FRANKFURT—European Central Bank President Mario Draghi played down fears that Italy's indecisive election could reignite Europe's debt crisis, saying that financial markets have taken the election results in stride and that Italy's current political mess doesn't threaten its budget discipline.

The ECB announced no new measures after its monthly meeting Thursday to spur economic growth in the euro zone, despite cutting its inflation forecasts for 2014 to well below the bank's 2% target. The central bank's inaction underscored that it believes it is up to euro-zone governments to help the economy and employment.

"We live in democracies," Mr. Draghi said in his first public comments on Italy's elections in late February, which have so far failed to produce a government and reflected deep public resistance to fiscal austerity. After some initial "excitement," financial markets have calmed, Mr. Draghi said.

Characterizing much of Italy's deficit-reduction plans as on "automatic pilot," he played down fears that the political stalemate in Rome would lead to a reversal of fiscal austerity. "Italy, like all the other countries, should continue on the structural reform path" and build on the significant fiscal consolidation it has already achieved, Mr. Draghi said.

A majority of Italian voters supported political parties, especially those led by comedian Beppe Grillo and former Premier Silvio Berlusconi, that have pledged to soften
or reverse fiscal austerity measures that Italy has already enacted.

"I think Mario Draghi is being a tad complacent when he says policy continuity is assured" in Italy, said Nicholas Spiro, head of Spiro Sovereign Strategy, a consulting firm. "This is a country that has given a resounding thumbs down to austerity and economic reform."

The election aftermath has raised concerns from many analysts that the ECB's offer to prop up embattled euro nations' bond markets might lose its power to reassure bond investors.

The ECB last year created a bond-buying facility called Outright Monetary Transactions, or OMT, to counter fears that the euro zone might break up, which Mr. Draghi argued were leading to destabilizing capital flight from some countries.

But his pledge last summer to do "whatever it takes" to preserve the euro had a crucial caveat: Countries would first have to apply for a credit line from the euro zone's bailout fund and agree to further economic reforms and deficit reduction. No country has raised its hand so far, and the ECB hasn't purchased any bonds under the new program.

The mere presence of the ECB’s conditional offer of intervention has helped limit the post-election rise in Italy's borrowing costs, despite the country’s political uncertainty. The yield on the 10-year government bonds was 4.5% late Thursday, versus more than 6.5% in July 2012 when fears of a euro breakup were gripping markets.

The muted market response has two possible explanations, some observers say. One is that investors believe Italy's squabbling politicians will eventually form a governing coalition and continue with the economic overhauls insisted upon by ECB and Germany. The other, investors believe, is that the ECB would ultimately intervene to prevent a run on Italy's bond market, and save the euro zone, even if politicians in Rome can't form a government and negotiate conditions for aid from the euro zone.

But Mr. Draghi was firm that the ECB won't water down its insistence on conditionality. "We know what the OMT is. We know the rules. It's there. That's it," he said.

The ECB left its key interest rate at 0.75% for an eighth straight month, even though the bank reduced its forecasts for economic growth and inflation. ECB staff economists expect inflation to be 1.6% this year and 1.3% in 2014, well below the ECB's target of just under 2%. That left many analysts wondering why the central bank didn't cut rates Thursday.
Gross domestic product in the euro zone has failed to expand since the third quarter of 2011 and is expected to shrink again this quarter. Unemployment is at a record euro-era high of nearly 12%. The joblessness rate is twice as high for those under 25 years old, which Mr. Draghi called "a tragedy."

"For any other major central bank, they would be easing policy," said Ken Wattret, economist at BNP Paribas. "Increasingly, the inflation projections are inconsistent" with the ECB's definition of price stability, he added. "If you're not [cutting rates] now, what are you waiting for?"

Mr. Draghi said the ECB's governing council discussed a rate cut Thursday. The decision to stand pat was taken by "prevailing consensus," meaning some members wanted a reduction.

The ECB took no other steps to reduce the wide gap in private-sector borrowing costs between Germany and Southern European countries. "We always think and study, but we are not planning anything special," he said. "Each week we have a new angst. And so my suggestion to you is once you get this from gossips coming from friendly fire, just come over and check with us," Mr. Draghi said.

Mr. Draghi rejected speculation in the German media that the ECB might pull out of the "troika" of inspectors overseeing bailout programs in Greece, Portugal and Ireland. The International Monetary Fund and European Union are the other members.

German newspapers this week reported the ECB was considering an exit, reflecting fears of its conservative members such as Germany’s Bundesbank that the ECB's troika role weakens its political independence.

Write to Brian Blackstone at brian.blackstone@dowjones.com

A version of this article appeared March 8, 2013, on page A6 in the U.S. edition of The Wall Street Journal, with the headline: ECB Chief Plays Down Italy Fears.