BRUSSELS—Leaders of 25 European Union governments agreed Monday night on what some billed as a historic pact to move to closer fiscal union and signed off on the details of a permanent bailout fund for the euro zone—yet Greece's looming debt restructuring threw a shadow over the summit.

The leaders discussed Greece but provided no further clarity on the eventual outcome of an issue that was creating increasing nervousness in financial markets Monday.

European stocks fell Monday and the euro lost ground against the dollar, while Portugal's borrowing costs surged, with the 10-year government bond yield reaching euro-era highs. The summit ended after markets had closed in the U.S.

In a joint statement, the EU leaders noted "tentative signs" of economic stabilization in Europe but said financial market tensions continue to weigh on the economy.

The final shape of the deal to reduce Greece's debt is still unknown after months of wrangling between the Greek government, representatives of bondholders, and officials from the EU, the International Monetary Fund and the European Central Bank.

After Monday's meeting, senior officials said they expected a debt-restructuring accord in "coming days," in time to launch a bond-exchange offer to private investors by mid-February.
Mr. Papademos told a press conference that Greece would continue negotiations with private sector creditors this week with a goal to reach a deal that wouldn't require more financing from official lenders. "It's hard to predetermine if we will need additional financial support. Our intention is to avoid it," he said.

Banks that currently hold Greek bonds amounting to €206 billion ($270 billion) are in talks with Athens to slash the amount by half through a bond swap.

Asian markets rose in early trading Tuesday in part on the Greek prime minister's comments, with Japan up 0.4%, Australia up 0.2% and South Korea up 0.8%.

The uncertainty about the debt agreement—and whether it will be forced on unwilling bondholders—is raising questions particularly about Portugal, whose €78 billion bailout agreed upon last year is now looking inadequate to some investors.

Yields on two-year Portuguese bonds rose over 21%, indicating investors see a significant default risk. Portugal Prime Minister Pedro Passos Coelho said holders of Portuguese bonds will never face the write-offs that will be suffered by investors in Greece. "Portugal's debt is perfectly sustainable," he said after the meeting.

The fiscal pact agreed upon Monday is a German-sponsored treaty among the 17 euro-zone nations and eight other EU countries that imposes tighter budget discipline on euro members and is aimed at preventing a repeat of the Greek debt disaster. Britain and the Czech Republic are the only two EU countries not to join.

"Considering the time frame, this was a real masterpiece," German Chancellor Angela Merkel said. The pact was first mooted in December.

While the euro members share a central bank and monetary policy, absence of strong budget coordination has been one of the weaknesses that led to the crisis.

The leaders agreed that the European Court of Justice will be empowered to impose fines on euro countries running excessive deficits. Fines will be capped at 0.1% of gross domestic product. For Italy, for example, that could mean fines as high as $2 billion.

It will require governments to keep their budget deficits to an average of 0.5% of GDP over the economic cycle—and to reduce their total government debt toward 60% of GDP over time.

The EU has long-standing rules that are supposed to limit budget...
deficits in any year to 3% of GDP, and limiting government debt to 60% of GDP, but they have never been enforced.

Some analysts say the pact fails to address the current crisis or capture the problem of private debt, which lay at the root of the economic travails of countries such as Ireland and Spain. They also question whether it makes sense to impose big fines on governments struggling with budget shortfalls.

The agreement "offers little in the way of economic substance and does nothing to tackle the problems at hand," said Sony Kapoor, managing director of the Re-Define think tank. Instead, he said, its purpose is "to assure skeptical German voters and the ECB that troubled euro countries would be fiscally virtuous."

Some analysts also say the pact biases the euro zone toward recession. Not only does it limit governments' ability to use budgetary policy to avert an economic downturn, but the long-term requirement to lower government debt would make it harder for nations with high debts, such as Italy, to grow their way out of their problems.

However, supporters say the pact isn't as rigid as depicted and offers flexibility in the face of an unusual crisis.

While the leaders were expected to endorse a treaty creating the €500 billion ($660 billion) permanent bailout fund, known as the European Stability Mechanism, expected to come into operation at midyear, officials said a proposal to boost the bailout resources would be delayed until the leaders' next scheduled summit on March 1.

Germany has been resisting a proposal that would lift the €500-billion cap on the combined total resources of the new fund and the temporary fund. That would provide a total commitment of about €750 billion.

Complicating the discussions over cutting Greece's debts to private investors are new demands by Germany for greater oversight over Greece's budget affairs and growing concerns that Greece's funding needs might be bigger than originally thought.

A German proposal was circulated last week among euro-zone finance ministry officials calling for Athens to cede some control over its budget decisions to a special EU commissioner appointed by the euro zone as the price for the new bailout —Greece's second in two years. But officials said Mrs. Merkel didn't push the proposal.

But officials said that Ms. Merkel didn't push the proposal, and it didn't appear to have much chance of success.

"Greece's recovery plan can be implemented only by the Greeks," French President Nicolas Sarkozy said after the summit. "No country can possibly be placed in trusteeship. It would not be reasonable, democratic and efficient."

Both the fiscal pact and the treaty creating the ESM must be ratified by national parliaments.

—William Boston, Gabriele Parussini and Patricia Kowsmann contributed to this article.

Write to Stephen Fidler at stephen.fidler@wsj.com and Laurence Norman at laurence.norman@dowjones.com