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Europe Stews on Greece, and Markets Sweat Out the Wait

John Kolesidis/Reuters

The police in Athens clashed with protesters on Sunday. Greece is planning drastic austerity measures to qualify for foreign aid.

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European leaders headed home from a weekend of meetings in Washington vowing bolder steps to address widening anxiety about the Continent's debt burden. But it will most likely be weeks or even months before any new action comes to pass.

It's not clear whether the global markets will give them that much time. Investors will be watching a series of crucial votes by European parliaments due this week on an earlier package aimed at preventing a default by Greece, Ireland and Portugal.

Sensing urgency from the markets and keenly aware of the potential consequences of a rejection of that plan by the German Parliament when it votes on Thursday, Chancellor Angela Merkel drew parallels on Sunday between the risk of a Greek default now and the broader chaos in the financial system that followed the collapse of Lehman Brothers in 2008. "We are doing it for ourselves," she said in a radio interview on Sunday night aimed at persuading a skeptical German audience that setting aside hundreds of billions of euros to prop up shaky neighbors made sense. "Otherwise, the stability of the euro would be in danger."

"We can only take steps that we can really control," she said. If a Greek default started a fresh financial crisis, "then we politicians will be held responsible."

All 17 member countries of the euro bloc must approve the strengthening of the rescue package, known as the European Financial Stability Facility, with votes set on Tuesday in Slovenia, Finland on Wednesday and Germany on Thursday. So far, only six countries have signed off, but European leaders say the process should be completed by mid-October.

Only after that do they seem likely to come up with a broader rescue package aimed at relieving

the anxiety that has driven markets lower in recent weeks. The markets may not wait that long.

Indeed, for political leaders like Mrs. Merkel, the problem now is that investors have already concluded that the 440 billion euro bailout fund, the expansion of which is being voted on this week, might not be enough to stop the contagion from spreading. On Friday, the yield on two-year Greek notes rose to 69.7 percent, suggesting that investors considered a default all but inevitable.

When the initial expansion of the bailout fund was agreed to in July, worries centered on three smaller countries on the periphery of Europe - Greece, Ireland and Portugal. Since then, however, fears have multiplied about the ability of Spain and Italy, the third-largest economy in the euro zone, to keep borrowing heavily, creating doubts about pools of debt from countries that right now are considered "too big to bail."

The worry is that a default by Athens would threaten these and other sovereign borrowers, as well as banks in France and Germany that hold tens of billions of euros in Greek debt. That, in turn, has helped push shares of American banks, which are intertwined with their European counterparts, sharply lower, dragging down the broader market.

"The next three weeks are absolutely critical, and they can still stabilize the markets, but I wouldn't tell my clients to put money to work until we see it," said Rebecca Patterson, chief market strategist at J.P. Morgan Asset Management. "As we stand right now, European policy makers have gotten well behind the curve. It's not about the periphery anymore; it's about the core, too."

A fresh indicator of market confidence in European borrowers will come as Italy sells billions of euros in bonds this week, culminating on Thursday. Weak demand at an auction on Sept. 13 brought global worries about the safety of Italian debt, which stands at a whopping $2.3 trillion, making Italy one of the world's largest borrowers.

What is more, Italy's debt load equals 120 percent of the country's gross domestic product. In Europe, only Greece is in worse shape, with debt totaling roughly 150 percent of G.D.P.

In addition, the Greek Parliament must vote this week on a recently proposed property tax increase that is seen as a test of whether the country will stick to past promises to tighten its belt.

Greece is also trying to show its austerity program is enough to qualify for an aid payment due in October.

Last week, anxiety about Europe led to the worst week for the Dow Jones industrial average since the onset of the financial crisis in 2008, and as was the case then, it seems events are moving faster than political leaders, further narrowing their options.

Besides the 6 percent drop on Wall Street last week, investors are concerned about the continuing rout in European stocks, especially bank shares, which stand at two-year lows. In another troubling echo of the events of 2008, traders abandoned former havens like gold, oil and other commodities, preferring the safety of United States Treasury securities or, better yet, cash.

In Asia on Monday, investors remained nervous. The Nikkei 225 index in Japan was down about 2 percent in the early afternoon, and the Hang Seng index in Hong Kong was down about 1.5 percent.

Meanwhile, deep divisions persist, not just among political leaders in different countries but among policy makers and the heads of Europe's biggest banks.

Under a deal worked out in July, European banks agreed to take a 21 percent loss on their holdings of Greek debt as part of a restructuring that would give Greece more time to pay back what it owes, but now it appears political leaders in Germany and elsewhere want the banks to take a bigger hit.

Wolfgang Schäuble, Germany's finance minister, suggested as much in a tough speech delivered to international bankers at the Institute for International Finance over the weekend. He argued that because of their bad lending decisions, bankers shared the blame for Greece's predicament and should also share in the cost.

"Without a substantial contribution from financial institutions," he said, "the legitimacy of our westernized capitalized systems will suffer."

But Josef Ackermann, chief executive of Deutsche Bank and the chairman of the Institute for International Finance, quickly rejected any effort to renegotiate what had been agreed to in July. "It is not feasible to reopen the agreement," he said.

Now, not only must the original July plan be approved, but policy makers must agree on how to augment it in the face of widening worries.

"The Europeans are trying to balance the process of approval in 17 parliaments and trying to get the most firepower" from the stability fund, said Robert B. Zoellick, president of the World Bank.

Just how to do that, including what can be purchased and how it might be leveraged, was "richly discussed," Mr. Zoellick said at the annual meetings of the International Monetary Fund and the World Bank this weekend.

On both sides of the Atlantic, there is a feeling that policy makers have few arrows left in their quiver. A Federal Reserve announcement on Wednesday that it would buy $400 billion in long-term Treasury securities left the stock market unimpressed.

"It gets worse before it gets better," said Adam Parker, Morgan Stanley's chief United States equity strategist. "If you're banking on a policy to bail you out, you will be disappointed."

Landon Thomas Jr. and Jack Ewing contributed reporting.

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