CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

# MONETARY POLICY REVIEW

May

**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

*The CBA implemented its monetary policy in the first quarter of 2025 under the "Statement of the Central Bank of the Republic of Azerbaijan on main directions of the monetary policy for 2025". The CBA's policy was aimed at safeguarding macroeconomic stability in the country.*

*The global environment was influenced by several key factors: persistent geopolitical tensions, fluctuations in global financial markets, rising uncertainties due to trade policy changes, ongoing disruptions in critical international trade routes, and volatility in global commodity prices and inflation in partner countries.*

*In the first quarter of 2025, the Azerbaijani economy continued to grow; foreign trade, a key component of the balance of payments, was in surplus. Strategic foreign exchange reserves continued to exceed international sufficiency norms.*

*Over the period, annual inflation moved within the projected trajectory and remained within the target band. Inflation is expected to stay within the target range by the end of this year and in 2026.*

*The Central Bank implemented a monetary policy focused on maintaining inflation within the target by managing monetary conditions. Monetary policy tools were applied in accordance with the liquidity position of the banking system. The benchmark 1D AZIR index in the unsecured interbank money market was managed within the interest rate corridor. The improvement of the operational framework continued over the reporting period.*

## 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%* |

# 1

# GLOBAL ECONOMIC TRENDS

# 1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

*During the past period of 2025, global economic growth slowed, the global trade environment deteriorated, and uncertainties related to macroeconomic sustainability increased, risks triggered by tighter trade policies reduced the policy space available to governments and central banks.*

## 1.1.1 Global economic activity indicators

In Q1 2025, global economic growth continued, though at a subdued pace.

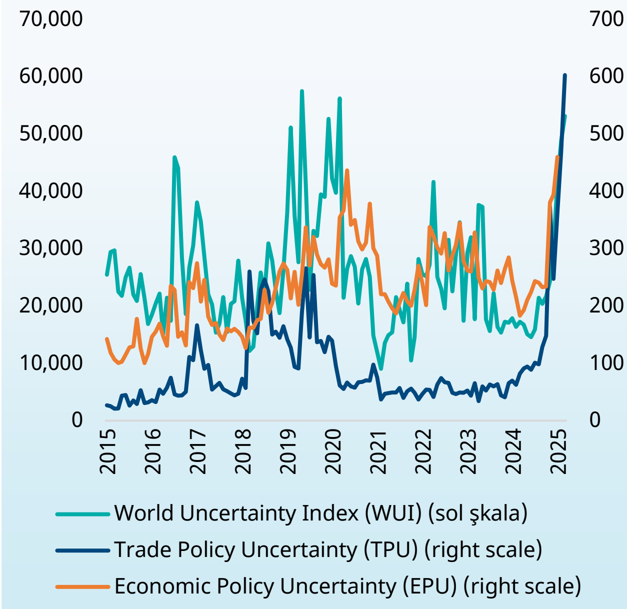
GDP growth in the U.S. was driven by private consumption and domestic demand. In 2024, private consumption increased by 2.8% year-over-year and surpassed the historical average of 2000-2019 (2.4%). However, in 2025 this growth rate was prone to falling. After rising by 0.6% in December 2024, consumption contracted by 0.6% in January 2025 and remained at low level through February. Policy changes in the U.S. reshaped the global trade system in the first quarter elevating uncertainties related to sustainability of the global economy.

The euro area is going through a cyclical recovery; however, domestic demand remains weak. Except for Germany, the contribution of consumption to economic growth is expected to decline across major European economies. Weak consumer sentiment and high uncertainty have led to increased savings and reduced consumption.

In China, economic growth was supported by external demand, and the prolonged stagnation in the real estate sector dampened domestic demand. Recent rising trade tensions and new tariffs had a negative impact on the Chinese economy.

**Chart 1. Global uncertainty indices[1]**

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



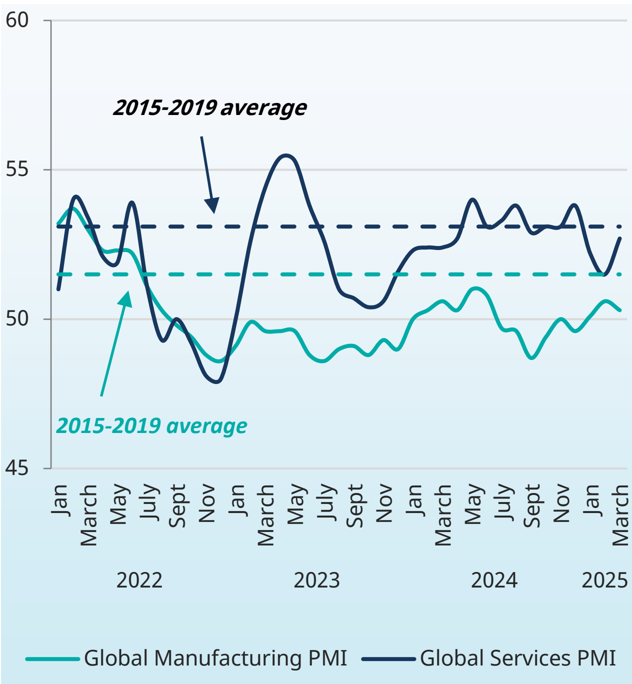

During the first three months of 2025, indicators reflecting uncertainties in the global economy showed a marked increase. Since the end of 2024, the Economic Policy Uncertainty (EPU) index, and particularly the Trade Policy Uncertainty (TPU) index, have surged. In March 2025, the TPU index reached an all-time high, surpassing the levels observed during the COVID-19 pandemic. This indicates that trade-related uncertainties on a global scale have risen significantly and now pose more serious concerns than in previous periods. While the World Uncertainty Index (WUI) has exhibited cyclical volatility, peaking

[1] Uncertainty indices are media and news-based indicators that measure the extent of media attention to topics related to global uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

during the pandemic and other global political developments, it has not increased as sharply as the EPU and TPU.

