



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

MONETARY POLICY REVIEW

August
2025

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ACRONYMS

AE	Advanced economy
APPI	Agricultural producer price index
BCI	Business confidence index
CBA	Central Bank of Azerbaijan
CCI	Consumer confidence index
CPI	Consumer price index
EME	Emerging market economy
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FED	Federal Reserve System
FX	Foreign exchange
GDP	Gross Domestic Product
ILO	International Labor Organization
IMF	International Monetary Fund
IPPI	Industrial Producer Price Index
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NEER	Nominal Effective Exchange Rate
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
REER	Real Effective Exchange rate
RSM	Real Sector Monitoring
SCC	State Customs Committee
SSC	State Statistics Committee
WEO	World Economic Outlook
Y.o.y.	Year-over-year

EXECUTIVE SUMMARY

In the first half of 2025, the monetary policy was implemented in an environment shaped by the multifaceted impact of global economic developments on the domestic economy. Despite heightened uncertainty in the global environment, Azerbaijani external sector indicators remained favorable during the reporting period, and strategic foreign exchange reserves continued to increase. Domestic economic growth also persisted during the period.

Annual inflation followed the projected trajectory. Inflation is expected to remain within the target range by year-end 2025 and in 2026.

During the reporting period, the CBA maintained a monetary policy stance aimed at keeping inflation within the target range by managing overall monetary conditions. Monetary policy tools were primarily employed to offset the influence of exogenous factors on the monetary environment, considering developments in financial markets and shifts in the banking sector's liquidity position. Efforts continued to strengthen monetary policy transmission through the interest rate channel, supported by ongoing improvements to the operational framework.

RECENT MONETARY POLICY DECISIONS

Date	Floor of the interest rate corridor	Refinancing rate	Ceiling of the interest rate corridor
31 January, 2024	6.5%→6.25%	8%→7.75%	9%→8.75%
28 March, 2024	6.25%	7.75%→7.5%	8.75%→8.5%
1 May, 2024	6.25%	7.5%→7.25%	8.5%→8.25%
21 June, 2024	6.25%	7.25%	8.25%
31 July, 2024	6.25%	7.25%	8.25%
18 September, 2024	6.25%	7.25%	8.25%
1 November, 2024	6.25%	7.25%	8.25%
18 December, 2024	6.25%	7.25%	8.25%
22 January, 2025	6.25%	7.25%	8.25%
12 March, 2025	6.25%	7.25%	8.25%
23 April, 2025	6.25%	7.25%	8.25%
11 June, 2025	6.25%	7.25%	8.25%



1

**GLOBAL ECONOMIC
TRENDS**

1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

In the first half of the 2025, the global trade environment deteriorated, and the pace of global economic growth weakened amid new tariff measures and rising geopolitical uncertainties. Economic growth was contained by cautious behavior among businesses and consumers on the backdrop of tighter trade policies, particularly the prospect of renewed tariff increases. Consequently, the fiscal and monetary policy space available to governments and central banks to support economic growth narrowed.

1.1.1 Global economic activity indicators

While global economic growth continued in Q2 2025, its pace weakened and varied across regions. Heightened uncertainty, rising geopolitical tensions and weaker consumer demand in some countries had a downward impact on global economic growth. However, foreign trade and investment continued to underpin the growth. In the United States, GDP y.o.y. increased by 3% in Q2. Although domestic consumption expanded, trade flows and investments decreased.

In the euro area, GDP y.o.y. increased by 1.4% in Q2. Despite being slightly below the previous quarter indicator (1.5%), it exceeded expectations (1.2%). The highest annual growth rates were in Ireland (+16.2%), Lithuania (+3%), Spain (+2.4%), and Portugal (+1.9%). In Germany and Italy, growth was limited to 0.4%, attributable to more cautious behavior among businesses and households, driven by U.S.-imposed tariffs due to rising trade uncertainties. Nevertheless, the decline in inflation and lower borrowing costs had a positive impact on economic activity.

In China, economic growth was driven by external demand. The prolonged stagnation in the real estate sector remains to be one of the key reasons for the low domestic demand. Although recent rising trade tensions and new tariffs had a negative impact on the Chinese economy, GDP grew by 1.1% in

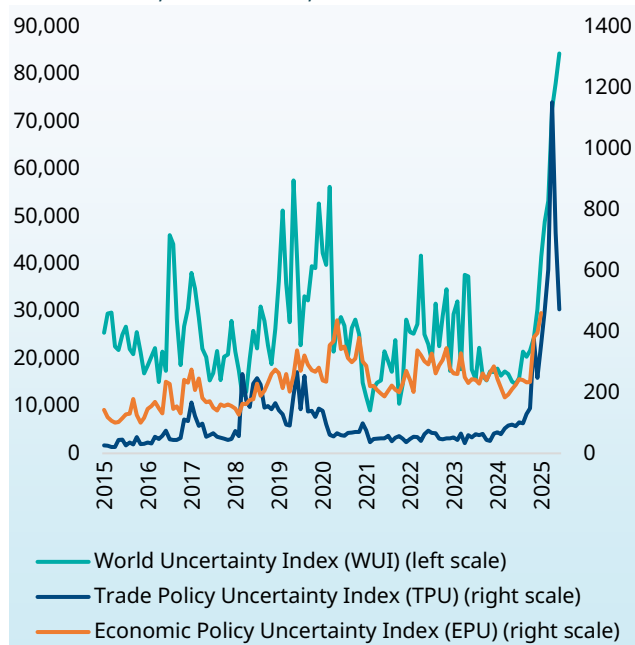
Q2 2025, attributable to interest rate cuts and liquidity support. The temporary trade truce with the United States and the agreements concluded in June also had a positive impact on economic activity. However, uncertainty persists amid the incomplete agreements related to tariff decisions.

In H1 2025, the indicators reflecting uncertainties in the global economy increased. In particular, the Economic Policy Uncertainty (EPU) index, and mostly the Trade Policy Uncertainty (TPU) index, have surged considerably since the end of 2024. The TPU index reached an all-time high in April 2025, followed by slight drop in May and June. However, the current level of the index still significantly exceeds the average indicators of the past decade. The World Uncertainty Index (WUI) continued to increase during the reporting period, due to global geopolitical tensions, trade policy tightening, and the slowdown in economic growth. Consequently, forecasts and decision-making processes of economic agents became even more complicated.

1.1 Global economic activity and inflation

Chart 1. Global uncertainty indices¹

Source: Ahir, Bloom, and Furceri 2022; Caldara and others 2020; Davis 2016; IMF estimations

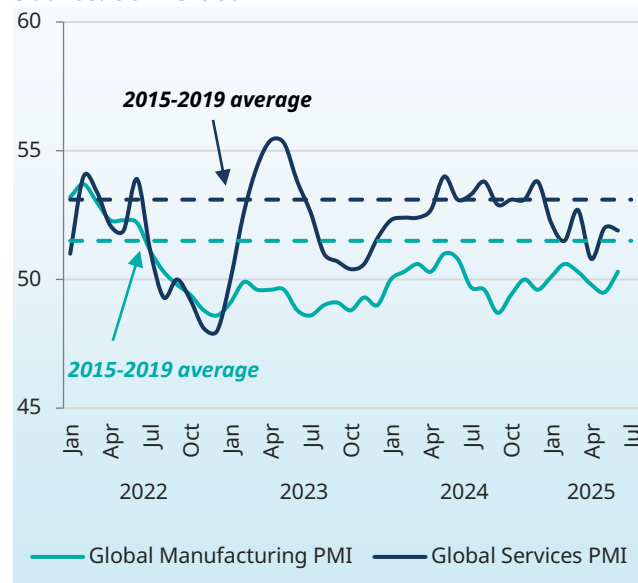


Purchasing managers' surveys signal a continuing slowdown in economic growth. Global economy kept expanding moderately in June too. While production, new orders and employment posted growth, they remained more tenuous than long-term average indicators. Weak economic growth led to a drop in business optimism as well.

The PMI in production was slack quarter-over-quarter in Q2 2025. In June, it remained at the same level (50.3) as in March 2025. However, the index remained below the average of 2015-2019 (51.5) for 36 consecutive months.

Chart 2. Purchasing Managers' Index (manufacturing and services)

Source: S&P Global



The PMI in service generally abated in Q2 2025. In June of the current year, the index stood at 51.9, falling below the 2015–2019 average level of 53.1, which represents a decline of 1.9 pp compared to the end of last year. Overall, PMI indicators up to mid-year demonstrate the resilience of economic activity and even a certain tendency toward strengthening. However, in the following months of the year, economic growth is projected to significantly slow down, as the initial support to production provided at the beginning of the year will diminish, and uncertainties related to the United States' tariff policy are expected to have a negative impact on economic activity.

1.1.2 Global unemployment trends

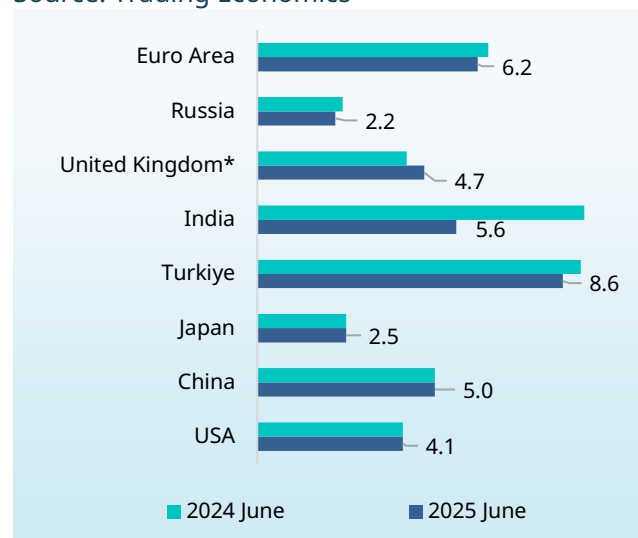
During the reporting period the unemployment rate varied across countries. While unemployment decreased in some countries, it continued to increase in others. Unemployment decreased in Türkiye, India,

¹ Uncertainty indices are based on news and media sources and measure the attention of the media to news related to global uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

the euro area and Russia, remained stable in Japan, China and the United States and increased in the UK year-over-year.

Chart 3. Unemployment rate, in %

Source: Trading Economics



* The indicator pertains to May.

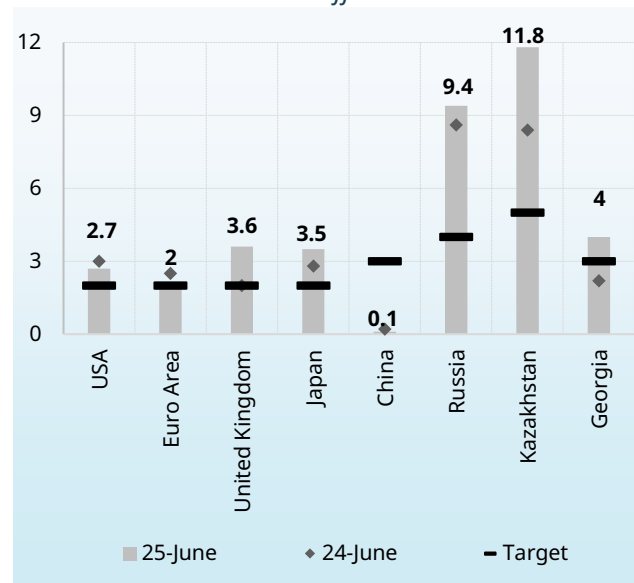
The OECD's March 2025 Economic Outlook reports that the newly released tariff policy measures eased labor market pressures in some countries. Overall, the labor market has been resilient during the past period.

1.1.3 Global inflation

Although global inflation increased slightly, core inflation declined significantly below 2%. In the United States, the annual inflation rate increased to 2.7% in June 2025. In the euro area inflation decreased from 2.5% to 2% compared to the beginning of the year in June 2025. Core inflation dropped to its lowest level since October 2021, reaching 2.3%.

Chart 4. Annual inflation by countries, in %

Source: National Statistic Offices



In China, annual inflation rose to 0.1% in June, following four consecutive months of deflation. Annual core inflation reached 0.7%, the highest level in the past 14 months.

In Russia, annual inflation declined for the third consecutive month to 9.4% in June 2025 (9.9% in May). This is the lowest indicator of recent seven months. However, it remains significantly above the Central Bank's 4% target. The main slowdown in price hike was in food 11.9% (12.5%), particularly in fruits and vegetables 15.3% (19.8%), in services 12.0% (12.6%), and in non-food 4.5% (4.8%). Monthly inflation stood at 0.2%, lower than the 0.4% increase in May.

In June 2025, annual inflation decreased to 35.05% in Türkiye, below the market expectations (35.20%). Inflation has abated for 13 consecutive months to its lowest level since November 2021. Price hike slowed for food and non-alcoholic beverages, housing and utilities, healthcare, communication and hotels, cafes and restaurants. In contrast, it increased in transportation, clothing, and footwear, recreation and culture. Core inflation slightly rose to 35.64%. On a monthly

basis, the consumer price index increased by 1.37% in June (1.53% in May), lowest monthly rise in the last six months, 0.08 pp below expectations.

In June 2025, annual inflation in Georgia increased to 4% (3.5% in May). Monthly inflation was 0% (0.4% in May) and annual core inflation stood at 2.4%.

1.2 GLOBAL COMMODITY PRICES

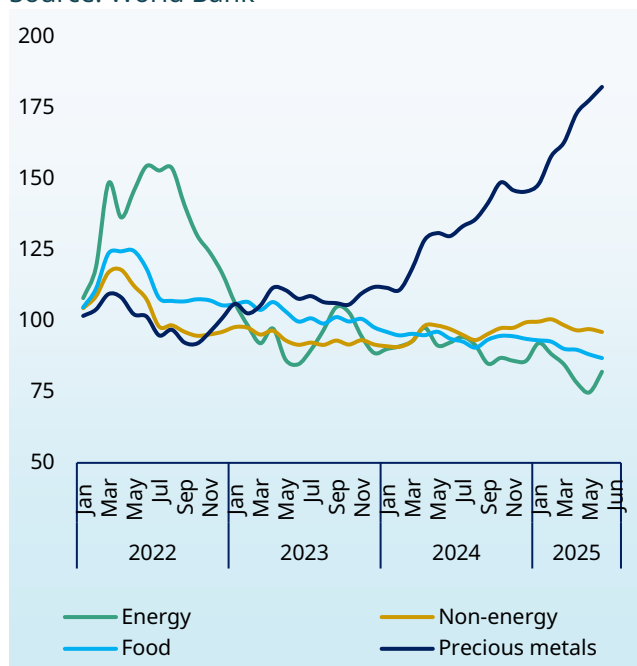
In the first six months of 2025, commodity prices declined, mainly due to weak growth prospects amid rising trade barriers and policy uncertainty. Compared to the early year, food, energy, and non-energy price indices were prone to falling.

