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By Emma Charlton and Lucy Meakin

Feb. 26 (Bloomberg) -- Italy's government bonds slumped, leading declines among securities from Europe's high-deficit nations, as inconclusive election results triggered renewed concern that the region's sovereign-debt crisis will worsen.

Italian 10-year yields climbed the most in 14 months as results showed pre-election favorite Pier Luigi Bersani won the lower house by less than a half a percentage point, while Silvio Berlusconi, the former premier fighting a tax-fraud conviction, gained a blocking minority in the Senate. Spanish and Portuguese securities also slid, while German and Finnish bonds advanced for a fourth day. Italy sold 8.75 billion euros ($11.5 billion) of six-month bills at the highest yield since October.

"There are huge moves in Italian bonds because of the uncertainty," said Lyn Graham-Taylor, a fixed-income strategist at Rabobank International in London. "The Italian election result hasn't gone as the market anticipated. We could be in a stalemate in Italy for a while and that's dragging all the peripheral spreads wider compared with Germany," he said, referring to the yield difference between bunds and securities from Europe's high deficit nations.

Italy's 10-year yield climbed 32 basis points, or 0.32 percentage point, to 4.81 percent at 12:57 p.m. London time after rising as much as 44 basis points, the biggest increase since Dec. 19, 2011. The 5.5 percent bond due November 2022 fell 2.535, or 25.35 euros per 1,000-euro face amount, to 105.71.

Spread Widens

The extra yield, or spread, investors demand to hold Italian 10-year securities instead of similar-maturity bunds widened 41 basis points to 334 basis points after expanding to 347 basis points, the most since Dec. 11.

Berlusconi and former comedian Beppe Grillo, the candidates running to reverse the austerity measures implemented by Premier Mario Monti to contain the country's financial crisis, won about 55 percent of the popular vote.

Bersani's coalition polled 29.54 percent in the lower house compared with 29.18 percent for Berlusconi's group and 25.55 percent for Grillo. Bersani and his allies got 31.63 percent of votes in the Senate, versus 30.72 percent for Berlusconi and 23.79 percent for Grillo, according to the Interior Ministry. An Italian government requires a majority in both houses.

The market may use the Italian election results to test the European Central Bank's pledge to backstop the euro region, Michael Leister, a fixed-income strategist at Commerzbank AG in London, wrote in a note to investors. Ten-year yields may climb to 5.50 percent in an "adverse scenario," he said.

Italian Auctions

Italy sold the 183-day bills at a yield of 1.237 percent, the highest since October. Investors bid for 1.44 times the amount of securities allotted, down from 1.65 times on Jan. 29.
The Rome-based Treasury plans to sell as much as 6.5 billion euros of five- and 10-year bonds tomorrow.

"Italy's election results suggested a hung parliament, the most unfriendly outcome for financial markets," Giuseppe Maraffino, a strategist at Barclays Plc in London, wrote in a note to clients. "Pressure on Italian yields is likely to increase in the next few days, also fueled by supply pressure ahead of the auctions."

Volatility on Italian bonds was the highest in euro-area markets, followed by those of Spain and Germany, according to measures of 10-year debt, the yield spread between two-year and 10-year securities and credit-default swaps.

Spanish 10-year yields jumped 11 basis points to 5.28 percent after rising to 5.59 percent, the highest since Dec. 10.

Portugal's 10-year yield climbed 26 basis points to 6.43 percent, while its two-year rate surged 30 basis points to 3.55 percent after reaching 4.29 percent, the most since Dec. 3.

German Spreads

German 10-year yields fell eight basis points to 1.47 percent after dropping to 1.46 percent, the lowest level since Jan. 3. The rate on similar-maturity Finnish bonds declined seven basis points to 1.67 percent.

French and Belgian government bonds underperformed their German peers. The additional yield investors demand to hold French 10-year bonds over similar-maturity German bunds widened four basis points to 71 basis points, after reaching 75 basis points, the most since Nov. 21. The Belgian-German 10-year spread expanded four basis points to 92 basis points.

Italian government bonds returned 11 percent in the past year through yesterday, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies. Spanish securities gained 6 percent, while German bunds rose 3.5 percent, the indexes show.

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