High-frequency indicators, such as purchasing managers' surveys, signal a slowdown in economic growth.

**Chart 2. Purchasing Managers' Index (Manufacturing and services)**
Source: S&P Global



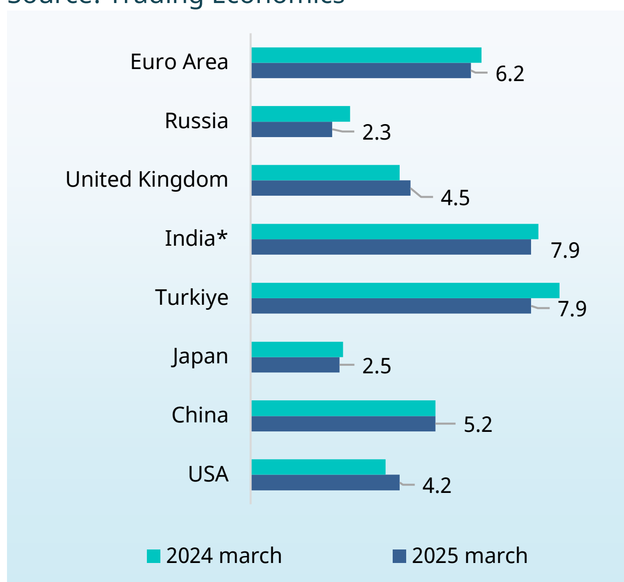

The PMI[2] in production has been increasing since early 2025. In March 2025, the PMI increased from 49.6 to 50.3 compared to the end of 2024. However, it remained below the average of 2015-2019 (51.5). While the PMI in services weakened in the first 2 months of the reporting period, it increased in March. It decreased to 52.7 in the last month of the quarter, falling below the average of 2015-2019 (53.1) (y.o.y. down by 1.1 pp).

Overall, whereas consumer, business and investor expectations were optimistic at the beginning of the year, they shifted to a more pessimistic outlook amid rising uncertainties and newly declared tariffs.

## 1.1.2 Global unemployment trends

Over the reporting period, the unemployment rate varied across countries. It decreased in Türkiye, India, Japan, the euro area and Russia, remained stable in China and increased in the U.S. and the UK year-over-year. In many countries, labor markets experienced a slowdown in hiring alongside an increase in layoffs.

**Chart 3. Unemployment rate, in %**
Source: Trading Economics




* The indicator pertains to February.

The OECD's March 2025 Economic Outlook report notes that labor market conditions remain generally favorable. Although unemployment growth has slightly slowed since the second half of 2024, it remained high, with unemployment rates generally remaining lower than pre-pandemic levels.

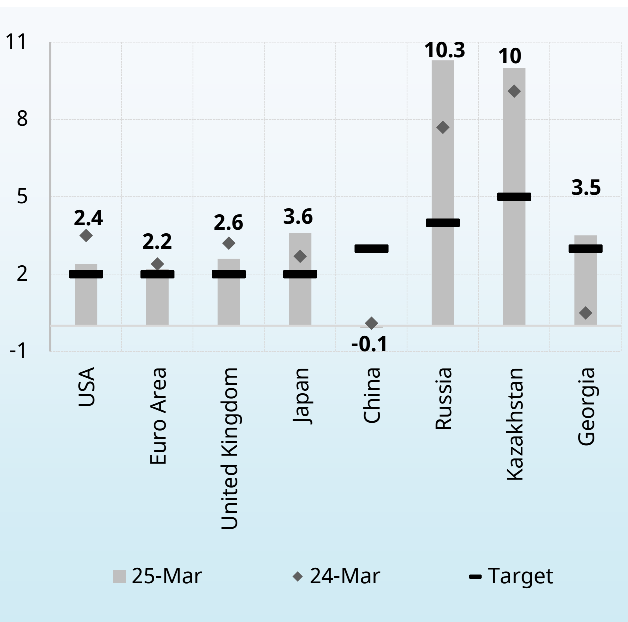
[2] Purchasing Managers Index (PMI) is developed based on surveys conducted by S&P Global with private sector enterprises across various countries. The index ranges from 0 to 100: values above 50 indicate growth, while values below 50 signify a decline.

### 1.1.3 Global inflation

During the reporting period, the decline in global inflation lost momentum. In some countries, inflation remained above the target. Although services inflation showed a declining trend, it remains higher than pre-pandemic levels. In many economies, particularly in the U.S. and the euro area, services inflation remains above the pre-COVID-19 average.

The annual inflation rate showed declining trend, reaching to 2.4% in March 2025 in the U.S. Inflation in the euro area decreased from 2.4% to 2.2% compared to the early year in March 2025. Core inflation declined to its lows since October 2021 to stand at 2.4%.