1.2.1 Dynamics of global prices

As of end of the first half of 2025, prices for most energy and agricultural products were lower year-over-year. However, amid continued supply constraints in certain markets due to geopolitical tensions in Ukraine and the Middle East, prices in both commodity groups remain above their pre-pandemic averages. According to the World Bank's June 2025 Commodity Markets Outlook, the overall commodity price index declined by 4.1% over the six months of 2025. At the same time, price indices for sugar, cereals and certain other food products also decreased.

Chart 5. Dynamics of global commodity price indices (2021 December=100)

Source: World Bank



The energy price index declined due to the drop in prices for natural gas in Europe and crude oil during six months. Oil price drop can be attributed to future global economic activity related uncertainties due to trade policy shifts. Another factor contributing to the decline in oil prices was the decision by OPEC+ members to increase output limits by more than expected. In June, oil prices were affected by the geopolitical tensions in the Middle East.

In H1 2025, natural gas prices fluctuated in Europe. Prices rose owing to declining storage levels and the situation in the Middle East, while expectations of lower demand due to easing of geopolitical tensions and tariff policy measures exerted downward pressure on prices.

In June 2025, price indices for non-energy products decreased by 3.4% compared to the end of the previous year. Nevertheless, prices for some commodities continued to rise. The World Bank reports that, the precious metals index, driven by gold prices, increased by 25.3% during six months. In June 2025, the gold price reached a new record high. The price index for base metals (aluminum, copper, nickel, etc.) was up by 4.3%.

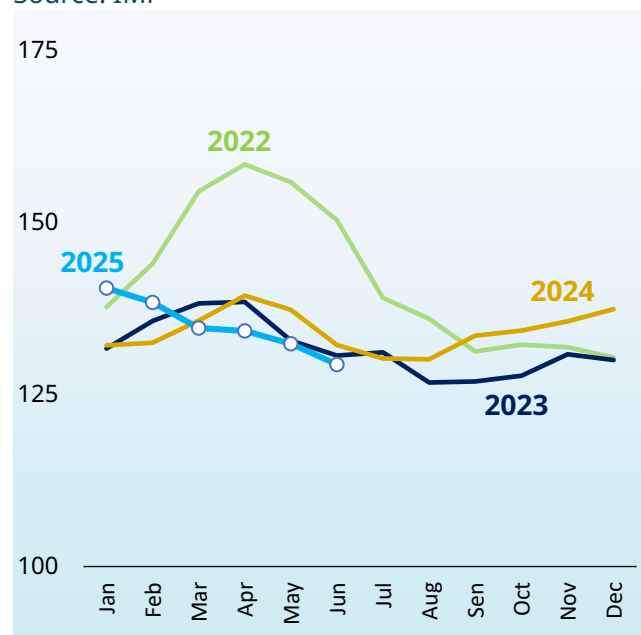
1.2.2 Dynamics of global food prices

In H1 2025, global food prices generally decreased. The agricultural price index published by the IMF was down by 5.8% in June compared to the early year. The Index comprises price indices for food, beverages, and agricultural raw materials. Favorable

weather conditions in major producing countries led to high crop yields. The decline in oil prices contributed to an overall decrease in food prices by reducing transportation and production costs across the supply chain.

Chart 6. The Agricultural Price Index (2016=100)

Source: IMF



In June 2025, the FAO's food price index was up by 0.4% compared to the end of 2024. The vegetable oil price index was down by 3.9%. The price of sunflower oil declined on expectations of high production in the Black Sea region, while palm oil prices increased in June due to rising global demand. The dairy price index was up by 8.8% compared to the early year. The butter price index increased to its record high. The sustained upward trend is mainly attributed to persistent supply shortages in Oceania and the EU, as well as strong import demand from Asia, including the Middle East. In the United States, a decline in monthly butter production and inventories falling below last year's levels, exerted upward pressure on prices. The sugar price index decreased by 13% compared to the early year, driven by improved supply outlook in major

producing countries. In Brazil, dry weather conditions accelerated the harvest, resulting in higher-than-expected output and exerting downward pressure on global sugar prices. The cereal price index has fallen by 3.6% since early year. In Argentina and Brazil, increased seasonal supplies intensified competition among major exporters, leading to a sharp decline in global corn prices. The rice price index decreased by 11.5% owing to weak demand. By contrast, the meat price index rose by 5.4% in H1 2025. In June, prices increased across all meat categories except poultry, attributable to strong global demand and reduced export capacity in Oceania.

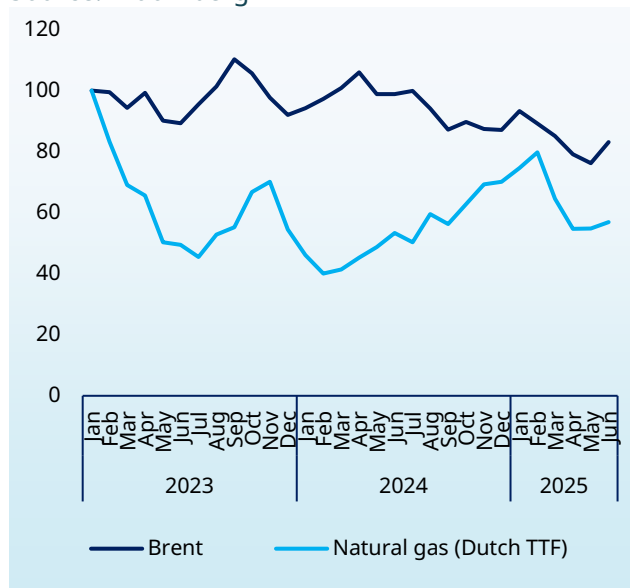
1.2.3 Dynamics of global energy prices

Amid ongoing geopolitical conflicts, global energy prices were highly volatile in H1 2025. According to the World Bank, in June 2025 the energy price index decreased by 4.5% relative the end of last year. Crude oil prices in mid-June rose due to concerns that oil supply could be disrupted amid the escalation of the Iran–Israel conflict. Spot prices for Brent crude oil reacted to reports that Iran was considering closing the Strait of Hormuz, which resulted in rising from \$71/b on June 12 to \$80/b on June 19. About 20% of global oil consumption is transported through the Strait of Hormuz and concerns among market participants about its potential closure cause volatility in oil prices. However, the announcement of the ceasefire between Iran and Israel was followed by prices falling below \$70/b.

According to the U.S. EIA, in H1 2025 the average price of Brent crude oil was \$72/b.

Chart 7. Monthly price index of Brent oil and natural gas (January 2023=100)

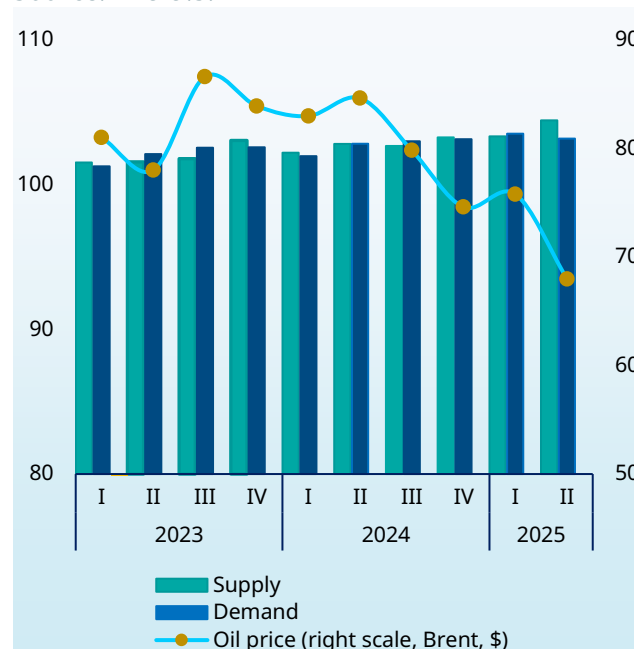
Source: Bloomberg



In H1 2025, natural gas prices exhibited considerable volatility, due to weather conditions, geopolitical events, supply constraints, and shifts in demand dynamics. While prices moderated from the second quarter onwards amid milder weather and an accumulation of natural gas stocks, geopolitical tensions, notably the escalation of the Iran–Israel conflict in June exerted upward pressure on prices. Uncertainties related to transport routes and the potential for supply disruptions also contributed to end-June price increases. Moreover, Europe’s reliance on LNG imports continued with respect to reduction in pipeline imports in Q2 2025.

Chart 8. Supply and demand in the world oil market, in million barrels (daily)

Source: The U.S. EIA



Consequently, in H1 2025, energy prices remained under sustained pressure due to geopolitical risks, shifts in the demand–supply balance, and uncertainties along the supply chain.

1.3 GLOBAL FINANCIAL SYSTEM TRENDS

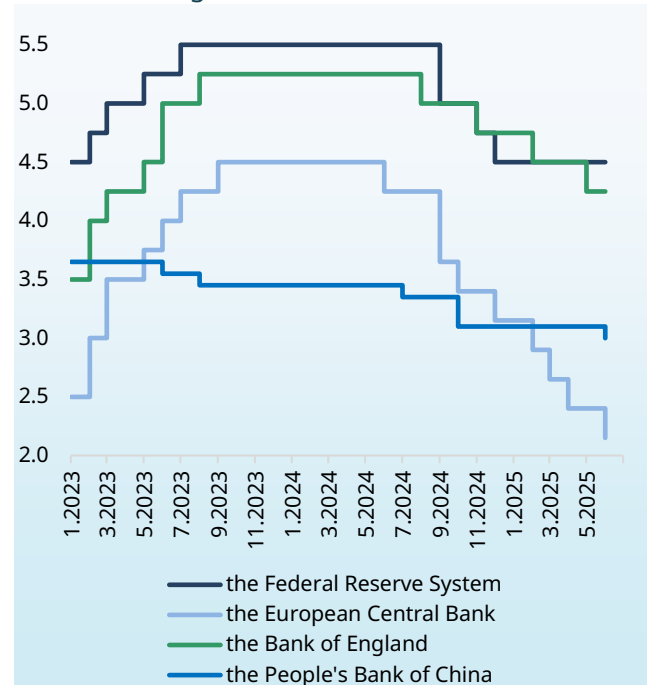
In the first half of 2025, rising trade tensions and risks triggered high volatility in international financial markets. Several central banks cut interest rates amid easing inflationary pressures and slackening economic growth. However, ongoing geopolitical and geoeconomic uncertainties necessitated continuing cautious monetary policy.

1.3.1 Monetary policy decisions of central banks

In H1 2025, against the backdrop of dampening inflationary pressures, expectations that inflation would approach target levels, and a slowdown in economic growth, several central banks gradually eased monetary policy by cutting policy rates. At the same time, amid ongoing geoeconomic and geopolitical uncertainties certain central banks remained cautious and kept policy rates unchanged.

Throughout the year, the FED kept its policy rate unchanged within the 4.25%-4.50% range, citing inflation remaining above target, continued economic activity, labor market resilience, as well as economic uncertainties. Despite the risks, the Bank of England lowered the policy rate from 4.75% to 4.25% amid a declining inflation trajectory and weakening economic growth. Meanwhile, the ECB reduced its interest rate from 3.15% to 2.15% to support economic growth as inflation approached its target. The People's Bank of China also cut its policy rate by 10 basis points to 3.00% to support economic growth.

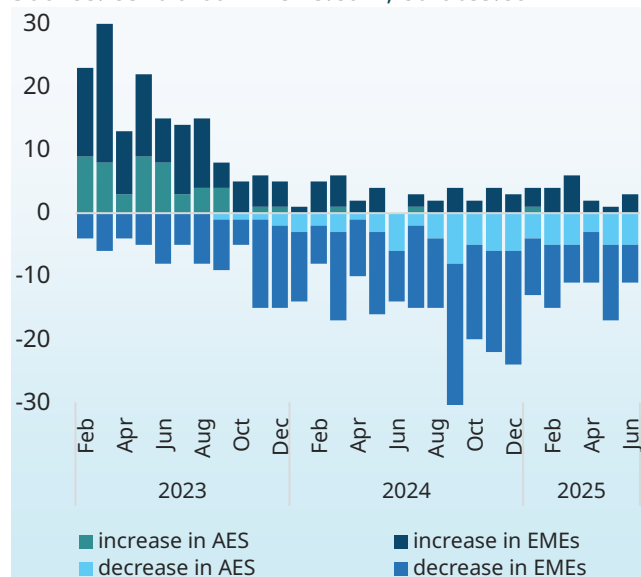
Chart 9. Key policy rates of major central banks
Source: tradingeconomics.com



The Bank of Japan raised its policy interest rate from 0.25% to 0.50% to achieve price stability amid rising inflation risks. The Bank of Russia, which had kept its policy rate steady at 21.00% since last year, cut the rate by 100 basis points at the end of the period, citing easing inflation risks and a return to balanced economic conditions.

