FRANKFURT—European Central Bank President Mario Draghi signaled Thursday he was pleased with the recent decline in the euro’s exchange rate and outlined a number of forces that may weaken it further—providing a potential boost to weak inflation in the region.

Mr. Draghi, at his monthly news conference after the bank held its key interest rates at record lows, made unusually blunt comments about exchange rates. Central bankers typically shy away from such direct remarks on currencies.

Instead, Mr. Draghi offered a long list of reasons why the euro has cheapened, which in addition to raising inflation should provide a boost to the bloc’s fragile economic recovery via stronger exports.
"The fundamentals for a weaker exchange rate are today much better than they were two or three months ago," Mr. Draghi said. Since a recent peak around $1.40 in the spring, the euro has fallen steadily. The currency, which had been trading at $1.3386 just before Mr. Draghi’s comments, fell to $1.3340 after the news conference before recovering slightly.

"I thought it was surprising that he was so explicit" about the euro’s recent decline, said Beat Siegenthaler, currency strategist at UBS. UBSN.VX -0.78% "It would seem to confirm that the euro was a major objective" when the ECB decided to launch an array of stimulus measures two months ago to counter too-low inflation and its threat to the euro zone’s fragile recovery.

Mr. Draghi cited a number of factors for the currency’s drop, including less capital flowing into the region, a reduction in euro holdings by other central banks and expectations that the U.S. Federal Reserve would raise interest rates far in advance of the ECB.

"Markets have perceived that monetary policy in the euro [zone] and United States are, and are going to stay, on a divergent path for a long period of time," Mr. Draghi said.

At the ECB’s June 5 meeting, central bank officials reduced their key lending rate to 0.15% and, for the first time, set a negative rate on bank deposits parked overnight at the ECB, of -0.1%. They also announced four-year loans at very low interest rates to banks on the condition that they, in turn, raise lending to the private sector.

The loans—which will become available starting in September—should help businesses, Mr. Draghi said, noting that a recent ECB survey detected the first pickup in credit demand since the onset of the financial crisis.
More stimulus is likely to come. The ECB has "intensified" preparations to purchase bundles of bank loans called asset-backed securities, and the preparations will yield results, he said. The groundwork "is with the expectation that we will take action in this field," Mr. Draghi said.

Mr. Draghi's emphasis on the June easing measures suggests that more aggressive steps, including large-scale purchases of public and private debt known as quantitative easing, remain a distant prospect. He played down the July dip in the annual inflation rate to 0.4%, attributing it to energy prices. Inflation should gradually grind higher toward the ECB's 2% target in 2015 and 2016, Mr. Draghi said.

"It looks like the bar for [quantitative easing] is set relatively high given the faith the ECB has that its package of measures in June will do the trick," said Ken Wattret, economist at BNP Paribas, BNP.FR -1.37%

Mr. Draghi said the recent escalation of tensions in Russia and Ukraine could weigh on the euro zone's "moderate and uneven" recovery. But it is difficult at this point to gauge the effects of geopolitical risks or the recently announced sanctions on Russia, he said.

Mr. Draghi put the bulk of responsibility for the bloc's growth prospects on governments, not the ECB. Structural reforms "now need to gain momentum to enhance the euro area's growth potential," he said.

—Paul Hannon contributed to this article.

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