**Chart 4. Annual inflation by countries, in %**
Source: National Statistics Offices




Inflation varied across EMEs. In March, annual inflation in China stood at -0.1%, due to weakened trade ties amid rising uncertainty. The U.S. imposed import tariffs, which dampened global demand and exerted downward pressure on inflation in China.

In Q1 2025, annual inflation continued to rise in Russia, one of the main trade partners of Azerbaijan. In March, annual price hike stood at 10.3%, the highest indicator since March 2023. Despite the high policy rate by the Bank of Russia annual inflation continued to rise. Price hike was 12.9% in services, 12.4% in food, 5.9% in non-food products.

In March 2025, annual inflation stood at 38.1% in Türkiye, which is within the forecast range recently published by the Central Bank of Türkiye and the lowest rate since the beginning of 2022. Cafes, restaurants, and hotels contributed 43.4 pp, healthcare 42 pp, and food and non-alcoholic beverages 37.1 pp to price hikes.

In Q1 2025, inflation continued to increase in Georgia. In March 2025, annual inflation stood at 3.5% in Georgia, (the highest level of recent 21 months), which means a 1.1 pp rise relative the previous month and above the 3% target. The main contribution to price hike came from food and non-alcoholic beverages (6.6%), alcoholic beverages and tobacco products (4.2%), and healthcare (8.8%).

## 1.2 GLOBAL COMMODITY PRICES

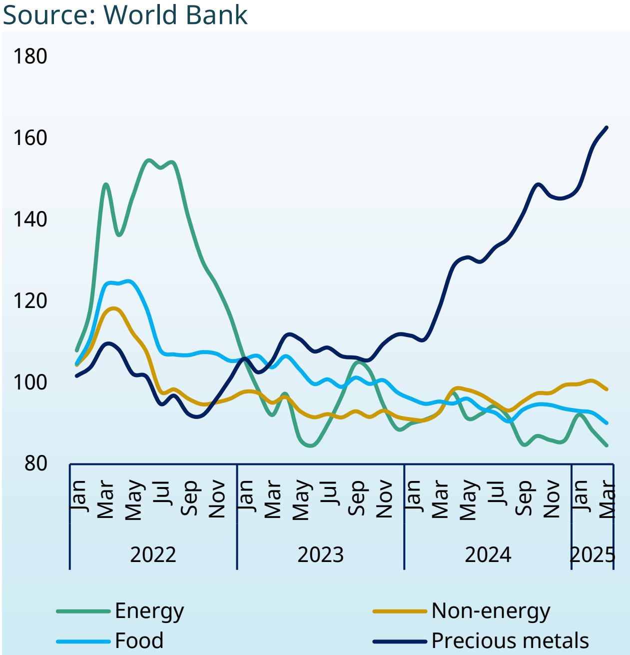
*In the first quarter 2025, global markets underwent notable changes due to geopolitical risks and trade policy changes. Statements suggesting that daily crude oil production within the OPEC+ framework would increase more than expected led to a decline in oil prices. Although prices of several key commodities decreased compared to the beginning of the year during the quarter, commodity markets are facing uncertainties due to the tightening of U.S. trade policy.*

### 1.2.1 Dynamics of global commodity prices

In Q1 2025, prices for certain commodities declined. According to the World Bank Commodity Markets Outlook, April 2025, in March 2025 overall commodity price index decreased by 1.3% relative the early year. At the same time, price indexes declined on sugar, wheat, and certain food products.

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

Source: World Bank



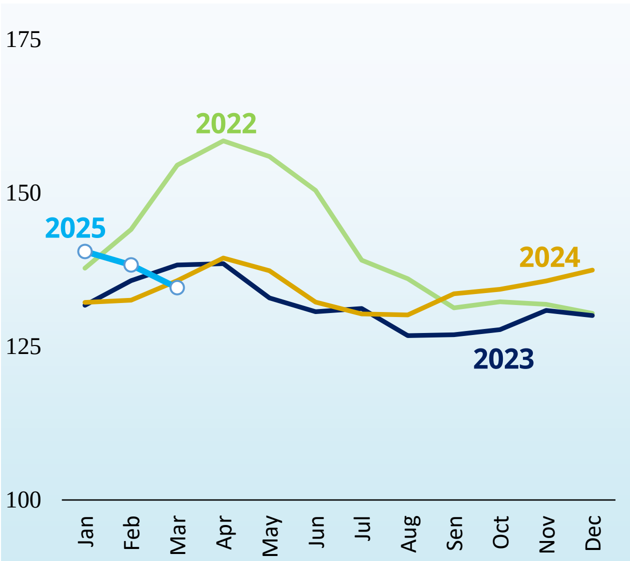

In March, the energy price index declined due to the drop in prices for natural gas in Europe and crude oil. In China, the world's largest oil importer, oil demand has declined due to the transition to electric vehicles, increased use of liquefied natural gas (LNG) in transportation, and a general slowdown in industrial activity. The escalating trade war between the U.S. and China created additional uncertainties in the global economy. Expectations of a further decline in oil demand in consequence of China's counter measures to U.S. tariff policies have heightened concerns about a global recession.

