

(BN) Draghi Says Low Rates Should Fuel Economic Recovery This Year

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(See TOP CRIS for more on the sovereign debt crisis.)

By Matthew Brockett

Feb. 7 (Bloomberg) -- European Central Bank President Mario Draghi said an economic recovery should begin later this year as an absence of inflation risks allows the bank to maintain record-low interest rates.

"Later in 2013, economic activity should gradually recover, supported by our accommodative policy stance," Draghi said at a press conference in Frankfurt after policy makers kept the benchmark rate at 0.75 percent. Inflation risks are contained, allowing the ECB's policy "to remain accommodative," and economic weakness will prevail only "in the early part" of this year, he said.

Latest data suggest the 17-nation euro economy, which slipped into recession last year, is starting to stabilize, easing pressure on the ECB to lower rates further. At the same time, a rising euro could hurt exports and stymie the recovery before it has begun, and looser monetary policy in the U.S. and Japan may continue to weaken the dollar and the yen.

The euro fell as Draghi spoke, dropping more than half a cent to \$1.3487. It reached a 14-month high against the dollar this month and a three-year high against the yen. It has climbed 11 percent on a trade-weighted basis since Draghi pledged on July 26 to do whatever is needed to preserve Europe's monetary union.

Draghi said that the euro's exchange rate is in line with its long-term average, though officials will monitor it in case a "sustained" appreciation alters the ECB's assessment of risks to price stability.

#### Strong Euro?

"The euro is a little bit too strong," Bernard Charles, Chief Executive Officer at the French software maker Dassault Systemes SA, said in an interview with Bloomberg Television today. This will "have an effect this year" on the economy and its "capacity to export," he said.

The Bank of England kept its target for bond purchases at 375 billion pounds (\$589 billion) today and left the key rate at a record low of 0.5 percent.

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