FRANKFURT—The European Central Bank allotted a record €489.19 billion ($639.96 billion) in the first of two keenly-awaited three-year refinancing operations Wednesday, easing fears of a new credit crunch in Europe.

However, analysts played down hopes that the funds would help prop up euro-zone sovereign bond markets, despite the heavy demand, which was at the high end of the market’s expectations.

The ECB said it allotted the three-year loans—the longest maturity ever offered by the central bank—to 523 banks. The amount allotted was the most ever for a longer-term refinancing operation, exceeding the previous record of €442 billion set at the June 2009 one-year auction.

"The huge allotment should be a significant step to relieve European banks of funding pressures," said Christian Schulz, an economist at Berenberg Bank in London.

The additional funds "might help to address recent signs of renewed tensions in credit markets and support bank lending," said Jonathan Loynes, an economist at Capital Economics in London.

However, strong demand is also "a sign that markets are still very weak and one of the last sources of funding comes from the ECB," said Patrick Jacq, a strategist at BNP Paribas in Paris. "That means there could be some limited stress in the very near term."

At a separate three-month refinancing operation Wednesday, the ECB allotted €29.74 billion to 72 banks.

The euro and peripheral euro-zone bonds built on early gains in anticipation of the central bank’s liquidity offer, with the euro hitting a new high for the day, and the week, of $1.3199 in the aftermath of the announcement. But they later slipped back as traders booked profits.

The record allotment comes as the ECB aims to head off a potential credit crunch and economic slowdown or even recession next year by providing unlimited liquidity to euro-zone banks.

Some market participants had hoped the new funding facility might encourage private banks to buy their government’s debt or hold on to existing sovereign bonds, reducing pressure on the ECB itself to support sovereign bond markets.

Strong demand at Tuesday’s successful Spanish treasury bill auction signalled that the enhanced liquidity may already be helping some peripheral debt markets.

But Mr. Loynes warned that Wednesday’s operation is unlikely to ease the sovereign-debt crisis. "Banks in the troubled economies have generally been cutting their exposure to sovereign debt in recent months, even as shorter-term borrowing from the ECB has risen," he said.

And even if much of the funds does flow into peripheral euro-zone government bonds, "the amounts involved are not a substitute for the much bigger purchases, or guarantees, which markets have been hoping for from the ECB itself," Mr. Loynes added.

"The allotment could lead banks to buy government bonds, but as long as such bonds remain volatile, that won’t help" end the crisis, Mr. Jacq said.
Italian and Spanish bond yields were actually higher on the day following the result of the central bank's operation, as investors booked profits from the earlier rally.

The yield on the two-year Italian bond rose by 0.07 percentage point to 4.93%, having traded as low as 4.69% earlier Wednesday, according to Tradeweb. The two-year Spanish bond yield rose by 0.04 percentage point to 3.30%, off an earlier low of 3.14%.

ECB President Mario Draghi reiterated Monday that he hopes the new liquidity measures will restore credit to households and firms. But he said banks can also use the cash to buy back their own bonds or buy government bonds.

Analysts have warned that banks' appetite for the risk of additional government bonds on their balance sheets may be limited given the pressure they are under to reduce the size and riskiness of their balance sheets and build up their reserves. Banks may instead park the excess liquidity in the ECB's overnight deposit facility or use it to help refinance debt, analysts said.

Analysts had expected strong demand at the three-year operation due to the possibility of early repayment after one year, as well as banks' efforts to restructure their balance sheets and the expiry of a three-month refinancing operation this week.

Demand was expected to come largely from banks in peripheral euro-zone countries, where the long-term funding market is currently very difficult. The ECB doesn't provide a break-down of the banks bidding for the funds.

The ECB’s second three-year refinancing operation is due to be allotted on Feb. 29, 2012.

—Neelabh Chaturvedi in London contributed to this article.

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