In Q1 2025, price indexes decreased by 1% on non-energy products. Nevertheless, prices for some commodities continued to rise. The World Bank reports that, the precious metals index, driven by gold prices, increased by 11.9% in March compared to the beginning of the year. In April 2025, the gold price reached a new record high, attributable to rising trade tensions between the U.S. and China, new tariff initiatives by the U.S., and continued purchases by central banks. During the first quarter, the price index for base metals (aluminum, copper, nickel, etc.) also rose. In March, the base metals price index was up 6.6% compared to the early year.

### 1.2.2 Dynamics of global food prices

In Q1 2025, global food prices generally decreased. The agricultural price index published by the IMF was down by 2.1% in March compared to the early year. The agricultural price 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



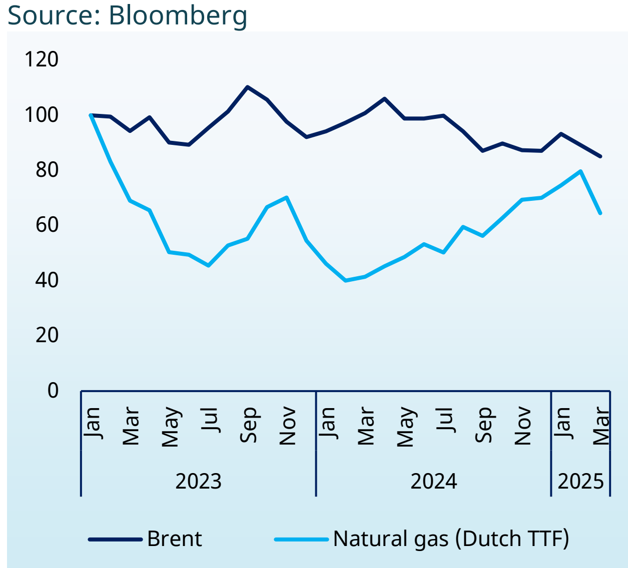

In March 2025, the FAO's food price index was down by 0.2% compared to the end of 2024. In March, the vegetable oil price index was down by 0.2% compared to the end of the previous year, while palm, soybean and sunflower oil prices increased. The dairy price index was up by 4.8% compared to the early year. Butter prices increased due to rising international demand amid seasonally reduced supply in Oceania and weak production in Europe. The sugar price index decreased by 2% compared to the beginning of the year, driven by weak global demand and favorable weather conditions in major producing countries. The grain price index declined by 1.5% in March 2025 compared to the beginning of the year. Global wheat prices fell in March as climate-related concerns eased in some major exporting countries. The rice price index decreased by 1.7% in March due to weak demand and ample export availability. The meat price index declined by 1.3% in March 2025 compared to the end of the previous year. Poultry prices remained stable due to balanced global supply and demand.

### 1.2.3 Dynamics of global energy prices

Amid ongoing geopolitical conflicts, global energy prices continued to exhibit high volatility in Q1 2025. According to the World Bank, in March 2025, the energy price indices decreased by 1.5% relative the early year. Recent developments in trade policy and oil production led to a further decline in oil prices starting from the first week of April. According to the U.S. EIA, in Q1 2025 the average price of Brent crude oil was $76/b, $7/b lower year-over-year.

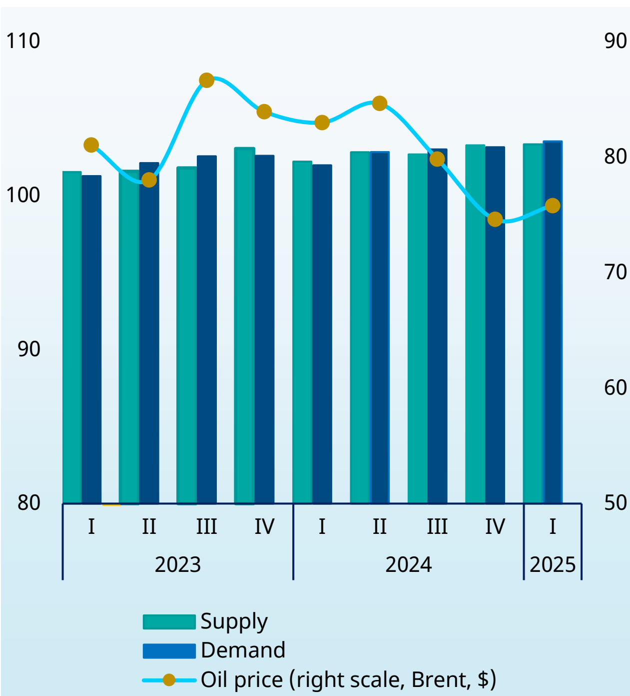
Statements by OPEC+ members regarding production increases were the main factor behind the decline in the spot price of Brent crude oil. The EIA reports that as market participants assess the effects of trade policies, significant volatility in crude oil and other commodity prices may continue. Additionally, sanctions against Russia, Iran, and Venezuela create further uncertainty regarding crude oil prices.

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



In Q1 2025, natural gas prices were highly volatile due to seasonal demand, storage levels, and geopolitical factors. In January 2025, the suspension of Russian gas supplies to Europe via Ukraine led to an increase in LNG imports to the EU. Additionally, colder-than-expected weather in Northern Europe triggered a rise in gas-powered electricity generation, further supply shrinks and higher prices. Since the end of February, rising temperatures and reduced consumption have begun to drive gas prices down. Analysts note that market dynamics in the spring will depend on the rate of underground gas storage replenishment and demand for liquefied natural gas.

