Mario Draghi is waiting for Spain to get back to him on whether his plan to save the euro is needed.

One month after the European Central Bank president unveiled an unprecedented bond purchase program to rescue Europe’s embattled southern fringe, Spanish Prime Minister Mariano Rajoy is showing reluctance to ask for the aid he pushed for with Italy on concern about the terms attached to it. As ECB policy makers meet in Slovenia today, Spanish 2-year note yields are more than 50 basis points higher than the five-month low touched on Sept. 7, the day following their last decision.

“We’re back at this game of brinkmanship between the ECB and governments again, and it’s a case of who makes some concessions first,” said Nick Matthews, senior European economist at Nomura International Plc in London. “The markets will continue to play a significant role here and Draghi needs them to turn up the pressure.”

Spain will face a test of that pressure today as it sells as much as 4 billion euros ($5.2 billion) of bonds after Finance Minister Luis De Guindos said that officials are still considering whether they actually need ECB help. Italian Prime Minister Mario Monti cautioned last week that aid shouldn’t hinge on more conditions than leaders already signed up to and the International Monetary Fund shouldn’t need to police it.

Fellow Leaders

“What people tend to forget is that the ECB’s bond plan is only complementing the implementation of financing help agreed by the governments,” said Athanasios Orphanides, who was an ECB governing council member until May and now teaches at the MIT Sloan School of Management in Cambridge, Massachusetts. “So if Prime Ministers Rajoy and Monti are not happy about conditionality or IMF involvement then they should take it up with their fellow leaders and not complain about the ECB.”

Such considerations may colour today’s gathering of ECB officials in Ljubljana for their monthly policy decision. Economists expect them to keep the key interest rate at a record low of 0.75 percent, according to the median forecast of 52 economist forecasts.

The ECB holds its Governing Council meeting away from Frankfurt twice a year. It will release its decision at 1.45 p.m. local time, and Draghi will brief reporters at a press conference 45 minutes later. The Bank of England will hold its bond-purchase target at 375 billion pounds ($603 billion) and keep its rate at 0.5 percent, separate surveys of economists show. That decision is due at noon London time.

Waiting Game

Investors will watch Draghi’s presentation today for clues on progress since he unveiled an unlimited government bond-purchase plan which would see the ECB buying maturities of up to three years in the secondary market. The ECB would act if countries applied for aid to the euro region’s bailout fund, the European Stability Mechanism, which would then purchase government bonds in the primary market.

While officials wait for any request to come through, Draghi has sought to sell the plan in Germany, whose Bundesbank President Jens Weidmann was the sole dissenter on the ECB Governing Council. In a bid to soothe concerns in Europe’s largest economy after a media outcry, Draghi pledged to German lawmakers on Sept. 25 that any bond buying must be “accompanied by reforms from governments that address deep-rooted issues.”

Spain has yet to signal if it will accept such terms. De Guindos said Oct. 1 that officials are studying the ECB plan and will make the “best decision for the interests of the Spanish economy.” That followed the unveiling of a fifth austerity package in nine months. The government announced plans to borrow 207.2 billion euros next year, which would increase its debt load to 90.5 percent of gross domestic product.
Bundesbank’s Fears

“The fears of the Bundesbank now seem to be coming true, that the governments are finding it very difficult to fulfill the conditions so that the ECB can act,” said Christoph Kind, head of asset allocation at Frankfurt Trust, who helps manage about $20 billion. “I think the ECB had imagined things would run differently.”

While Spain seeks the lightest possible terms from creditor governments and the ECB as a reward for austerity measures already implemented, it’s unlikely that Draghi will agree to a no-strings attached bond purchases, said Laurent Fransolet, head of interest-rate strategy at Barclays Plc in London.

“If you don’t have conditionality, you don’t have a deal,” he said. “It’s very unlikely that the ECB will back down on conditionality. The markets know that, they also know that this won’t happen overnight, and that a lot of sequencing is involved.”

The Spanish 10-year yield reached a euro-era record 7.75 percent on July 25, before Draghi pledged the next day to do “whatever it takes” to safeguard the monetary union. It was at 5.81 percent at the close of markets yesterday. Two-year notes were at 3.22 percent, up from as low as 2.71 percent on Sept. 7.

Bond yields are unlikely to surge because the ECB’s plan has quelled investor concern for now, Fransolet said. Spain’s next confrontation with financial markets will come today when the government tests investor appetite for bonds maturing in 2014, 2015 and 2017.

“People are not going to short Spain if the ECB is only a phonecall away,” he said.

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