Chart 10. Change in key policy rates across 83 central banks

Source: centralbanknews.com, cbrates.com



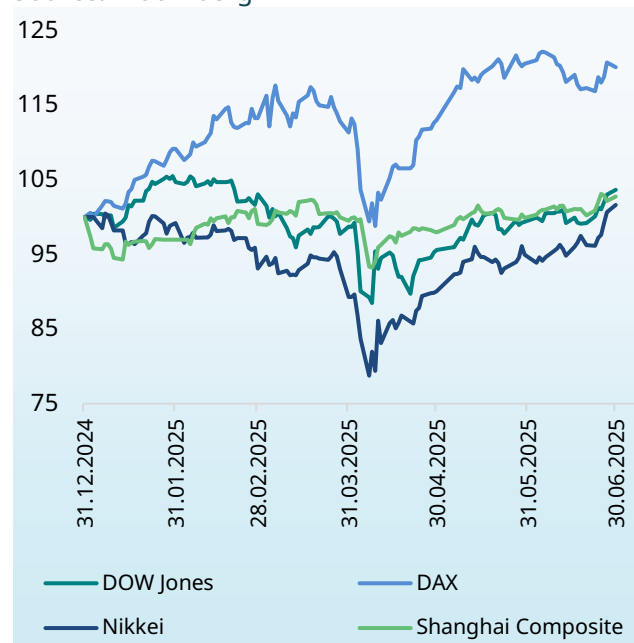
Generally, central banks are expected to approach monetary easing more cautiously in upcoming periods. Despite the decline, the incomplete convergence of inflation to the target, as well as geopolitical tensions, energy price volatility, and risks related to economic resilience will directly influence the timing and scope of future policy adjustments.

1.3.2 Financial market trends

In H1 2025, international financial markets were highly volatile. Financial asset prices declined considerably, attributable to trade tensions and intensified risks in the mid-period. However, the partial reduction in uncertainty because of the postponement of tariff measures by the United States supported rises in stock markets. During six months of 2025, Dow Jones appreciated by about 4%, Nikkei by 2%, FTSE Eurotop by 5%, MSCI World by 8%, DAX by 20%, Shanghai Composite by 3%, and RTSI by 28%.

Chart 11. Dynamics in stock exchanges (31 December 2024=100)

Source: Bloomberg

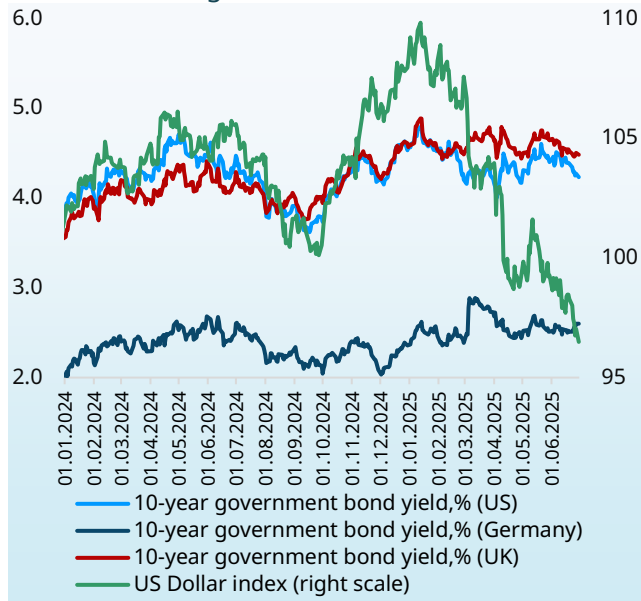


The U.S. bond market has become more volatile since the beginning of 2025. At the beginning of the year, yield on 10-year Treasury bonds reached 4.8%, and settled at 4.2% by the end-period, attributable to fluctuations in investor demand driven by ongoing uncertainties related to trade policy and inflation expectations.

In the first half of the year, the U.S. dollar index decreased by about 10.8%, the steepest decline in the first half of a year since 1973, due to the large-scale tariffs announced by the new administration, uncertain economic policy decisions, and tax initiatives that are expected to increase public debt.

Chart 12. U.S. Dollar index and AEs' 10-year government bond yields

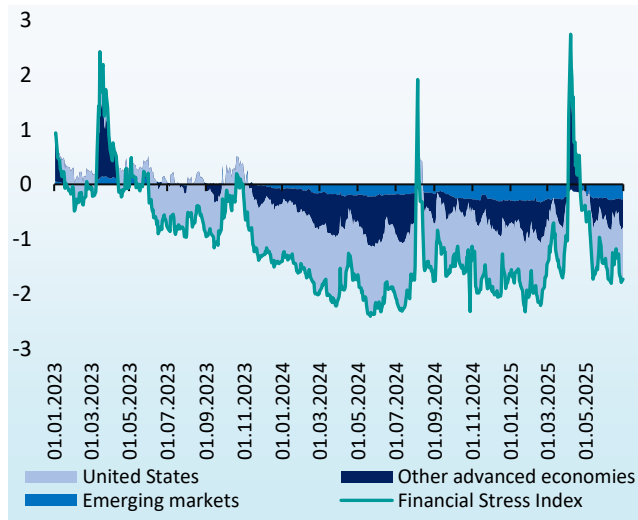
Source: investing.com



According to the U.S. Office of Financial Research, the Financial Stress Index was in the positively zoned in April 2025, but re-entered the negative zone in the following months owing to the volatility in stock, credit, foreign exchange and commodity markets.

Chart 13. Global Financial Stress Index²

Source: U.S. Office of Financial Research



² The Financial Stress Index (FSI) is a daily market-based indicator of stress in global financial markets, incorporating 33 financial market variables, such as income margins, valuation metrics, and interest rates.

2

DOMESTIC MACROECONOMIC DEVELOPMENTS

2.1 EXTERNAL SECTOR OF AZERBAIJAN

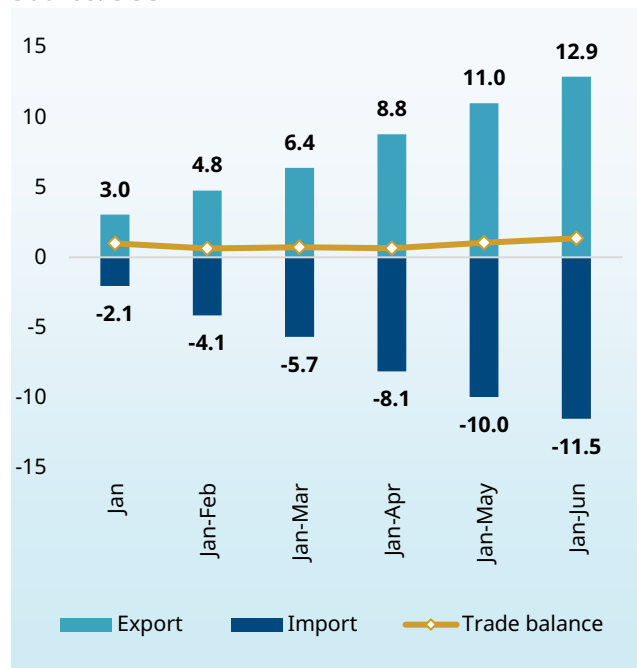
In the first half of 2025, foreign trade balance, the primary component of balance of payments, was in surplus. Non-oil-and-gas export increased year-over-year. Foreign exchange reserves continued to exceed international sufficiency norms.

2.1.1 Foreign trade turnover

According to the SCC, in January-June 2025, foreign trade turnover amounted to \$24.4B – export \$12.9B (52.8%) and import \$11.5B (47.2%). Foreign trade surplus stood at \$1.4 B.

Chart 14. Foreign trade balance in H1 2025, in billion US dollars

Source: SCC



The EU accounted for 42.9%, the CIS for 15.9%, and other countries for 41.2% of total foreign trade turnover during the reporting period. Italy, Türkiye, Russia, China, Germany, the UK, the United States, Kazakhstan, Czechia, and Romania accounted for over half of trade turnover.

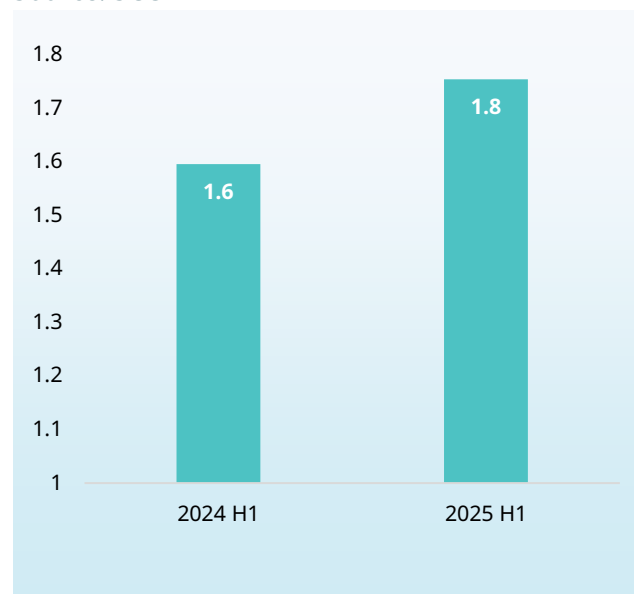
The total value of oil and gas exports amounted to \$11.1B, comprising \$6.6B from

crude oil and other manufactured oil products, and \$4.5B from natural gas.

Non-oil-gas export y.o.y. increased by 9.9% to \$1.8B. The main contributors to the growth of non-oil-gas exports were sugar, cement, chemical products, fruits and vegetables, cotton yarn, ferrous metals, tea, plastic and related products, and aluminum and related products.

Chart 15. Non-oil-gas exports, in billion US dollars

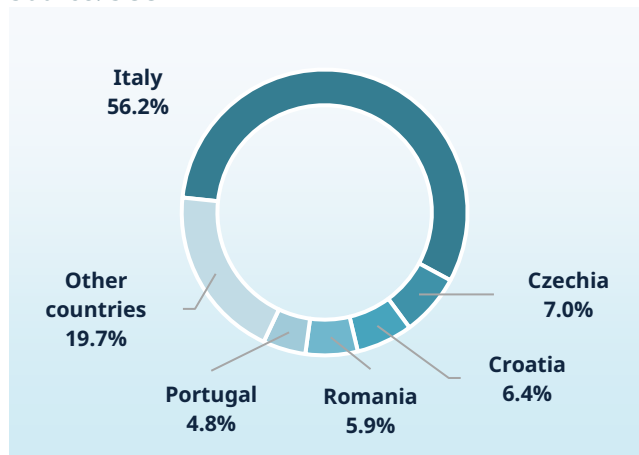
Source: SCC



In general, in January-June 2025, main trade partners were Italy (46.5%), Türkiye (13.3%), Russia (4.6%), Czechia (3.5%) and Croatia (3.2%).

Chart 16. Countries to which crude oil was exported in H1 2025, in %

Source: SCC



Commodity imports amounted to \$11.5B – the public sector accounted for 35.9%, the private sector for 55.3%, and individuals for 8.8% of total commodity import. Import of machinery and equipment, food, vehicles, ferrous metals, plastic, pharmaceuticals, clothes, wood and related products, furniture and related products, tobacco and fertilizers prevailed in total imports.

China accounted for 17.7%, Russia for 16.8%, Türkiye for 10.3%, the United States for 4.8%, the UK for 4.5%, Kazakhstan for 3.9% Germany for 3.9%, Australia for 3.1%, Iran for 2.5%, the Republic of South Africa for 2.3% and other countries for 30.2% of total imported products.

2.1.2 Foreign investments

Capital inflows from foreign enterprises and organizations continued in January-June 2025. According to the SSC, total investments from external financial sources amounted to AZN2B (y.o.y up by 28.6%) (24.8% of total investments).

Investor funds from the UK, the UAE, Türkiye, Russia, the United States, Switzerland, Japan, Iran, Hungary, France, and India

accounted for 97.3% of total foreign investment. Investments from traditional trade partners of Azerbaijan dominate among total investments. The continued inflow of foreign investment reflects the depth of the integration of the country's economy into the global economy and the interest of global investors.

2.1.3 Trade in tourism services

In January-June 2025, total 1217.4 thousand tourists from 178 countries visited Azerbaijan (y.o.y. down by 1.1%). Russia accounted for 25.8%, Türkiye for 17.6%, India for 9.4%, Iran for 8.2%, Georgia for 4.2%, Kazakhstan for 3.7%, Saudi Arabia for 3.2%, Pakistan for 2.9% and other countries for 25% of the total number of tourists.

The people travelling abroad for tourism numbered 988.2 thousand persons (y.o.y down by 0.7%). Those travelling abroad for tourism visited Türkiye (38.1%), Russia (16.7%), Georgia (11.1%), Iran (10%) and other countries (24.1%).

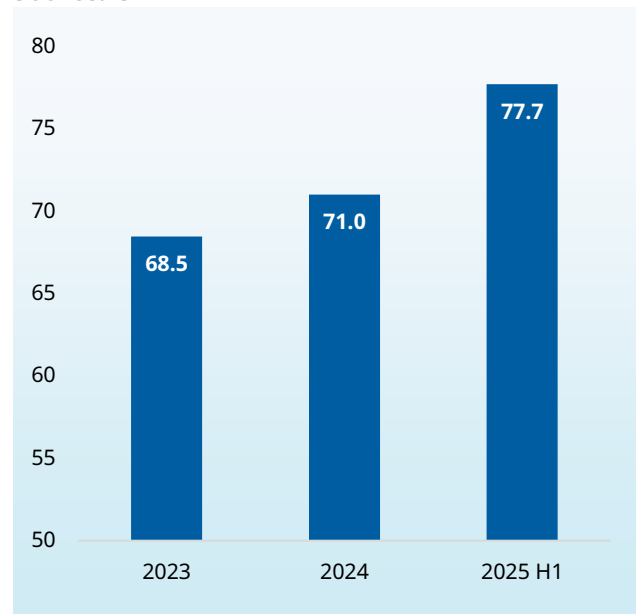
Chart 17. Number of people traveling to the country and going abroad for tourism, in million persons

Source: SSC



Chart 18. Strategic foreign exchange reserves, in billion US dollars

Source: CBA



2.1.4 Foreign exchange reserves

In H1 2025, foreign exchange reserves increased by 9.4% to \$77.7B as of the end-period. CBA's foreign exchange reserves amounted to \$11.2B.

Strategic foreign exchange reserves exceeded internationally accepted sufficiency norms. As of the end of June 2025, strategic reserves were sufficient for 36-month import of goods and services (considering the import of goods and services for Q1 2025) and surpassed broad money supply in manat (M2) by 3.6 times (M2 money aggregate as of 01.07.2025).

These indicators demonstrate the strong resilience capacity of the country against both external and domestic economic shocks.

2.2 AGGREGATE DEMAND

Aggregate demand continued to grow over the period and supported economic activity. The aggregate demand expansion was driven by consumer demand as in previous years. Over the period, rising income of the population paved the way to the expansion of consumer demand.