**Chart 8. Supply and demand in the world oil market, in million barrels (daily)**
Source: the U.S. EIA



# 1.3 GLOBAL FINANCIAL SYSTEM TRENDS

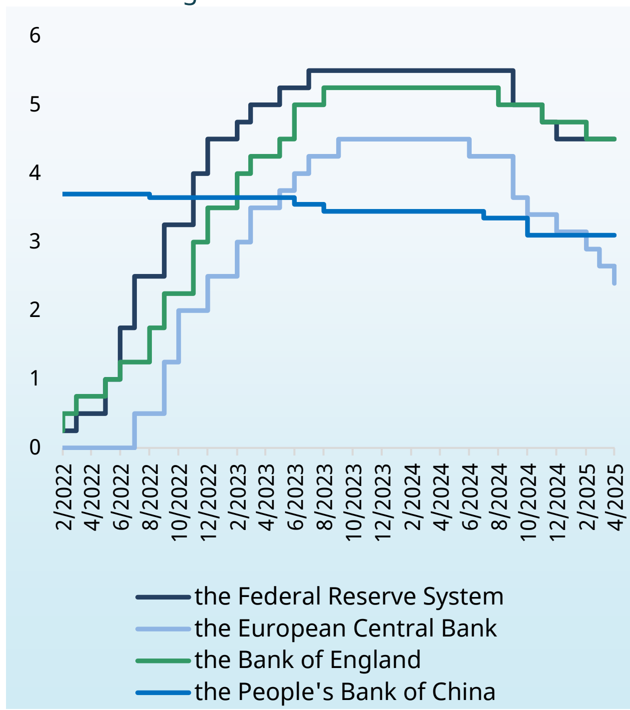
*In Q1 2025, although several central banks reduced policy rates amid declining inflation, persistent geopolitical and geoeconomic uncertainties necessitated the implementation of cautious monetary policies. Simultaneously, escalating trade wars and rising risks led to high volatility in international financial markets and a decline in asset prices.*

## 1.3.1 Monetary policy decisions of central banks

Over the past period of 2025, on 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 reducing policy rates. At the same time, amid ongoing geoeconomic and geopolitical uncertainties, certain central banks remained cautious and kept policy rates unchanged. Nevertheless, certain economies further tightened the monetary policy to safeguard macroeconomic stability, due to rising inflationary pressures, exchange rate volatility, and other internal and external risks.

In 2025, the FED kept its benchmark interest rate unchanged, holding the policy rate at 4.25% to 4.5%, in consideration of lingering inflationary risks and economic activity, current labor market sustainability, as well as economic uncertainties to be shaped by the new administration. On the other hand, the Bank of England shifted the policy rate to 4,50% from 4.75% early year due to lower inflation and weaker economic growth indicators and subsequently kept it unchanged, considering ongoing uncertainties in the global economic environment.

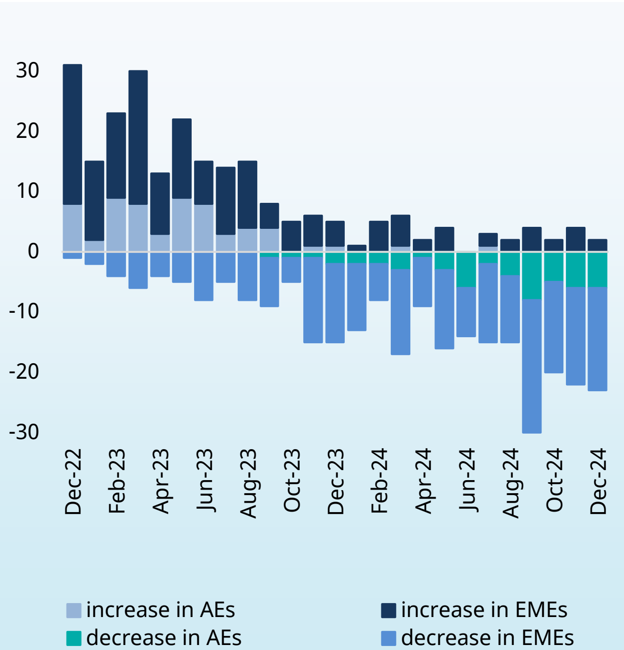
**Chart 9. Key policy rates of major central banks**
Source: tradingeconomics.com




Amid slack economic activity and inflation approaching the target, the ECB cut a total 75 pp over the year, lowering the policy rate to 2.40%. In contrast, the Bank of Japan raised its policy rate from 0.25% to 0.5% to achieve price stability, driven by continued wage growth. The People’s Bank of China maintained an accommodative monetary policy throughout 2025 to support the real sector’s sustainable development and economic recovery, keeping the policy interest rate unchanged at 3.10%

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

Source: centralbanknews.com, cbrates.com




The Bank of Russia left the policy rate at 21.00% as it found the current monetary policy sufficient to bring inflation back to the target.

