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After relief, questions arise about Greece plan

PARIS

In market barometer, costs increase at debt sale in Italy and Spain

BY DAVID JOLLY AND JACK EWING

The wave of relief in European markets that accompanied a new rescue plan for embattled euro zone governments appears to have mostly run its course, suggesting that investors are becoming more skeptical about the plan's prospects for success.

Officials in Brussels agreed Thursday to bolster the European Financial Stability Facility and to provide Greece with new financing on more favorable terms. Those terms would also be available to the other euro zone members that have received bailouts, Portugal and Ireland.

But as investors examine the details of the package, too many questions remain unresolved, Martin van Vliet, an economist at ING Bank in Amsterdam, said.

The bailout package "was a huge leap for European politicians," he said. "But it was a small step for the market."

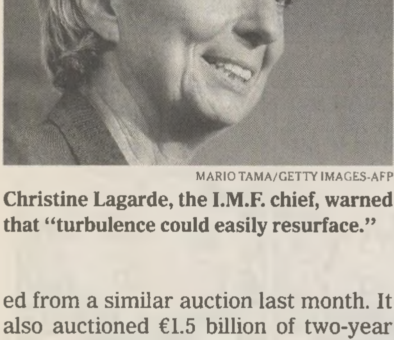
The Euro Stoxx 50 index, a barometer of blue chips in the 17 countries that share the euro, had been on a winning streak since July 18, when it fell to a 2011 low. But on Tuesday it slipped 0.11 percent.

A rally in the government bonds of "peripheral" euro zone members, including Spain and Italy, the two countries that European and International Monetary Fund officials are determined to protect, also petered out, with yields ticking back to around the 6 percent level at which they stood before the deal.

In perhaps the best barometer of investor enthusiasm, both Italy and Spain held debt auctions Tuesday, with somewhat disappointing results.

Spain sold €2.9 billion, or $4.2 billion, of three- and six-month bills, paying more and meeting with weaker demand than at a similar auction in June, the central bank said. The three-month debt was priced to yield 1.899 percent, while the six-month debt moved at 2.519 percent.

The Italian Treasury sold €7.5 billion of six-month bills that were priced to yield 2.269 percent, a much higher level than the 1.988 percent yield that resulted from a similar auction last month. It also auctioned €1.5 billion of two-year zero-coupon bonds priced to yield 4.038 percent.



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Mr. van Vliet noted that Greece remained hobbled by its borrowings and said that there was also a risk that the government in Athens would be unable to keep its promises to reduce expenditure and raise revenue.

"I think there's probably another Greek bailout to come," he said.

But the bigger problem, he said, was with the E.F.S.F. itself. While officials agreed to make the bailout fund more flexible and enhanced its role, they did not increase its size, and as a result it may prove unequal to the task ahead if countries beyond Greece, Portugal and Ireland run seriously afoul of the market.

"I'm not certain they could help Spain," he said, "not to mention Italy, if either of those had trouble."

Christine Lagarde, the I.M.F. chief, said Tuesday in New York that "the agreement shows that European leaders believe in the euro zone." But, she added, according to prepared remarks, "turbulence could easily resurface. For this reason, it is essential that the summit's commitments should be implemented quickly."

The euro itself has been doing relatively well, at least against the dollar, ticking up to $1.4509 on Tuesday, from $1.4425 before the deal was announced Thursday. But that may not be the best indicator, as the U.S. currency is under pressure owing to a political battle over raising the debt ceiling in Washington.

In one bright spot, the number of banks lining up for cheap European Central Bank loans dropped by one-third Tuesday, a possible sign that the deal last week had helped restore a measure of confidence and made it easier for weaker institutions to borrow in open markets.

Total demand for E.C.B. cash remained high, however, indicating that a significant number of institutions still faced doubts about their creditworthiness. The banks borrowed €164 billion, down from €197 billion last week but still well above normal levels.

Jack Ewing reported from Frankfurt.