ECB Monitor
Quarterly Report
Q3 2026

A research project of ZEW – Leibniz Centre for European Economic Research with support from the "Stiftung Geld und Währung"

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MAIN FINDINGS

- The ECB-ZEW Momentum Indicator turned sharply hawkish after the escalation of the Iran conflict in early 2026, peaking near 0.61 in early June before falling back to 0.47 in mid-July. The new data for late August signal an end to this short moderation phase with the most recent value again slightly up to 0.49. Council communication has thus clearly stabilised on the hawkish side and the move towards moderation in July has proven short-lived.
- The dispersion of individual hawk-dove scores remains low by historical standards, indicating that Council members who have communicated publicly continue to speak with a broadly unified voice, even as the average position has come off its peak.
- The Council's unified hawkishness, combined with persistent inflation above the 2% target and signs of an economic recovery, points to a possible rate hike at the September meeting.

The escalation of the Iran conflict in early 2026 injected significant uncertainty into the global inflation outlook. Energy-price increases and supply-chain disruptions reignited concerns about second-round inflation effects in the euro area, drawing comparisons to the post-pandemic commodity shock of 2021–22. Over the spring and early summer of 2026, these pressures were reflected in a pronounced hawkish turn in Governing Council communication, followed by a significant moderation in July partly as a consequence of the greater growth pessimism of early summer. The most recent weeks have seen disappointed hopes of falling energy prices and, at the same time, positive growth surprises for the euro area.

Against this backdrop, this report assesses the prospects for the ECB's monetary policy decisions through the lens of how Council members are communicating. Using an AI-based text classification of individual speeches, the ECB-ZEW Momentum Indicator tracks whether the tone of the Governing Council is shifting toward tighter or looser policy. This edition summarises the key findings from the most recent data update up until August 27, 2026.

METHODOLOGY AND DATA

The analysis draws on the Bank for International Settlements (BIS) speeches dataset (BIS, 2024), which is supplemented with directly scraped speeches from the BIS speeches database to ensure near real-time coverage. The corpus covers all members of the ECB Governing Council—national governors and executive board members—from 1998 to the present.

Each speech is classified by GPT-5 mini, a large language model (LLM) developed by OpenAI. The model assigns a hawk-dove position score on a continuous scale from −1.0 (strongly dovish: speaker sees no inflation risk and advocates more expansionary policy) to +1.0 (strongly hawkish: speaker identifies significant upside inflation risk and calls for tighter policy). A score of 0.0 indicates a neutral assessment consistent with the current policy stance.

The reliability of the AI classifications has been validated against human-coded data in the following way: 600 randomly drawn five-sentence paragraphs were independently scored by the model and a human annotator, yielding a strong correlation between the two assessments (see Heinemann and Kemper, 2026, for full details). A comprehensive description of the methodology is available in the accompanying ECB-ZEW Monitor Methodology Report (Heinemann and Kemper, 2026).

The ECB-ZEW Momentum Indicator aggregates individual speech scores over rolling windows of 6-weeks, taking the arithmetic mean of all speeches delivered within each window. The windows are aligned with the ECB's monetary decision cycle: each starts in the quiet period before a given monetary policy meeting and closes in the quiet period before the subsequent one.[1] For the most recent interval, the window closes at the date of the last data update, so it may cover a shorter period than the ECB's usual six-week policy cycle. In this report the most recent data were collected on August 27, so the most recent interval goes from July 16 until August 27. The ECB-ZEW Momentum Indicator shows how the average Council position is developing over time.

THE ECB-ZEW MOMENTUM INDICATOR

Figure 1 displays the ECB-ZEW Momentum Indicator from December 2025 to August 2026, shown in six-week rolling intervals aligned with the monetary policy meeting of the ECB Council. The chart reveals a clear hawkish shift followed by a slight moderation: from around 0.24 in the window before the escalation of the Iran conflict, the score rose sharply to a peak of roughly 0.61 in early June 2026, then eased to 0.47 in mid-July and stabilised at 0.49 by late August. The peak coincided with the Governing Council's decision to raise the deposit rate by 25 basis points to 2.25% on 11 June 2026, while the subsequent easing of the indicator accompanied the decision to hold the rate steady at the 23 July meeting. The Council's communication thus remains distinctly on the hawkish side of the spectrum and the tendency towards a more dovish position in July has not continued.