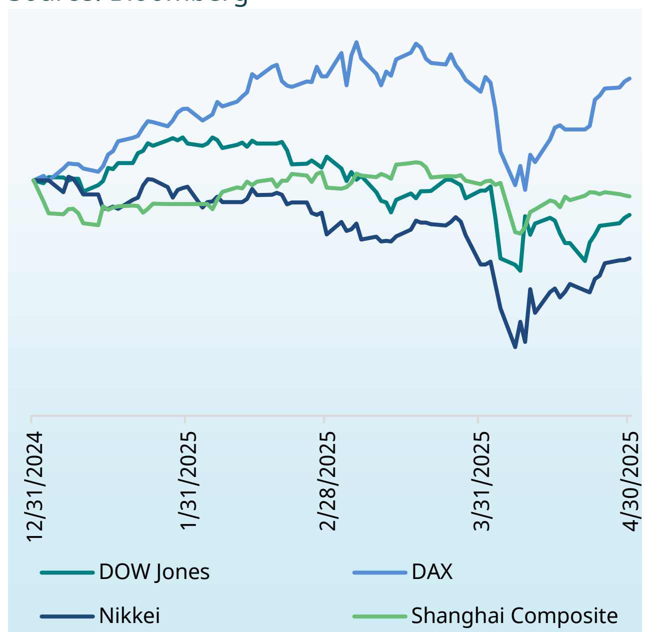
Generally, central banks are expected to approach monetary easing cautiously in coming periods. Despite weaker inflationary pressures, the incomplete return of inflation to the target, as well as geopolitical tensions, energy price volatility, and risks related to economic resilience, may directly influence the pace and scope of future policy adjustments.

### 1.3.2 Financial market trends

In Q1 2025, international financial markets were highly volatile, and asset prices declined, attributable to rising trade protectionism and intensified geopolitical risks. These factors made investors more sensitive to risks and prompted a shift away from risk-based assets, leading to a decline in the market value of assets. During 4 months of 2025, Nasdaq Composite depreciated by 17%, Dow Jones by 4%, Nikkei by 10%, MSCI World by 2%, XU100 (BIST100) by 8% and Shanghai Composite by 2%. The Russian RTSI gained 26% in value amid probabilities of a possible easing of sanctions.

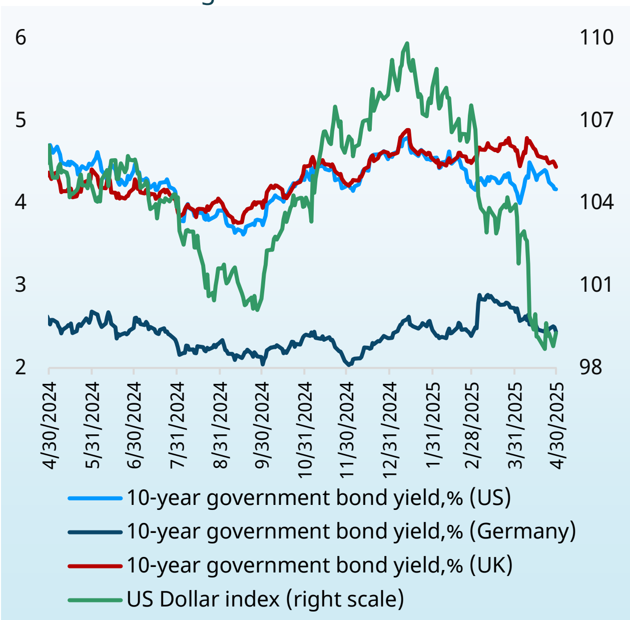
**Chart 11. Dynamics in stock exchanges (31 December 2024=100)**

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%, gradually declined to 4% by early April, then rose again to 4.5%, and settled at around 4.2% by the end of April, attributable to fluctuations in investor demand driven by ongoing uncertainties related to trade policy and inflation expectations.

**Chart 12. US Dollar index and AEs' 10-year government bond yields**
Source: investing.com




In Q1 2025, the U.S. dollar index[3] was highly volatile amid global economic uncertainty. The index exceeded 110 at the beginning of the year, but later declined to 99 by the end of April due to rising trade tensions and concerns over a potential economic slowdown, attributable to the dollar's sensitivity to investor expectations, closely tied to geopolitical developments and monetary policy decisions.

According to the IMF's Global Financial Stability Report, persistent high global geopolitical risks threaten macro financial stability. These risks can contain trade and investment activities, reroute the direction of capital flows, reduce asset prices, and weaken the intermediation capacity of financial institutions.

**Chart 13. Monthly response of sovereign risk premiums (CDS[4] spreads) to key external geopolitical risks, in basis points**
Source: IMF, Global Financial Stability Report


Chart 13 depicts the sensitivity of a country's sovereign risk premium to geopolitical risk events involving its main foreign trade partners, particularly military conflicts. Sovereign risk premiums of EMEs surge within a month following major geopolitical events in their trade partners. The response of sovereign risk premiums is stronger when geopolitical risks involve key import and export partners. In AEs, however, this effect is relatively weak.

The report also specifies that while the impact of most geopolitical events is limited, major risks, such as military conflicts, lead to a loss in equity value and a rise in sovereign risk premiums in EMEs, which, in turn, is accompanied by a slowdown in bank lending and capital outflows from investment funds. According to the IMF, to safeguard financial

[3] The dollar index – measures the value of the U.S. dollar against six major foreign currencies. If the index rises, it indicates that the dollar is strengthening against other currencies; if it declines, it signifies a weakening of the dollar.

