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Spain’s borrowing costs soar at debt sale

By Victor Mallet in Madrid

Spain succeeded in selling more than €3bn of treasury bills on Tuesday, but paid a high price to maintain access to financial markets amid economists’ predictions that it would need a full international bailout for its struggling economy.

Spanish T-bill and bond auctions are being closely watched now that international demand for the country’s sovereign debt has collapsed, with the 10-year bond yield in the secondary market breaching 7 per cent – the level regarded as having triggered the bailouts of Greece, Ireland and Portugal over the past two years.

The treasury on Tuesday sold €2.4bn of 12-month bills at an average interest rate of 5.074 per cent, sharply up from the 2.985 per cent it paid at the previous auction last month. It sold €639m of 18-month bills at an average of 5.107 per cent, compared with 3.302 per cent previously.

Bid-to-cover ratios, a measure of demand, were 2.16 for the 12-month paper and 4.42 for the 18-month bills, both better than last time, and the treasury sold its maximum allocation at the auction.

The bigger test could come on Thursday, analysts said, when the Spanish treasury plans to sell more medium-term bonds as part of its funding programme to finance the budget deficit and repay maturing debt.

“The market is effectively broken and is starved of liquidity,” said Nicholas Spiro of Spiro Sovereign Strategy. “The Treasury is trying to mitigate the damage by curbing supply but this only exacerbates market illiquidity, pushing yields ever higher.”

“Spain’s borrowing costs are completely unsustainable and there is no good reason to expect them to fall in coming weeks,” said Megan Greene, director of eurozone economic research at Roubini Global Economics. “Capital flight from Spain has accelerated, and the only realistic way to plug that gap is with official financing.”

An agreement by eurozone governments earlier this month to fund the recapitalisation of Spanish domestic banks with a credit line to Spain of up to €100bn has failed to ease fears that the eurozone’s fourth-biggest economy will need further aid.