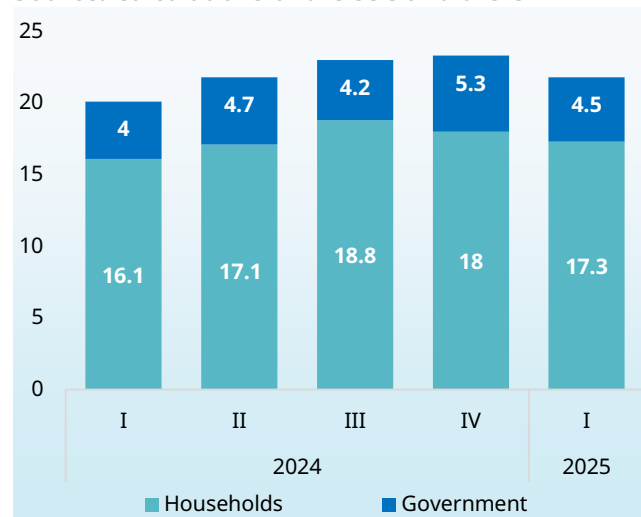
2.2.1 Final consumption expenditures

The growth of domestic consumption weighed in on aggregate demand significantly in H1 2025.

In Q1 2025, households' final consumption expenditures stood at 58.2% (y.o.y. up by 2.7 pp), and final consumption expenditures of public institutions stood at 15% (y.o.y. up by 1.2 pp). Households' final consumption expenditures increased by 8.26%, and those of public institutions increased by 12.51% in nominal terms year-over-year.³

Chart 19. Quarterly dynamics of consumption and its components, in billion AZN

Source: Calculations of the SSC and the CBA

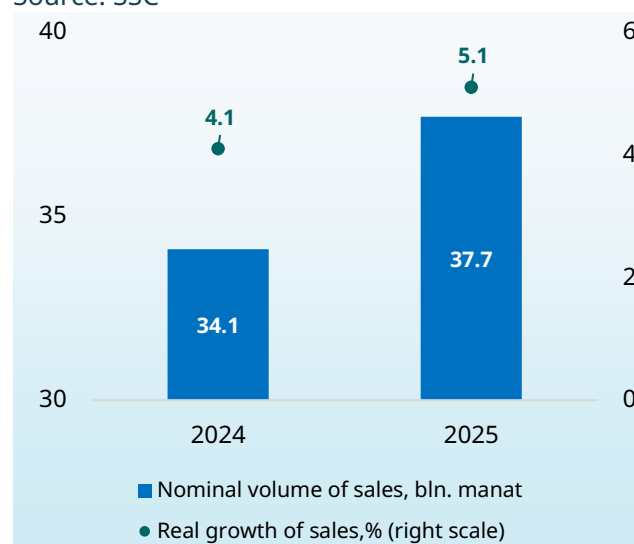


The value of goods sold, and services supplied to the population y.o.y. increased by 5.1% to AZN37.7B. Total value on non-state property y.o.y. increased by 4.9% to AZN36.2B.

Retail trade turnover accounted for 78.5%, paid services 18.2%, and public catering turnover 3.3% of total value in the consumer market.

Chart 20. Dynamics of total value of goods sold and services supplied in the consumer market in H1 2025, in billion manats

Source: SSC



Retail trade turnover increased by 3.8% y.o.y. in real terms, including a 1.5% on food, beverages, and tobacco products and 6.7% on non-food products. Consumers allocated 54.9% of their retail trade expenditures to food, beverages, and tobacco products, while 45.1% was spent on non-food products.

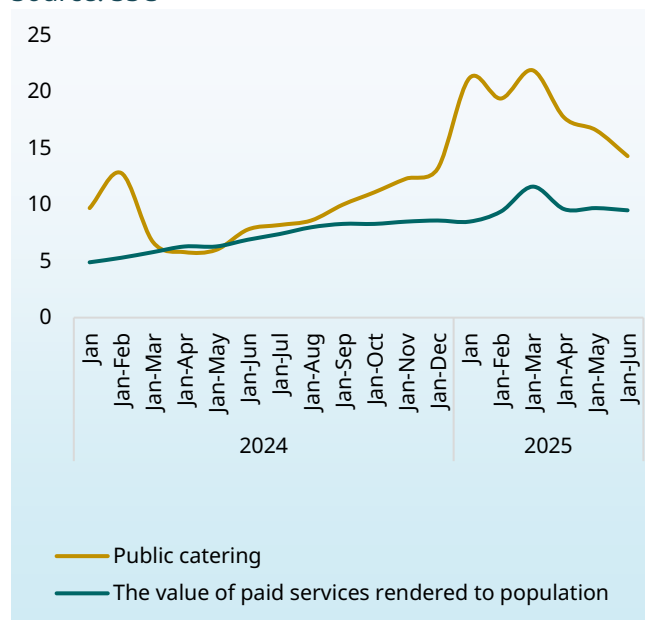
The increase in public catering and paid services to the population indicates robust consumer demand. Public catering turnover y.o.y. increased by 14.3% in real terms, while services provided to the population grew by

³ The SSC's 'Use of GDP' table was used in the calculation. The percentage ratio of the first quarter of 2025 to the first quarter of 2024 was calculated and applied for each component.

9.5%. A resident of the country spent AZN98.3 more on various paid services in nominal terms year-over-year.

Chart 21. Real growth of public catering and paid services, year-over-year, in %

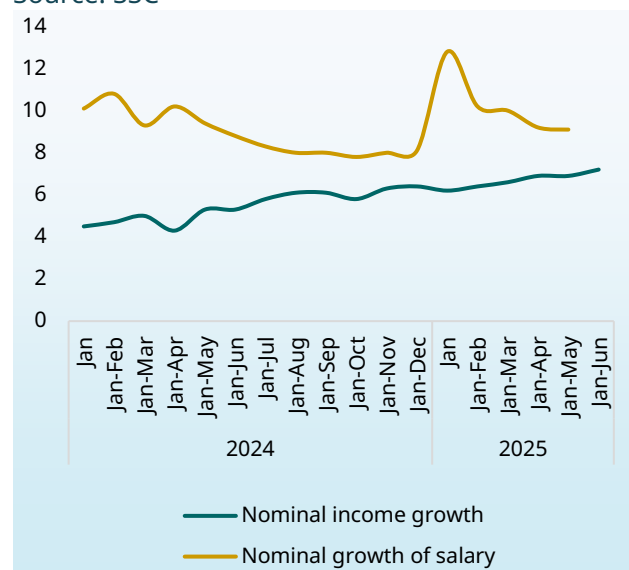
Source: SSC



Consumer demand was driven by the growth of income of the population in nominal terms. According to the SSC, nominal income of the population y.o.y. increased by 7.2% to AZN42.7B. Disposable income of the population increased by 7.3% to AZN37.4B. In January-May 2025, the average monthly nominal salary of hired labor increased by 9.1% to AZN1095.

Chart 22. Growth dynamics of nominal incomes and salaries of the population, year-over-year, in %

Source: SSC



One of the main factors driving the increase in consumer demand was the growth of consumer loans. According to the CBA, in June 2025 consumer loans increased by 16.5% year-over-year, and by 5.4% compared the early year.

2.2.2 Government spending

Government spending was critical in supporting domestic demand. Based on preliminary operational data, budget expenditures y.o.y. increased by 6.5% to AZN17.1B, current expenses y.o.y. increased by 7.5% to AZN10.6B. 61.8% of state budget expenditures was channeled to current expenses, 32.2% to capital expenses and 6% to sovereign debt service. Social protection and social security expenditures were executed at 110.9% of the forecast (AZN 2.2B).⁴

⁴ Source: Maliyye.gov.az

Chart 23. Dynamics of current expenses of state budget in H1 2025, in billion manats

Source: Ministry of Finance

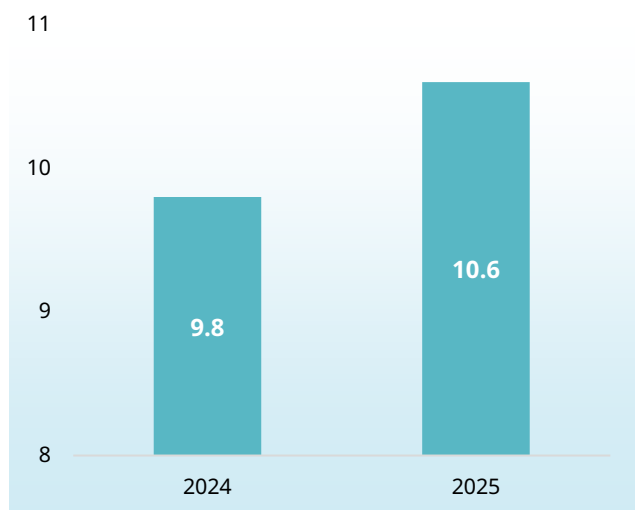
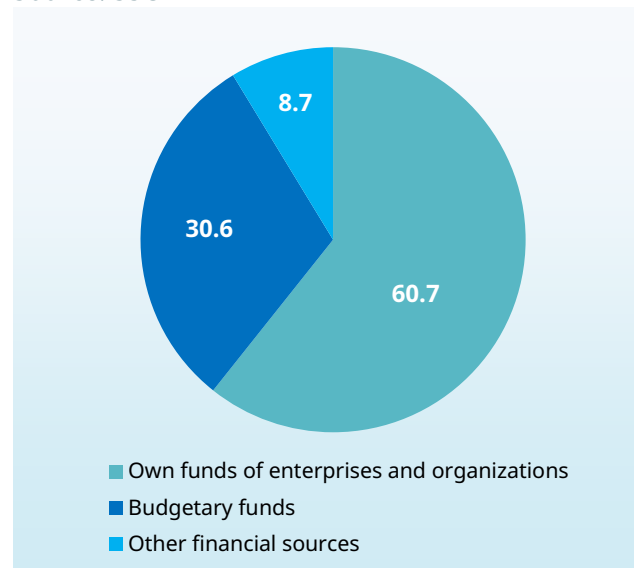


Chart 24. The structure of total investments in fixed capital in H1 2025, in billion manats

Source: SSC



2.2.3 Investment expenses

Total investment to the economy amounted to AZN8.1B, including AZN2.3B to the oil-and-gas sector, AZN5.8B to the non-oil-and-gas sector. AZN1.2B of the investment placed in the non-oil-and-gas sector were used in the non-oil-and-gas industry sector.

49.1% of investments were made by public and 50.9% by non-public investors. 78.2% of total investment was spent on construction and installation works. 75.2% of total investments stemmed from internal sources.

50.4% of total investment was allocated to manufacturing sectors, 33.1% to services, and 16.5% to residential construction. Industry (43.1%) and construction (22.5%) account for the main share in the structure of investments. The share of budget funds in the financial sources of investment channeled to fixed capital y.o.y. increased by 3.5%.

2.3 AGGREGATE SUPPLY AND LABOR MARKET

In the first half of 2025, the Azerbaijani economy continued to grow, driven by the non-oil-and-gas sector. Employment indicators also showed positive dynamics, with increases in the labor force and the number of salaried workers.

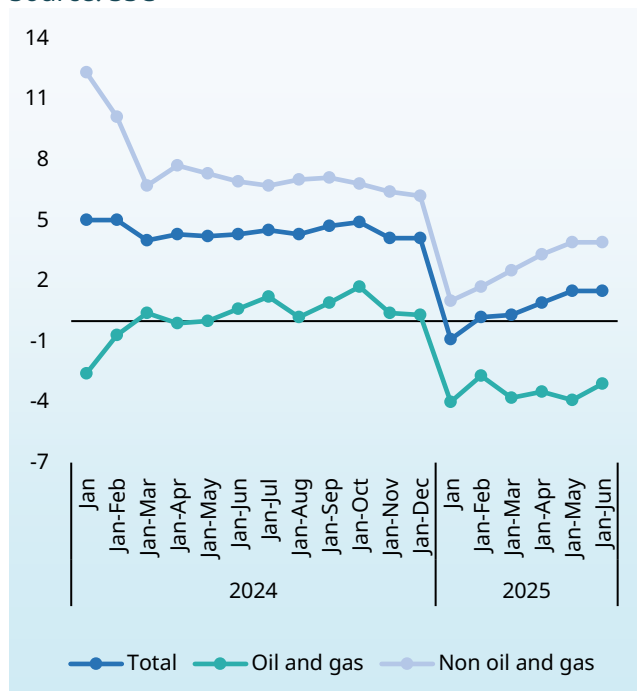
2.3.1 Economic growth

According to the SSC, in January–June 2025, GDP increased y.o.y. by 1.5% in real terms to nominal AZN62.1B. Per capita GDP stood at AZN6066.1. Non-oil-and-gas GDP made 69.2% in the nominal GDP structure.

Oil-gas value added decreased by 3.1% to nominal AZN19.1B. Crude oil production y.o.y. decreased by 5.3%, while gas extraction increased by 1.1%.

Chart 25. Economic growth, year-over-year, in %

Source: SSC



In January-June 2025, non-oil-gas value added y.o.y. increased by 3.9% in real terms to nominal AZN43B. Production in the non-oil-gas industry increased by 6.3%.

Agriculture grew by 1.4% during the same period. Livestock products increased by 1%, and plant products increased by 1.8%.

Growth continued in the services sector, transport and warehousing grew by 2.7%, freight and passenger transport increased by 2.8% and 5.3% respectively. The volume of cargo transported by vehicles owned by the non-public sector increased by 4.3%. Freight transportation by road, with the largest share in cargo transportation, y.o.y. increased by 6.9%. The value added in the information and communication sector y.o.y. grew by 8.4%, while the tourism and public catering sector increased by 10.2%.

The CBA's RSM findings confirm that economic activity is continuing. Even though the BCI varied across sectors in H1 2025, it remained in the positive zone.