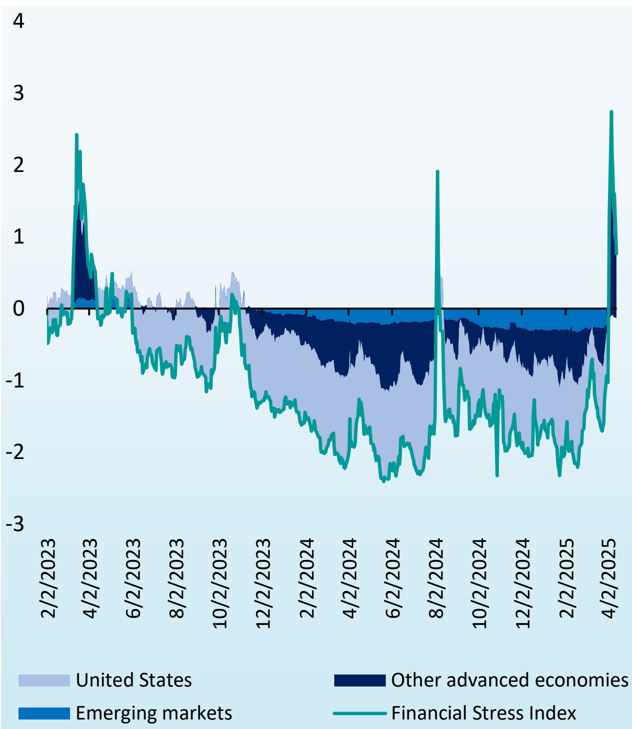
[4] CDS (Credit Default Swap) - is a financial derivative instrument utilized to insure against the risk of non-payment (default) on a debt obligation.

stability, financial institutions should conduct stress testing and scenario analysis to identify and assess geopolitical risks. EMEs should focus on fiscal resilience and bolstering their international reserves.

According to data from the U.S. Office of Financial Research, the Financial Stress Index rose at the beginning of 2025 year-over-year, attributable to geopolitical tensions, monetary policy uncertainties, and volatility in financial markets.

**Chart 14. Global Financial Stress Index**[5]

Source: US Office of Financial Research




[5] 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 Q1 2025, foreign trade balance, the primary component of balance of payments, was in surplus. Non-oil-and-gas export accounted for about 25% total export growth. Foreign exchange reserves continued to exceed international sufficiency norms.*

## 2.1.1 Foreign trade turnover

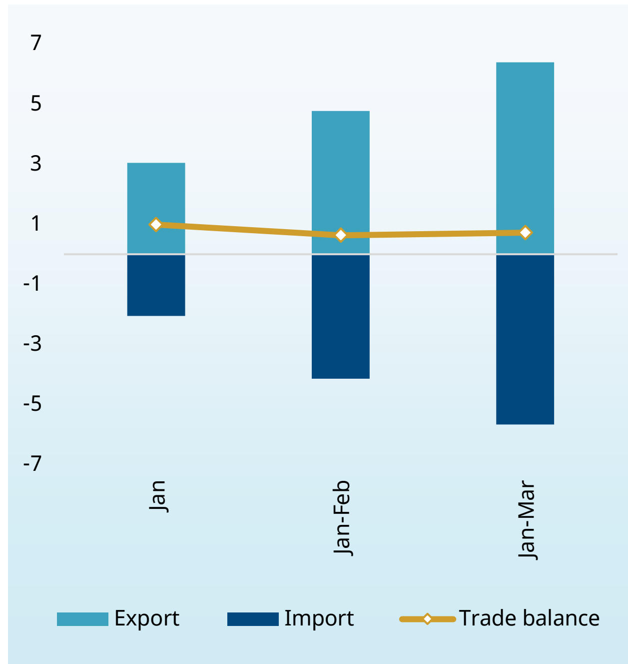
According to the SCC, in Q1 2025, foreign trade turnover amounted to $12B – export $6.4B (53%) and import $5.7B (47%). Foreign trade surplus stood at $0.7B.

The EU accounted for 43.9%, the CIS for 16.2%, and other countries for 39.9% of total foreign trade turnover during the reporting period. Italy, Russia, Türkiye, China, Germany, the UK, Czechia, Australia, Romania, and Croatia accounted for over half of trade turnover.

The total value of oil and gas exports amounted to $5.6 billion, comprising $3.4 billion from crude oil and $2.2 billion from natural gas.

Non-oil-gas export y.o.y. increased by 14.6% to $0.8B. The main contributors to the growth of non-oil-gas exports were fruits and vegetables, chemical products, aluminum and related products, ferrous metals, alcoholic and nonalcoholic beverages, cement, sugar, oils, cotton yarn, and tea.

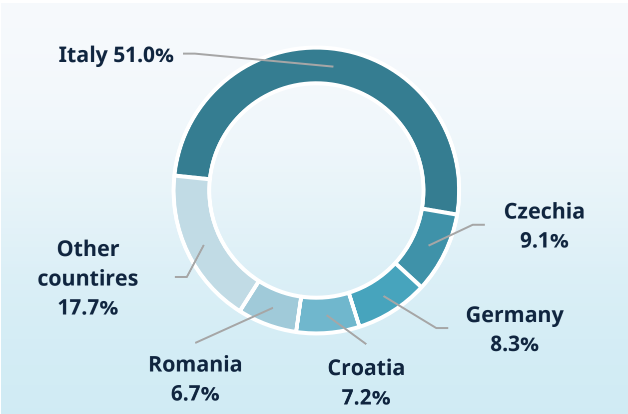
**Chart 15. Foreign trade balance in Q1 2025, in billion US dollars**
Source: SCC




In general, during the first quarter of 2025, the main export partners were Italy (45.6%), Türkiye (13.1%), Czechia (4.8%), Germany (4.5%) and Croatia (3.7%).

