LOCAL economists believe the optimism over the $100 billion (S$161 billion) bailout for Spanish banks will soon be undermined by renewed concern over Greece and Italy.

They also noted that Singapore is already feeling the effects of the crisis, even though it has limited direct exposure to these countries in terms of trade and financing.

OCBC economist Selena Ling told The Straits Times: “Spain’s bank bailout will provide some temporary relief.”

Euro zone finance ministers agreed to the financial lifeline for Spain’s banks on Saturday in a bid to ringfence the country from any further fallout from Greece.

The move has “increased hopes that European policymakers will do what needs to be done to contain the crisis”, said Mr Leif Ekesen, chief economist for India and Asean at HSBC.

“However, Spain and other periphery countries still face a very challenging fiscal task and macroeconomic environment.”

Greece goes to the polls on Sunday in a crucial election that could determine whether it will stay in the euro zone — and whether the crisis enters a new phase by bringing a disorderly debt default much closer. But the spotlight is now also on Italy, said Ms Ling.

“Spain has crossed the hurdle for the banking bailout, so markets will... start looking in much closer detail at Italy.”

Calling Italy the “next weakest link in the euro zone shack”, IG Markets strategist Justin Harper noted that Italy did not have the Spanish bank problem of being “choked with real estate property loans leaving little headroom for bad debts.”

Italy’s problems centre on a lack of appetite for its government bond market, one of the largest in the world, said Barclays Capital economist Leong Wai Ho.

Singapore is likely to be more affected by problems in Italy than Spain as it accounts for a greater share of exports, albeit at a low level. Shipments to Italy comprised just 0.24 per cent of Singapore’s exports last year.

Italian banks and asset managers also have a larger presence in Singapore, Mr Leong noted, adding that the euro zone’s direct impact on Singapore was “not too large”. Singapore’s exposure to trade financing from those countries is also limited. Excluding British and Swiss banks, the claims by other European banks account for just 1.3 per cent of total banking system assets, according to a Citi report on May 28.

Economists were more worried about the indirect effects of contagion risk and global uncertainty on Singapore.

Ms Ling noted that contagion risk is an issue of market confidence, and so Singapore could be affected almost immediately if sentiment in financial markets sours.

Mr Leong said: “Contagion, we have always said, would most likely come not by trade channels, but through capital markets...”

“Fortunately, with the liquidity buffers that central banks have put in place, the probability of contagion is minimised.”

Dr Tan Khay Boon, senior lecturer at UniSIM’s School of Business, added: “If (Italy requires a bailout), Singapore trade and investment will be affected, but it will not be severe unless France, Germany and the Netherlands are also affected.”