Table 1. Dynamics of economic growth by sectors of the economy, year-over-year, in %

Source: SSC

Sectors	2024 (January-June)	2025 (January-June)
Industry	0.9	-1.9
Construction	18.4	8.5
Agriculture, forestry, and fishery	0.2	1.4
Trade, repair of vehicles	3.3	3.0
Transport and warehousing	15.4	2.7
Tourism and public catering	10.3	10.2
Information and communication	12.2	8.4
Other	3.5	2.0
Net taxes on products and import	8.3	3.7

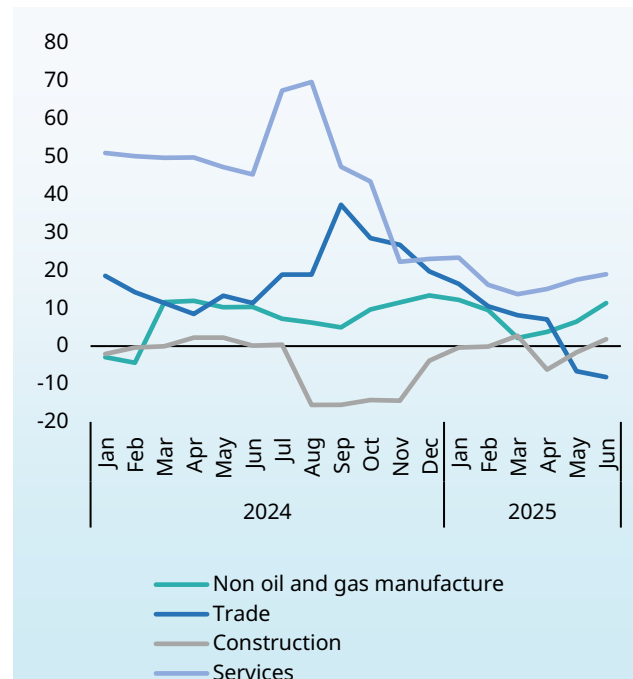
The BCI for non-oil industrial enterprises increased on average during six months year-over-year. The BCI mainly rose in the textile, plastic products manufacturing, and metallurgy sectors.

The trade BCI decreased during the reporting period. The Index increased in automobile and household goods and decreased in electrical household appliances and furniture production.

While the service BCI was relatively low year-over-year in January-June 2025, it generally remains high. The BCI was in a positive zone across most subsectors of the services sector.

Chart 26. Business Confidence Index across

Source: CBA calculations based on RSM results ⁵



Additionally, the increase in the number of commercial organizations operating in the economy also confirms that economic growth continues. According to the SSC, as of 1 June 2025, commercial organizations registered in the country numbered 201.8 thousand (y.o.y. up by 7.9%).

2.3.2 Employment

As of 1 June 2025, total labor force was 5344.1 thousand persons (y.o.y. up by 1.2%), employed population numbered 5062.3 thousand persons (y.o.y. up by 1.3%). The number of hired employees was 1769.2 thousand persons (y.o.y. up by 1.1%) – 873 thousand persons were engaged in the public sector, while 896.2 thousand persons were employed in the non-public sector. The oil-and-gas sector employs 31.1 thousand

⁵ Industrial BCI = (output – final goods inventory + production expectations)/3

Services BCI = (business condition + actual demand + demand expectation)/3

Trade BCI = (actual sale – changes in goods inventory + sale expectations)/3

persons, while the non-oil-and-gas sector employs 1738.1 thousand persons.

Chart 27. Total labor force, in thousand persons

Source: SSC



As of 1 July 2025, the number of registered unemployed persons was 229.1 thousand persons.

Based on CBA-conducted RSM findings, the 5 pp increase in capacity utilization across enterprises compared with June of the previous year indicates a pick-up in economic activity.

According to the survey carried out in June 2025 as part of real sector monitoring, the number of employees in enterprises in the trade sector y.o.y. increased by 7%. Average indicators for employment expectations improved in non-oil-and-gas manufacturing sectors, including textiles, the production of plastic goods, and metallurgy.

2.4 INFLATION

In the first half of 2025 annual inflation followed the projected trajectory and was primarily affected by cost factors.

2.4.1 Consumer price index

In June 2025, the CPI for all goods and services increased by 6% annually. Average annual inflation⁶ stood at 5.9%.

The CBA estimated that, government and household consumption made 1.61 pp, APPI 4.60 pp, and inflation in trade partners 3.36 pp upward, while the NEER made 0.52 pp downward contribution to annual inflation.

Chart 28. Annual inflation, in %

Source: SSC

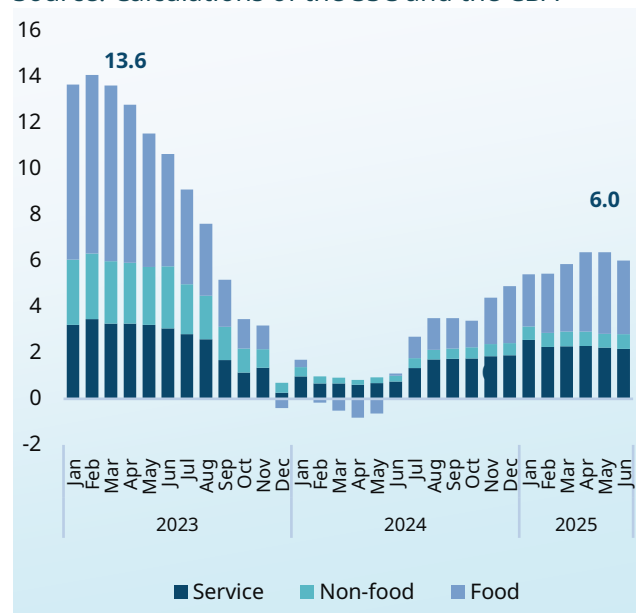


In June, annual inflation on food, alcoholic beverages and tobacco products stood at 7.0%, and average annual price hike was 6.6%. Annual non-food inflation stood at 2.8% and average annual inflation was 2.7%. The annual and average annual services inflation stood at 7.2% and 7.5% respectively. Out of paid services to the population, the highest annual price hike was in central

heating (twofold), waste collection (more than twofold), and telephone communication services (12.6%). Food price inflation was driven by vegetables, butter, and vegetable oils (up by 17% and 13.2% respectively). The largest annual price hike was in liquid fuels out of non-food products (7.6%).

Chart 29. Contribution of CPI components, in %

Source: Calculations of the SSC and the CBA



Inflation growth was primarily driven by food products and services over recent one year. The contribution of non-food products was relatively weak. The contribution of food to inflation increased from 0.1 to 3.2%, and that of services increased from 0.7 to 2.2%, while the effect of non-food products was neutral year-over-year.

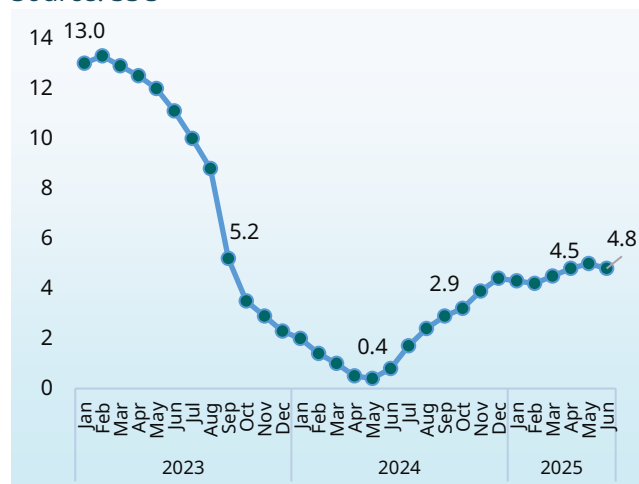
Annual core inflation calculated by excluding changes in regulated prices and prices for seasonal products and services was

⁶ January-June 2025 vs January-June 2024

4.8% in June 2025, while average annual core inflation was 4.6%.

Chart 30. Change of annual core inflation, in %

Source: SSC



Overall, several developments in the global and domestic environment contributed to upward pressures on inflation.

2.4.2 Producer price index

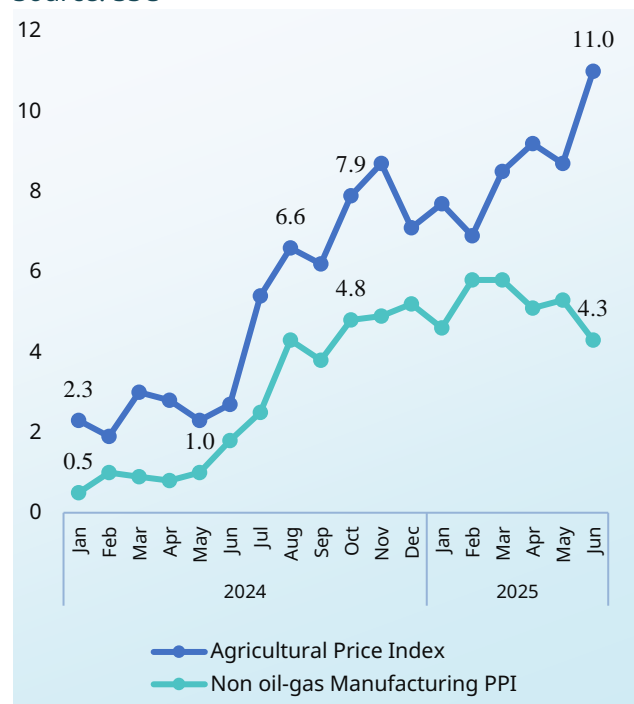
According to the SSC, in June APPI increased by 11% annually, prices for plant growing products increased by 11.4%, and prices for livestock products increased by 10.6%.

In June 2025, the IPPI decreased by 11.3% annually. The oil and gas IPPI decreased by 15.1% and the non-oil and gas IPPI increased by 4.3%.

The PPI in processing increased by 5.5% annually.

Chart 31. Annual change in PPI, in %

Source: SSC



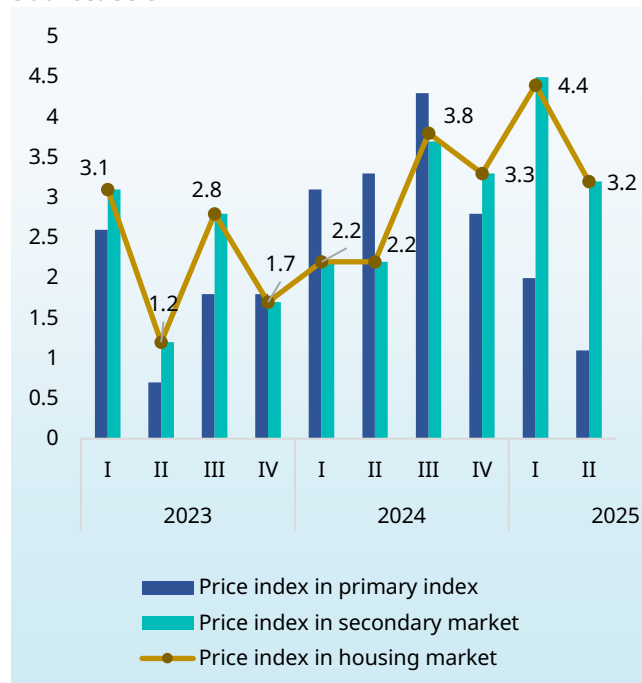
In June 2025, prices y.o.y. increased by 1.5% for transport and warehousing by 1.9% for freight transportation services increased, by 1.8% for postal and courier service, by 0.4% for advertising services and by 4.9% for software development services.

2.4.3 Housing price index

According to the SSC, in Q2 2025, the housing price index increased by 1.1% compared to Q1 2025. Prices in the primary housing market rose by 3.2% and in the secondary market by 1.1%.

Chart 32. Housing price index, quarter-over-quarter, in %

Source: SSC



In January-June 2025, the housing price index increased by 13.8% year-over-year, by 12.9% in the primary market and by 13.8% in the secondary market.

3

MONETARY AND EXCHANGE RATE POLICY

3.1 MONETARY POLICY TOOLS, MONEY MARKET AND EXCHANGE RATE

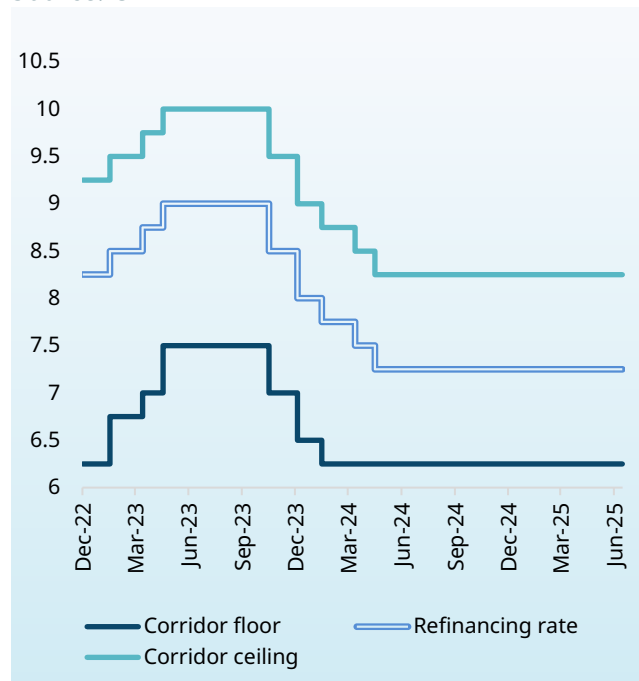
In the first half of 2025 the CBA's monetary policy focused on maintaining inflation within the target range through managing the monetary condition. Efforts continued to enhance the operational framework and strengthen transmission of the interest rate channel. Monetary policy tools were mainly used to neutralize the impact of autonomous factors on monetary conditions. In the application of these tools, developments in financial market and changes in the liquidity position of the banking system were taken into account.

3.1.1 Monetary policy tools

Over the past period of 2025, monetary policy decisions were made considering the consistency of the actual inflation with the forecast trajectory, medium-term changes in the balance of inflation risks, uncertainty of the global economic and geopolitical environment, domestic macroeconomic stance, and the nature of monetary policy transmission.

