be very hard for the Spanish government to achieve its budget targets."

This uncertainty has affected the interest that Spain must pay on bonds simply to service existing debt. The interest on 10-year bond yield rose 6 basis points to 5.52 percent after the announcement of the latest bad news. That interest rate is 396 basis points higher than Germany has to pay on its 10-year bonds. Short term Spanish bonds were negatively affected by the news as well.

Spanish banks are doing very poorly too. CaixaBank, which is the third largest bank in Spain, showed profits which were 42 percent lower than the previous year. Declining values of real estate in Spain were a principal reason as was the rise in bad loans, which rose from 5.58 percent to 8.43 percent. Banco Popular Espanol, another large Spanish bank, announced that its profits had fallen by 23 percent.

This bad news comes three months after the European Central Bank offered to buy Spanish bonds in order to keep the borrowing costs of the Spanish government as low as possible. Prime Minister Rajoy is considering asking for a eurozone bailout, and he is also considering stronger austerity measures.

Spain is the fourth largest economy in the eurozone, after Germany, France, and Italy. So what happens in Spain matters more than what happens in a much smaller economy like Greece. This has led Spain to replace Greece, Ireland, and Portugal as the most serious threats to the survival of the euro.

Most analysts give Spain credit for trying to get a handle on its economic problems. The government, for example, has made austerity much more important than several other troubled European nations, and the prime minister has the advantage of having a single party that has a parliamentary majority.

Other problems, however, like the secessionist movement in Catalonia, represent politico-economic problems that nations like Greece, Ireland, and Portugal do not have. One thing is clear: The slow disintegration of the eurozone and the dreams of a United States of Europe as a panacea for the problems of the continent remain elusive. When one out of every four Spaniards who wants a job cannot find a job, there are very fundamental problems with Spain.

Photo of people waiting to enter an unemployment office in Madrid: AP Images