Figure 1: ECB-ZEW Momentum Indicator 2026 - 6-Week Interval

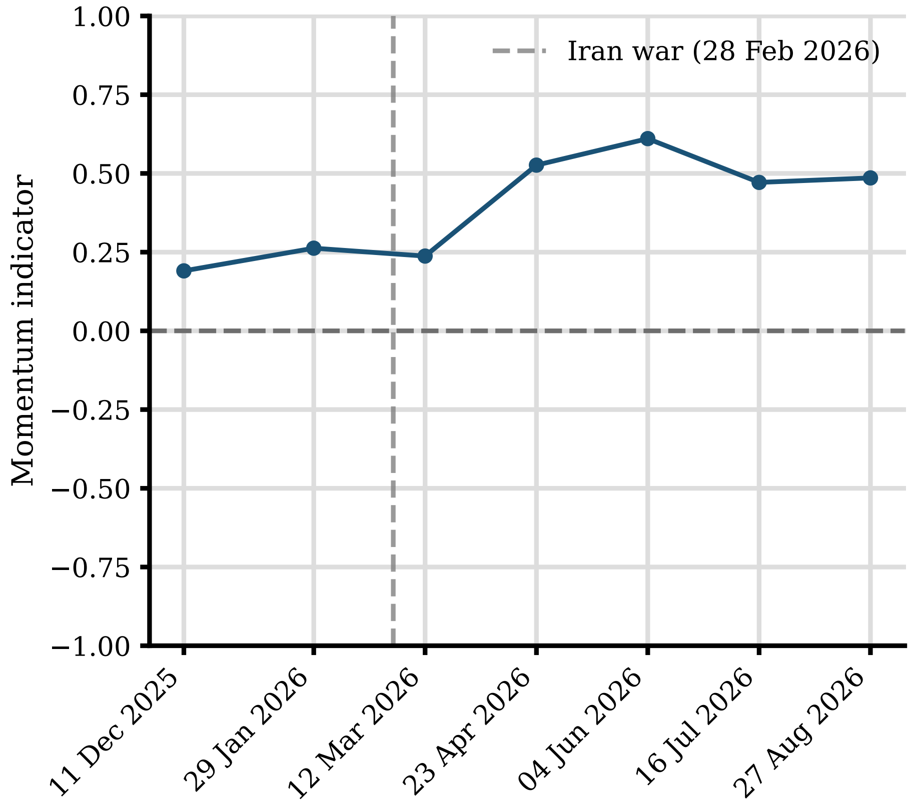

Figure 1: ECB-ZEW Momentum Indicator (December 2025–August 2026). The indicator represents the 6-week rolling average of hawk-dove position scores across all Governing Council speeches. Scale: −1.0 (dovish) to +1.0 (hawkish). Source: ZEW ECB-Monitor, BIS speech database.

[1] The quiet period starts seven days before the monetary policy decision of the ECB council during which the council members agreed to reduce their communication to avoid excessive market volatility and speculation (ECB, 2019).

The two most recently provided updates are based on 14 and 7 speeches. As in previous years, communication activity declines during late July and August, resulting in fewer published speeches.

Figure 2: ECB-ZEW Momentum Indicator 2019–2026 - 6-Week Interval

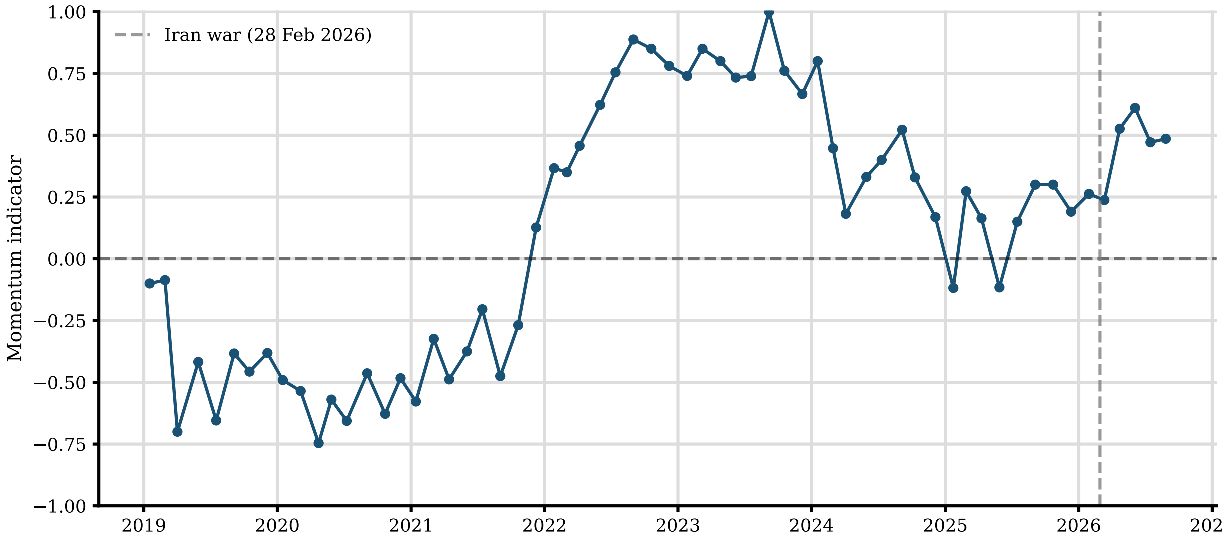

Figure 2: ECB-ZEW Momentum Indicator (2019–2026). The indicator represents the 6-week rolling average of hawk-dove position scores across all Governing Council speeches. Scale: −1.0 (dovish) to +1.0 (hawkish). Source: ZEW ECB-Monitor, BIS speech database.

The longer-term perspective in Figure 2, covering 2019–2026, places the current reading in context. While the 2026 hawkish shift is substantial relative to the lower scores in 2024–25, the current level of around 0.49 remains well below the peak values reached during the pandemic-era inflation surge of 2022–23. In historical terms, the Council's present stance is moderately hawkish rather than exceptionally so.