Chart 33. Interest rate corridor parameters, in %

Source: CBA



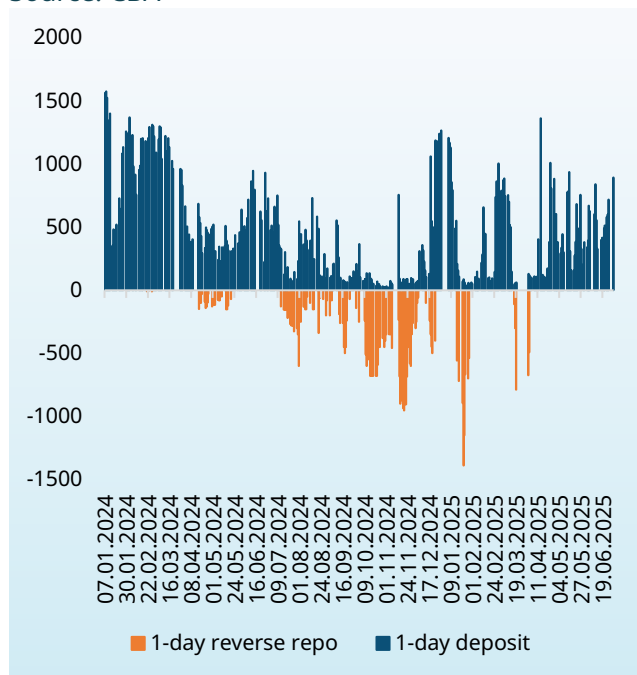
The CBA's Management Board has discussed the interest rate corridor parameters four times over the past period of 2025. At those meetings, the refinancing rate was kept unchanged at 7.25%, the ceiling of the interest rate corridor at 8.25%, and the floor at 6.25%. The CBA announced its interest rate decisions to the public in accordance with the pre-announced schedule with relevant analytical commentary.

Monetary policy tools were implemented in response to developments in financial markets and changes in the liquidity position of the banking system. In January-June 2025, the CBA continued various duration monetary operations to manage liquidity. Standing facilities were actively used, and parameters of open market operations were adjusted to the current liquidity position. Banks used CBA's both liquidity absorbing and liquidity providing standing facilities. In January-June banks utilized the overnight deposit standing facility on each business days and conducted overnight reverse repo operations on 16% of business days.

3.1 Monetary policy tools, money market and exchange rate

Chart 34. Amount placed by (overnight deposit) and attracted by (overnight reverse-repo) banks by CBA's standing facilities, in million manats

Source: CBA



At the start of 2025, the CBA reduced the volume of liquidity absorbing operations amid declining excess liquidity in the banking sector to neutralize the impact of autonomous liquidity factors on monetary conditions. However, liquidity in the banking sector has increased in consequence of auctions held by the Ministry of Finance to deposit available national currency denominated balances of the treasury account in commercial banks since April, which exerted downward pressure on AZIR. In response to rising liquidity in the banking system the CBA intensified liquidity absorbing operations to steer AZIR towards the refinancing rate and mostly used seven-day operations. In January-June 2025, the Bank used one-week repo/reverse repo operations to regulate interest rates in the interbank money market, promptly contain the effects of autonomous factors and flexibly manage liquidity. Thus, during the reporting period the

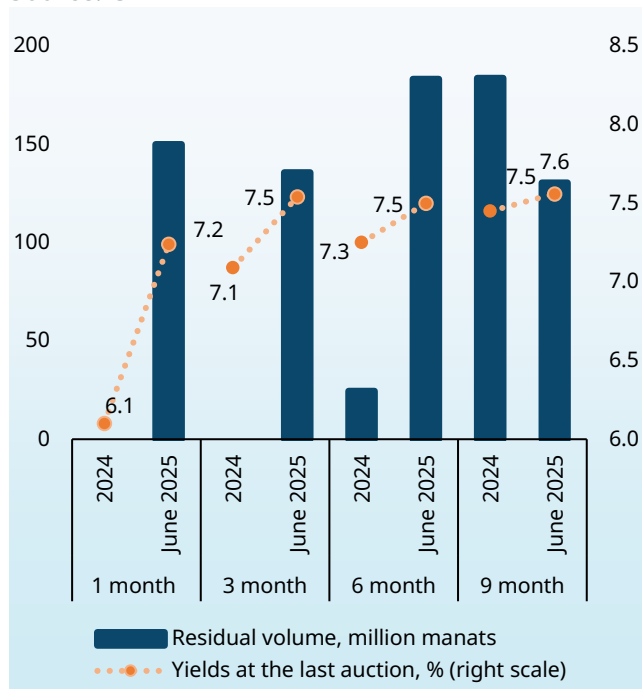
CBA held 17 seven-day repo and 2 seven-day reverse repo operations. Moreover, on 3 June 2025 the Management Board decided to replace seven-day repo operations with seven-day deposit operations from 10 June 2025 with a view to enhancing the effectiveness of liquidity-absorbing operations. Five deposit auctions were held as of end-June. In H1 2025, seven-day tools accounted for a significant share of the CBA's sterilization portfolio. As a result, the seven-day deposit operation has now become the main tool for open market operations.

In H1 2025, auctions continued as open market operations on the placement of 28-day (1 month), 84-day (3 months), 168-day (6 months) and 252-day (9 months) notes for liquidity absorbing purposes. Total 66 various duration note auctions were held over the period – 17 auctions were on 28-day, 16 on 84-day, 17 on 168-day and 16 on 252-day notes. As of the end of June 2025, total outstanding amount of funds absorbed through notes made AZN599.3 M, up by 2.9 times compared to the end of 2024.

Yield at recent auctions was 7.24% on 28day, 7.54% on 84-day, 7.5% on 168-day, and 7.56% on 252-day notes.

Chart 35. Amount and yield on CBA’s short-term notes in circulation

Source: CBA



Ongoing implementation of reserve requirements under the averaging regime was one of the factors that had a positive effect on the flexible and effective management of liquidity by banks. Monitoring findings suggest that outstanding amount of correspondent accounts of banks in both national and foreign currencies at the CBA exceeded total funds to be maintained as required reserves throughout the reporting period.

Efforts continued to enhance the monetary policy’s operational framework. In February 2025, the CBA introduced adjustments to the conditions of standing facilities and open market operations. The maturity of one-day standing deposit and reverse repo operations was changed from 24 hours to overnight and the requirement for a minimum number of participants in note auctions was removed.

In general, monetary operations conducted by the CBA had a positive effect on effective management of liquidity by banks, activity at interbank market and the strengthening of the interest rate transmission. Consequently, applying monetary policy tools flexibly enabled banks more efficiently allocate their funds and meet their short-term liquidity needs. Monetary policy tools will be adequately used in upcoming periods as well depending on domestic macroeconomic outlook. Decisions related to quantitative parameters and duration of the tools will be made in response to regular assessment of the liquidity position of the banking system. Also, efforts will continue to improve the operational framework of the monetary policy from institutional and technical standpoint.

3.1.2 Money market

Short-term interest rates in the money market moved within the interest rate corridor. In H1 2025, although the interest rate on 1-day operations (AZIR) in the interbank unsecured money market varied across months, it was within the corridor – in the trajectory close to the refinancing rate. The spread between the AZIR index and the refinancing rate was -0.4% in Q1, and -0.22% in Q2. In general, during H1 of 2025 the standard deviation of AZIR from the refinancing rate was 0.29 pp.

On 15 May 2025 the CBA developed and approved new, more advanced regulations for the calculation of the AZIR index in close cooperation with experts from the EBRD (European Bank for Reconstruction and Development) considering the analysis of developments in the interbank money market and best international practices. The new methodology has a number of advantages. To avoid potential distortions and undesirable

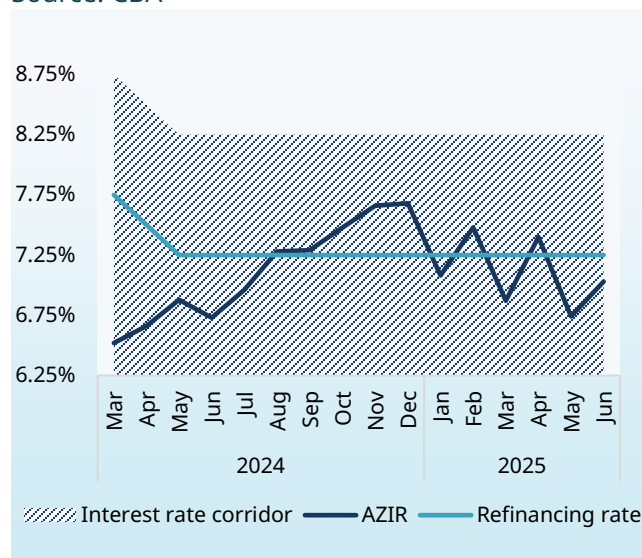
3.1 Monetary policy tools, money market and exchange rate

volatility, in the new methodology 10% of the trading volume, those concentrated at the highest and lowest ends of the sorted list by interest rate, is excluded as outliers. Moreover, the new methodology provides for contingency plans for the continuity of the AZIR publications on the days when the volume and number of transactions fail to meet the requirements. The changes oriented towards removal of breaks in the publication of AZIR contribute to continuous use of AZIR as a benchmark rate by market participants. The new methodology also allows for the calculation and disclosure of compounded term AZIR rates. Under the new methodology, compounded 30-, 90- and 180-day AZIR rates will rest upon daily AZIRs published over the respective period.

Analyses indicate that the influence of the AZIR index on other market interest rates gradually intensify. As the depth of the financial sector increases, the pass-through to bank-customer interest rates, the next link in the transmission mechanism, is expected to strengthen further.

Chart 36. Dynamics of the refinancing rate and AZIR index

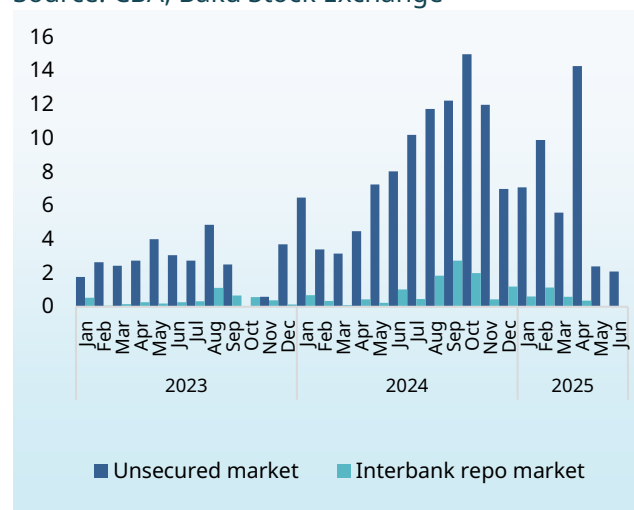
Source: CBA



In general, over the reporting period, interbank unsecured markets continued to be active. In H1 2025, AZN41.4B worth of 2148 transactions were concluded in the Bloomberg trading system. 95% of them were 1-3-day transactions in terms of volume. The volume and number of transactions concluded in the unsecured money market y.o.y. increased by 26% and by 55% respectively.

Chart 37. Volume of transactions in the interbank money, in billion manats

Source: CBA, Baku Stock Exchange



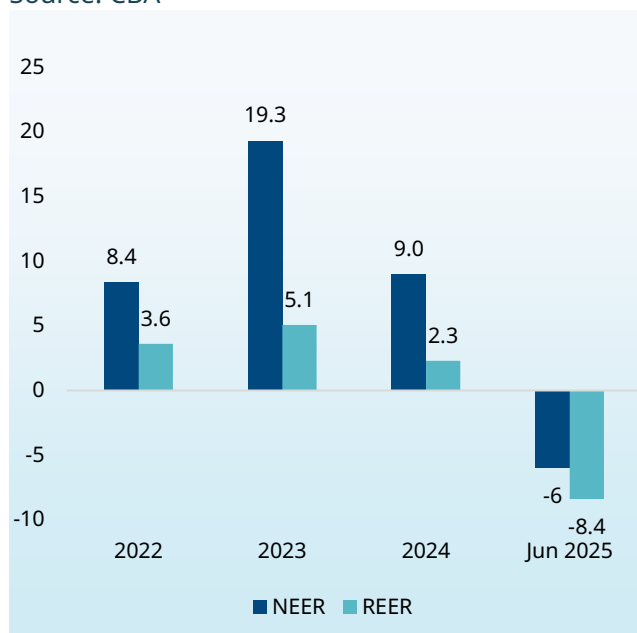
3.1.3 Bilateral and multilateral exchange rates

During the period the exchange rate of manat against USD was based upon the average exchange rate on interbank transactions (both auction and over the counter on the Bloomberg platform). The average official USD/AZN exchange rate was AZN1.7.

Buy-sell exchange rates set by banks were close to the official exchange rate. Commercial banks' average daily buy/sell rate differed from the official exchange rate by 0.27% and 0.13%, respectively.

Chart 38. Effective exchange rate indices (year-over-year)

Source: CBA



In June 2025, non-oil trade weighted NEER of the manat depreciated by 6% and the REER depreciated by 8.4% compared with December 2024. Inflation in Azerbaijan was lower than the weighted average inflation in trade partners and had a downward effect on the REER. Whereas annual inflation was 6% in Azerbaijan in June 2025, average weighted inflation across trade partners countries stood at 8.9%.

3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

In January-June 2025, money supply was managed in accordance with the objectives of the monetary policy. While the autonomous factors had an upward effect on money supply, the CBA neutralized majority of this effect through monetary policy tools. Deposits and credit to the economy remained elevated during the reporting period.

3.2.1 Base money and money supply

In H1 2025, the base money in manat increased by 2.7% to AZN21.5B as of the end-period. The main factors influencing the base money were the CBA's open market operations and changes in government account balances. Cash in circulation⁷, a structural element of base money in manat increased by 3.7%, while the balance of correspondent accounts in manat decreased by 4.7%.

During the H1, the average monthly value of money multiplier in manat (broad money supply in manat/base money in manat) was 1.72.

