After 3 bumpy years, Europe turns

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FRANKFURT, Germany — The worst of Europe's financial crisis appears to be over.

European leaders have taken steps to ease the panic that has plagued the region for three turbulent years. Financial markets are no longer in a state of emergency over Europe's high government debts and weak banks. And this gives politicians from the 17 countries that use the euro breathing room to fix their remaining problems.

Threats remain in Greece and Spain, and Europe's economy is forecast to get worse before it gets better. But an imminent breakup of the euro now seems unlikely, analysts say.

"We are probably well beyond the worst," says Holger Schmieding, chief economist at Berenberg Bank in London. He says occasional flare-ups in financial markets are likely, but "coming waves of turmoil will be less severe."

Evidence that Europe has turned a corner can be found in countries' falling borrowing costs, rising stock markets and a slow but steady stabilization of the region's banking system:

• The interest rates investors are demanding to lend to struggling countries such as Spain and Italy have plunged — a sign that investors are less fearful about defaults. Spain's two-year bonds carry an interest rate, or yield, of just under 3 percent — down from a July 24 peak of 6.6 percent. Italy's bond yields have dropped just as sharply.

corner on crisis

• The Stoxx 50 index of leading European shares has surged 26 percent since June 1, while the euro has risen from $1.26 to $1.29 over the same period.

• After months of withdrawals, deposits are trickling back into Greek and Spanish banks, signaling that fears of their imminent financial collapse are abating. And U.S. money market mutual funds loaned 16 percent more to eurozone banks in September. That was the third straight monthly increase in short-term funding to European banks, and follows a 70 percent reduction since May 2011.

Much of the credit for easing Europe's financial crisis goes to the European Central Bank, which has become more aggressive over the past year under the leadership of Mario Draghi.