DISAGREEMENT WITHIN THE COUNCIL

Beyond the average position, the dispersion of individual scores within each six-week window provides a measure of disagreement among Governing Council members. It is measured by the standard deviation for each six-week window.[2] A higher standard deviation indicates that Council members are pulling in different directions, which can complicate the ECB's effort to communicate a unified policy signal and may increase uncertainty in financial markets ahead of rate decisions.

The analysis in Figure 1 shows that there was a very high level of disagreement before the interest hike during the pandemic. Afterwards, in the high inflation period there was a very low level of disagreement while it increased again during the reduction of the interest rates.

In the most recent period, the dispersion of individual hawk-dove scores remains low, at roughly 0.30, having risen only modestly from the early-2026 low point and staying well below the levels seen during the pandemic-era policy debates. Viewed alongside the elevated average position, this indicates that the hawkish lean is broadly shared rather than the view of a vocal minority. Council members continue to communicate in a largely unified direction, even as the ECB-ZEW Momentum Indicator has come off its June peak.

[2] The standard deviation is calculated by the following formula for each six-week window: $sd = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(x_i - \bar{x})^2}$ where x is the Momentum score of speech i and $\bar{x}$ is the arithmetic mean of the Momentum scores for each six-week window. N is the number of available speeches in the respective six-week window.

Figure 1: ECB-ZEW Momentum Indicator Standard Deviation 2019–2026 - 6-Week Interval

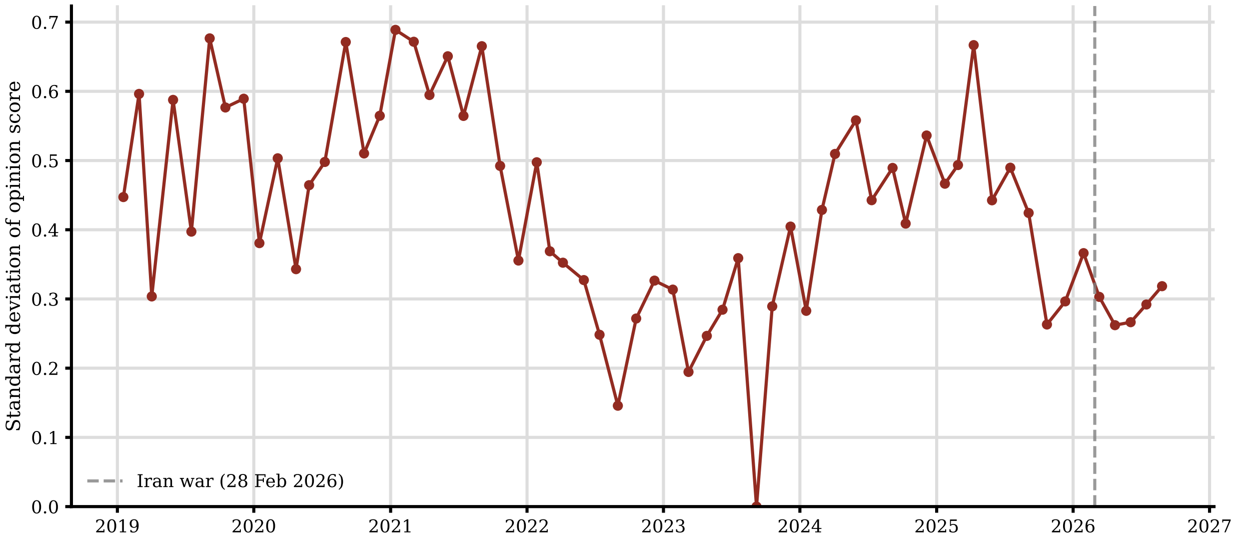

Figure 3: Standard deviation of hawk-dove scores within six-week windows (2019–2026). Source: ZEW ECB-Monitor.

OUTLOOK FOR MONETARY POLICY

The ECB-ZEW Momentum Indicator turned sharply hawkish after the escalation of the Iran conflict before partially reversing over the summer. Policy followed the same pattern: the Governing Council raised the deposit rate by 25 basis points to 2.25% on 11 June 2026, when the hawkish signal was strongest, and held it steady on 23 July as the indicator came down. As of late August 2026, the indicator has not continued its decline but settled at around 0.49, slightly above the July level. The indicator is still firmly on the hawkish side, even if short of the levels seen during the aggressive tightening of 2022–23 in the time of the nearly double-digit inflation. This recent hawkish stance has proven persistent rather than temporary, and it is accompanied by a low level of disagreement across the Council. It probably reflects, first, the euro area inflation at 2.9% in July (ECB, 2026), still well above the ECB's 2% target; second, the disappointed hopes about an imminent end to the Middle East conflict and a related moderation of energy prices; and third, recent economic data on euro area growth that rather surprised to the upside. In this environment, our indicators confirm that the case for further tightening has not faded in the ECB Council. A renewed rate hike at the September meeting therefore appears to be a realistic possibility, in particular if incoming data confirm that price pressures remain entrenched.

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Impressum

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