Chart 39. Amount of base money (left scale) and its year-over-year change

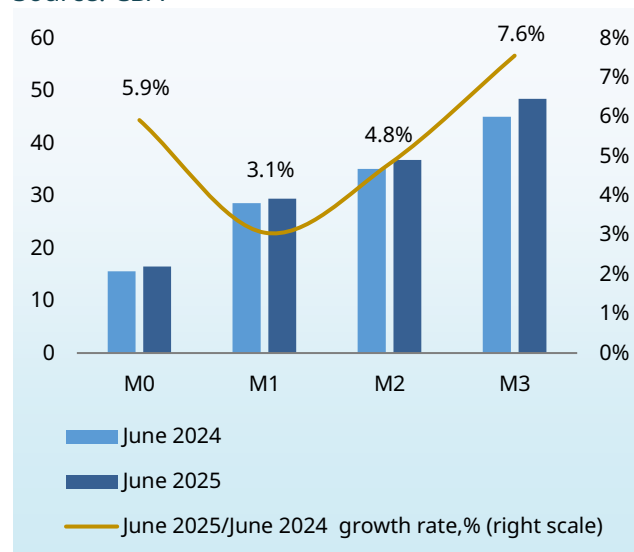
Source: CBA



In H1 2025, broad money supply in manat (M2) increased by 0.5% to AZN36.8B, y.o.y. up by 4.8%. Broad money supply (M3) increased by 4.2% to AZN48.5B as of end of June, y.o.y up by 7.6%.

Chart 40. Amount of money aggregates, in billion manats

Source: CBA



Structural elements of M2 money aggregate changed in different directions during the reporting period. M0- cash money supply increased by 4.1%, demand savings and deposits decreased by 6.3%, and term savings and deposits increased by 5.5%. M0 increased by 5.9%, demand savings and deposits decreased by 0.4% and term savings

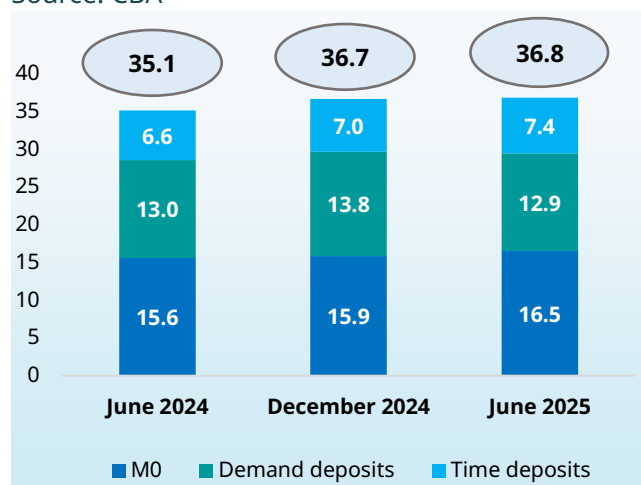
⁷ Cash money outside the banking system, cash in bank ATMs and cash offices

and deposits increased by 12.4% year-over-year.

During the period the share of demand deposits in M2 decreased (by 2.5 pp to 35.1%), while the share of term deposits in M2 increased (by 1.0 pp to 20.1%). Share of demand deposits in M2 decreased by 1.8 pp, while that of term deposits increased by 1.4 pp year-over-year.

Chart 41. Composition of broad money supply in manat, in billion manats

Source: CBA



The weight of cash (M0) in broad money supply in manat (M2) increased by 1.6 pp to 44.9% since the beginning of the year.

As of the end-period, foreign currency denominated savings and deposits amounted to AZN11.7B equivalent. Its weight in total savings and deposits amounted to 36.5% by the end of the period. The weight of foreign currency denominated savings and deposits in M3 money aggregate stood at 24% as of the end of June.

3.2.2 Deposit market

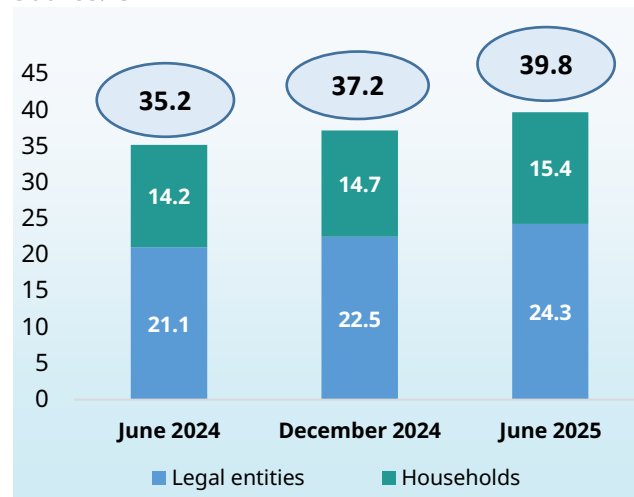
As of the end of June 2025, the deposit portfolio (less the financial sector) increased by 6.9% to AZN39.8B. Term deposits increased by 20.4% to AZN17.5B as of the end-period compared to the early year, while current

deposits decreased by 1.8% to AZN22.3B. The deposit portfolio (less the financial sector) increased by 12.8%, term deposits increased by 30.8% and current deposits increased by 1.8% compared to the June 2024.

Total deposits of legal entities increased by 7.9% to AZN24.3B as of the end-June compared to the early year. The share of current accounts in total deposits of legal entities decreased by 6.9 pp at the end of the period compared to the early year to 66.8%, while the share of term deposits increased by 6.9 pp to 33.2%. Total deposits of legal entities increased by 15.5% year-over-year. The share of current accounts in deposits of legal entities decreased by 6.5 pp, while that of term deposits increased by 6.5 pp year-over-year.

Chart 42. Deposits, in billion manats

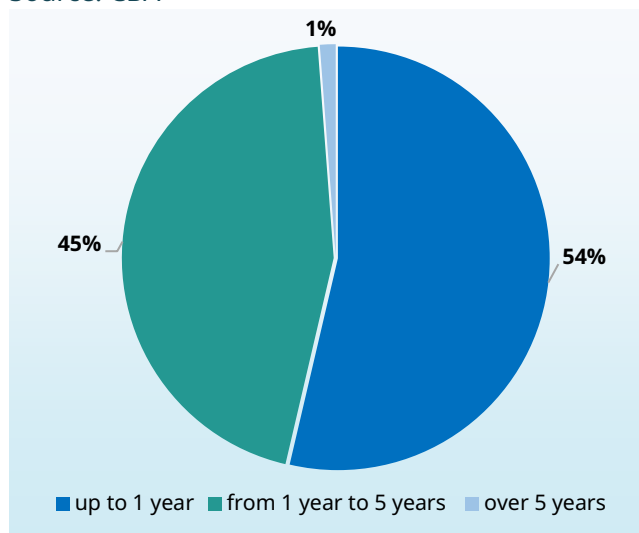
Source: CBA



Total savings of individuals increased by 8.9% to AZN15.4B. Deposits with up to one-year maturity dominated in total term deposits portfolio (54%). Total deposits of individuals y.o.y. increased by 5.3%.

Chart 43. Structure of term deposits of individuals in H1 2025, in %

Source: CBA



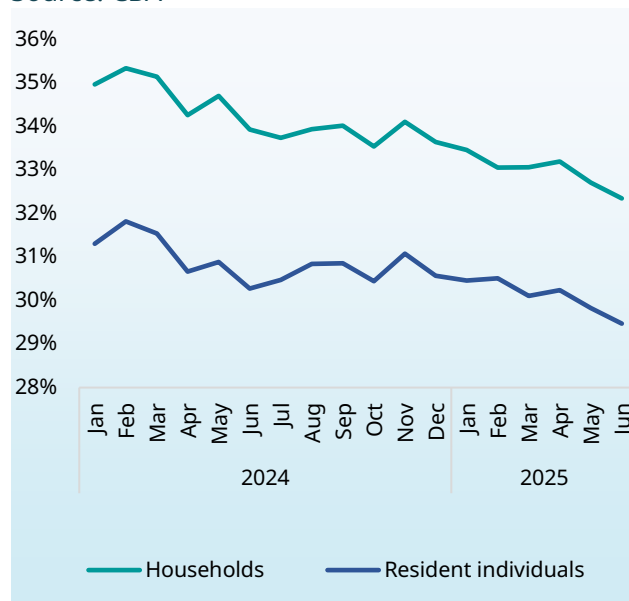
Manat deposits amounted to AZN24.8B and foreign currency deposits amounted to AZN15B as of end-June 2025.

Dollarization of savings of individuals stood at 32.3% as of end-June. Dollarization of savings of individuals (less savings of non-resident individuals) decreased by 1.1 pp to 29.5%. Dollarization of savings of individuals decreased by 1.6 pp, and that of households (less savings of non-resident individuals) decreased by 0.8 pp year-over-year.

As of end-June the share of foreign currency in deposits of legal entities decreased by 1.5 pp to 41.1%.

Chart 44. Dollarization of deposits, in %

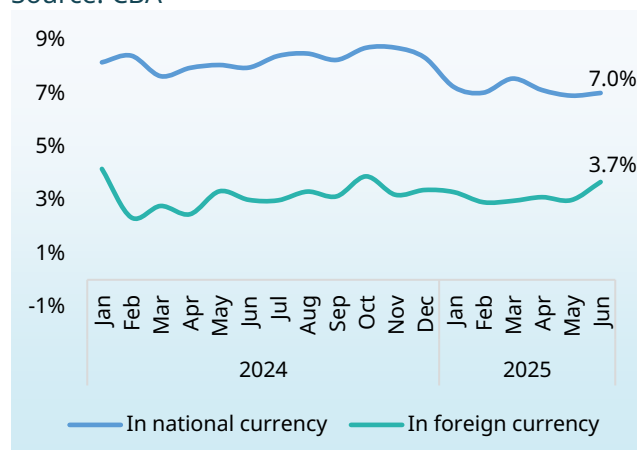
Source: CBA



Over the period, the dynamics of average weighted interest rates on newly attracted deposits in manat (including legal entities and individuals) declined.

Chart 45. Average weighted interest rates on newly attracted deposits

Source: CBA



As of end-June deposit interest rates on newly attracted deposits in manat y.o.y. decreased by 1.3 pp, while those on foreign currency deposits increased by 0.3 pp.

3.2.3 Credit market

Credit to the economy continued to grow in H1 2025.

The lending portfolio (banks and nonbanks) increased by 3.4% to AZN30.3B. The share of long-term loans dominated in total loans and increased by 0.5 pp to 83.7% since early year. Long-term loans have increased by 0.4% to AZN25.3B since early year. Short-term loans have increased by 4% to AZN4.9B since early year. In June 2025 the lending portfolio y.o.y. increased by 12.1%.

The highest growth in loans to the economy was in households (4.8%) and in industry and production (3.3%) excluding overdue loans.

Banks' business loans increased by 2.4% relative to the end of the previous year to AZN15.1B. The amount of business loans has increased by 9.1% over recent one year.

Dollarization of loans continued to decline in H1 2025. Manat denominated loans increased by 5.5%, while foreign currency denominated loans decreased by 6.4%. The share of foreign currency denominated loans in total loans decreased by 1.4 pp since early year to 14% by the end of June. Loans in manat increased by 16.5%, while loans in foreign currency decreased by 9.1% year-over-year.

Chart 46. Dollarization of loans to the economy, in %

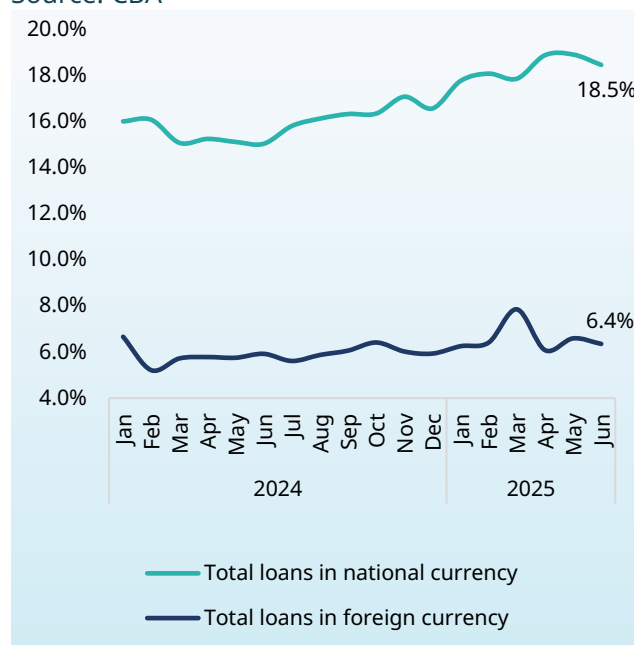
Source: CBA



In June, average weighted interest rates on newly issued loans in manat stood at 18.5%, those in foreign currency stood at 6.4%.

Chart 47. Average interest rates on newly issued loans (banking sector)

Source: CBA



4

ECONOMIC OUTLOOK

4.1 GLOBAL ECONOMIC FORECASTS AND RISKS

Despite persistent uncertainty in the global environment, the global economy continues to grow at a modest pace. Recent forecasts for global economic growth are more optimistic than those made in April.

4.1.1 Global economic growth and inflation forecasts

The IMF WEO July 2025 predicted economic growth to stand at 3% in 2025 and at 3.1% in 2026, lower than the historical average of 2000-2019 (3.7%). The global economic growth forecasts for 2025 and 2026 were revised up by 0.2% and 0.1% respectively, due to stronger-than-expected policy effects in the face of elevated tariff increases, improvement in financial conditions linked to the depreciation of the US dollar and fiscal expansion in several major economies. While global economic growth remains below compared to the previous year, it is expected to continue in 2025-26. At the same time, global inflation is expected to moderate slightly in the medium term, the declining path is broadly aligned with the projections published in April 2025.

According to the updated report, the formation of a lower global effective tariff rate than previously anticipated, together with strong front-loading of trade flows prior to the introduction of tariffs, supported upward revisions to the projections for AEs and EMEs.

Overall, growth projections for AEs have been revised up by 0.1 pp for both 2025 and 2026, to 1.5% in 2025 and 1.6% in 2026. Although the revisions point to a slight improvement, growth in AEs is still expected to remain below the levels of previous year, both in the current year and the next.

The U.S. economic growth is forecasted to stand at 1.9% in 2025 and at 2% in 2026. Though lower than the last year, it stands 0.1

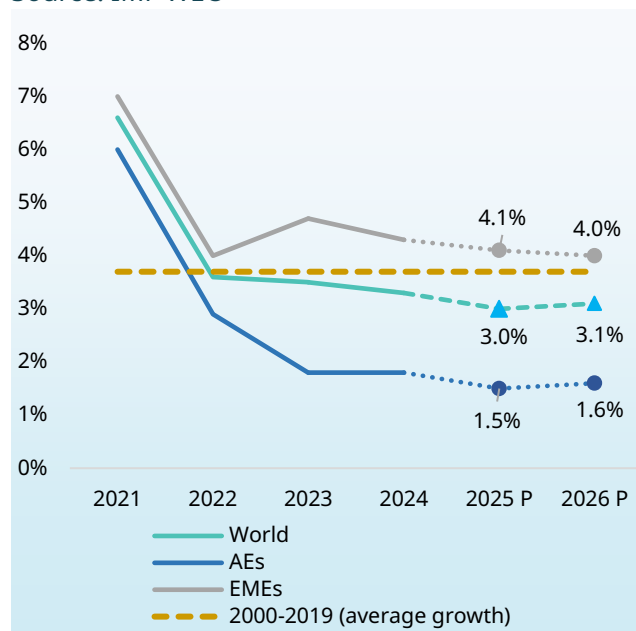
and 0.3 pp higher than the previous forecast for 2025 and 2026, respectively. The upward revision for the current year mainly is attributable to lower effective tariff rates than previously announced in April, as well as an easing of financial conditions. For the next year, the increase is expected to be supported primarily by the impact of newly adopted fiscal legislation, which is set to stimulate corporate investment through tax policy measures.

The euro area economy is projected to grow by 1.0% in 2025 and to rise slightly further to 1.2% in 2026. The forecast for the current year has been revised up by 0.2 pp, due to strong GDP growth in Ireland in Q1 2025. The projection for 2026 remains unchanged, with growth expected to proceed broadly in line with potential.

Growth projections for EMEs remain below the 4.3%, which recorded in 2024, with growth expected at 4.1% in 2025 and 4.0% in 2026. Compared with the April forecast, the July projections have been revised up by 0.4 pp and 0.1 pp respectively.

Chart 48. Global economic growth forecasts

Source: IMF WEO



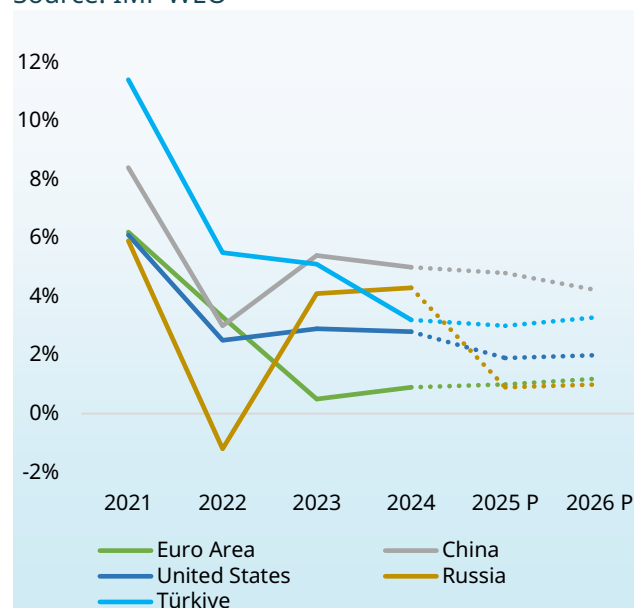
The forecast for China's economy has been significantly revised upward. Stronger-than-expected economic activity in H1 2025, combined with a substantial reduction in US-China tariffs, led to an upward revision of 0.8 pp for 2025, raising the projected growth to 4.8%. With the continued impact of tariffs on growth expected to persist, the projection for 2026 was also revised up by 0.2 pp to 4.2%.

Growth in Russia is expected to remain weak. The projection for 2025 was revised down by 0.6 pp to 0.9%, while the 2026 forecast was slightly raised by 0.1 pp to 1.0%.

For Turkey, the growth forecast for 2025 was revised up by 0.3 pp to 3.0%, and for 2026 by 0.1 pp to 3.3%.

Chart 49. Growth projections across certain countries

Source: IMF WEO



The IMF in its July report revised down the global inflation forecast by 0.1 pp for 2025 to 4.2% and left unchanged at 3.6% for 2026. Compared with the April report, the forecasts remained broadly stable, reflecting weakening demand and a continued downward trend in energy prices.

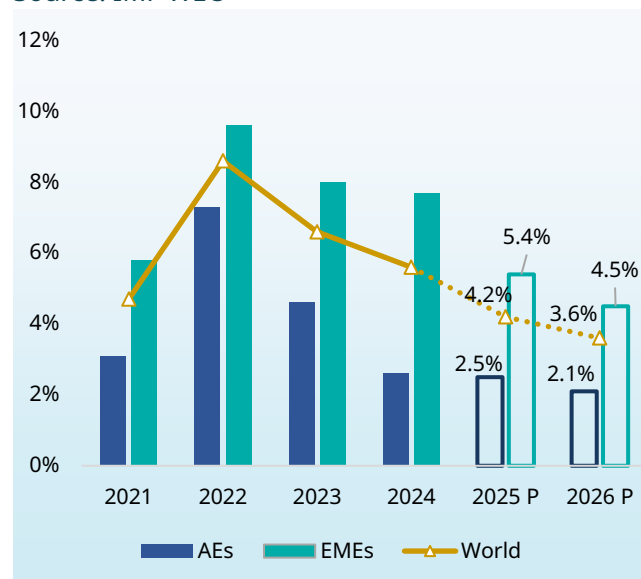
While the overall picture has not changed significantly, country-specific inflation expectations vary. In the United States, tariffs, which acted as a supply shock, are expected to gradually pass through to consumer prices, exerting upward inflationary pressures from the second half of the year. In some other countries, by contrast, tariffs act as a negative demand shock, dampening inflationary pressures. In the euro area, inflation dynamics is expected to ease somewhat, partly due to a stronger currency and one-off fiscal measures.

Overall, the inflation forecast for AEs remained unchanged at 2.5% in 2025, while for EMEs it has been revised down by 0.1 pp,

to 5.4%. For 2026, the forecasts for both AEs and EMEs were reduced by 0.1 pp.

Chart 50. Global inflation forecasts

Source: IMF WEO



4.1.2 Global risks

The IMF's July report notes that risks to the forecast are broadly tilted to the downside. There is a possibility of higher-than-anticipated new equilibrium levels in tariff policy and a resurgence of protectionist measures.

Factors such as the reimposition of tariff rates to the level of April 2 (or higher, as indicated in letters from the U.S. administration to its trading partners) on August 1, and the application of tariffs of up to 50% on copper, could weigh on global economic growth.

Heightened geopolitical tensions in the Middle East or Ukraine could generate new negative demand shocks for the global economy. If transport routes and supply chains are disrupted, leading to damage to overall supply infrastructure, commodity prices could surge again. These developments

could dampen economic growth and reignite inflationary pressures.

Further fiscal vulnerabilities could affect financial markets and the real economy. Several economies, including Brazil, France, and the United States, are expected to face large fiscal deficits against a backdrop of historically high government debt levels. This could tighten global financial conditions. Rising concerns over U.S. financial stability, particularly in the context of geoeconomic fragmentation and uncertainty about the future of the dollar-centered international monetary system, could trigger excessive volatility in financial markets.

4.2 MACROECONOMIC OUTLOOK FOR AZERBAIJAN

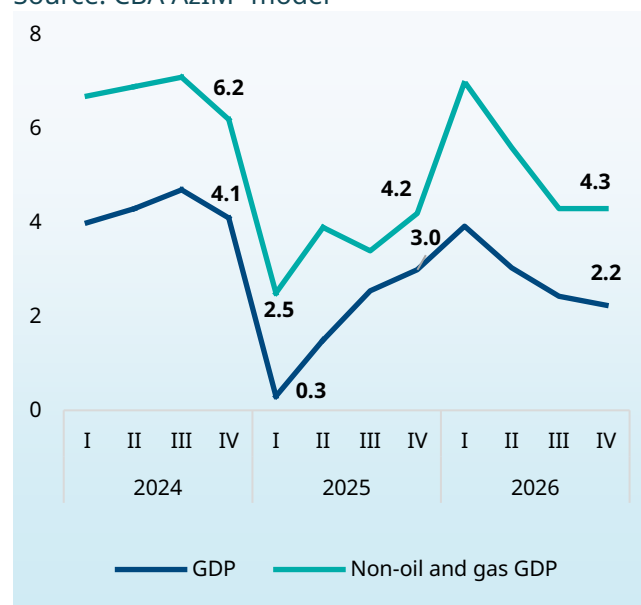
According to July 2025 forecasts, annual inflation is expected to remain within the target band in the medium term. At the same time, for this period the expectations regarding the prospects of economic growth are optimistic.

4.2.1 Economic growth forecast

Expectations for economic growth remain generally optimistic. According to the CBA's July 2025 forecast, total GDP is expected to stand at 3.0%, and non-oil-gas GDP at 4.2% in the current year. In 2025, GDP growth will be mainly driven by the non-oil-and-gas sector.

Chart 51. Real growth forecast for GDP and non-oil-and-gas GDP, year-over-year, in %

Source: CBA AzIM⁸ model



Real economic growth is projected at 2.2% (AZN136.3B) overall and 4.3% (AZN93.7B) in the non-oil and gas sector in 2026, to be driven by the non-oil and gas sector.

The oil and gas GDP is projected to increase by 1.2% in 2025 and decline by -1.2% in 2026. Note that, forecasts for the oil and gas sector are based on the official government projections.

The realization of the economic growth forecast for 2025 and 2026 will depend on the dynamics of household real consumption expenditures. On the other hand, uncertainties in global commodity and financial markets may also affect the realization of economic growth forecasts through various channels.

4.2.2 Inflation forecast

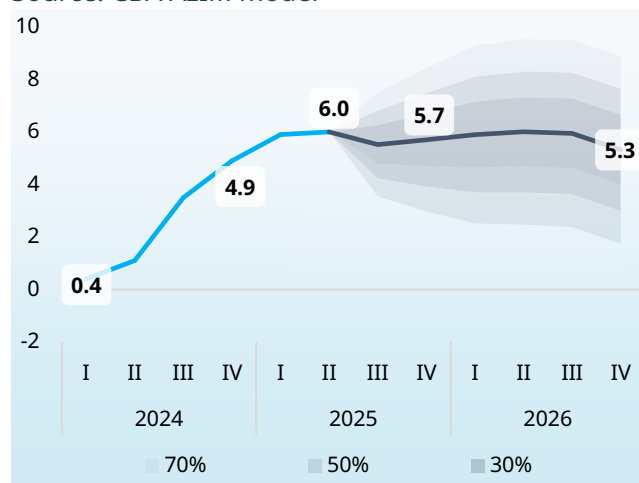
According to the July forecasts annual inflation is forecasted to remain within the target band (4±2%) in 2025 and 2026.

According to the CBA's July forecast, inflation is projected at 5.7% in 2025. Government consumption is expected to make 0.50 p.p, household consumption 1.26 pp, APPI 3.17 pp, inflation in trading partners 2.78 pp upward, while the NEER is expected to make -0.70 pp and other factors -1.31 pp downward contribution to the annual inflation forecast of 2025.

⁸ The quarterly forecasting model of the Azerbaijan's economy (AzIM) is theoretically a small open economy New Keynesian model. This model is also referred to as a gap model. It measures trend changes, explains deviations, and describes the monetary policy's transmission mechanism. Variables actively respond to shocks in the short term and converge towards their steady-state equilibrium in the long term. AzIM is built on four main equations: aggregate demand, the Phillips curve, the monetary policy rule, and interest rate parity. The model's parameters have been calibrated and subjected to standard econometric tests, including impulse-response analysis, decomposition analysis, and in-sample simulations.

Chart 52. Annual inflation forecast, in %

Source: CBA AzIM model



According to the July forecast, inflation is expected at 5.3% in 2026. Government consumption is expected to make 0.35 pp, household consumption 1.28 pp, APPI 2.23 pp, inflation in trading partners 1.92 pp and other factors 1.80 pp upward and the NEER -2.27 pp downward contribution to the annual inflation forecast of 2026.

The realization of forecasts will depend on changes in a range of external and domestic factors. High geopolitical tensions in the global economy, continued obstacles along key trade routes under global fragmentation, and persistent uncertainty may lead to higher commodity prices and, against the backdrop of accelerating global inflation, contribute to domestic inflation via import price pressures. At the same time, global climate change may affect productivity and global food production. Among domestic factors, the main risk of upward pressure on inflation relates to excessive growth in local cost factors and aggregate demand. Taking potential risks into account, the effects of budgetary expenditures and credit allocations

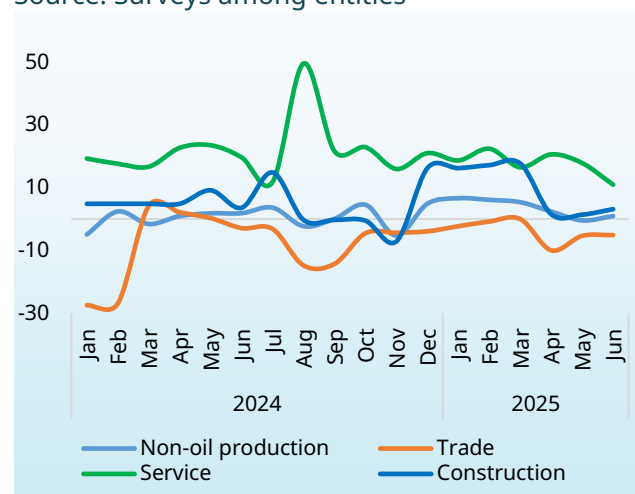
on inflation should be closely monitored in the medium term.

4.2.3 Inflation expectations

In H1 2025, inflation expectations varied across sectors. Based on the results of the Central Bank's RSM, expectations across sectors declined year-over-year. In the industrial and services sectors, price expectations for the next three months almost halved compared with the same period last year. The construction sector underwent a slight drop. Indicators in the trade sector also decreased and remained in negative territory.

Chart 53. Price expectations for upcoming three months across the real sector⁹

Source: Surveys among entities



In June, the price index in the industrial sector was 0.94 (y.o.y. 1.85), in trade -5.13 (y.o.y. -2.89), in construction 3.15 (y.o.y. 3.59), and in the services sector 10.95 (y.o.y. 19.63).

⁹ The index in the graph is calculated as the difference in the weight of positive and negative responses, expressed as a percentage. This index ranges from [-100, +100] and reflects the trend of price expectations for the next three months.

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