Commodity imports amounted to $5.7B – the public sector accounted for 39%, the private sector for 52.2%, 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.

**Chart 16. Countries to which crude oil was exported in Q1 2025, in %**
Source: SCC




Russia accounted for 21.1%, China for 17.8%, Türkiye for 10.5%, Australia for 5.1%, the UK for 4.4%, Germany for 4.3%, Mexico for 3.4%, Iran for 2.7%, Canada for 2.3%, Brazil for 2.1% and other countries for 26.3% of total imported products.

### 2.1.2 Foreign investments

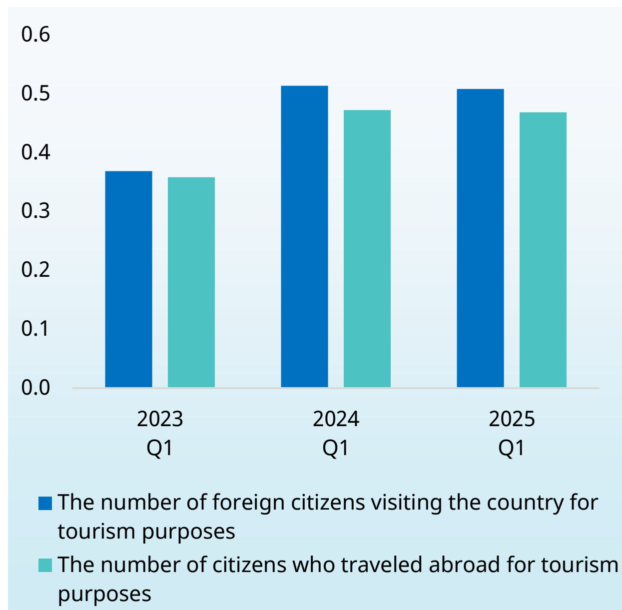
Capital inflows from foreign enterprises and organizations continued in January-March 2025. According to the SSC, total investments from external financial sources amounted to AZN0.9B (y.o.y up by 19.4%) and accounted for 27.4% of total investments.

Investor funds from the UAE, the UK, Türkiye, Switzerland, Russia, the U.S., Japan, Iran, France, Hungary, and India accounted for 98.7% of total foreign investments. 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 economy into the global economy and the interest of global investors.

### 2.1.3 Trade in tourism services

International tourism continues to recover. In Q1 2025, total 508.1 thousand tourists from 167 countries visited Azerbaijan. Russia accounted for 24.7%, Türkiye for 18.3%, India for 10.8%, Iran for 9.8%, Georgia for 5%, Kazakhstan for 3.6%, Pakistan for 2.7% and other countries for 25.1% of the total number of tourists.

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




The people travelling abroad for tourism numbered 468.9 thousand persons. Those travelling abroad for tourism visited Türkiye (36.5%), Russia (15.7%), Georgia (11%), Iran (10.7%) and other countries (26.1%).

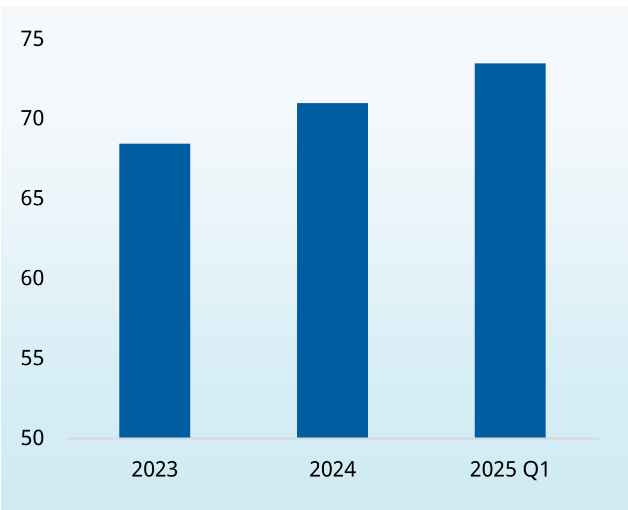
### 2.1.4 Foreign exchange reserves

In Q1 2025 foreign exchange reserves of the country increased by 3.5% to $73.5B as of the end-period. CBA's foreign exchange reserves amounted to $11026.5M.

Strategic foreign exchange reserves exceeded internationally accepted sufficiency norms. As of the end of March 2025, strategic foreign exchange reserves were sufficient for 32-month import of goods and services (considering the import of goods and services for 2024). Strategic reserves surpassed broad money supply in manat (M2) by 3.5 times (M2 money aggregate as of 01.04.2025).

**Chart 18. Strategic reserves in 2023-2024 and in Q1 2025, in billion USD**

Source: CBA




These indicators suggest that the country demonstrates strong resilience to both external and domestic economic shocks.

# 2.2 AGGREGATE DEMAND

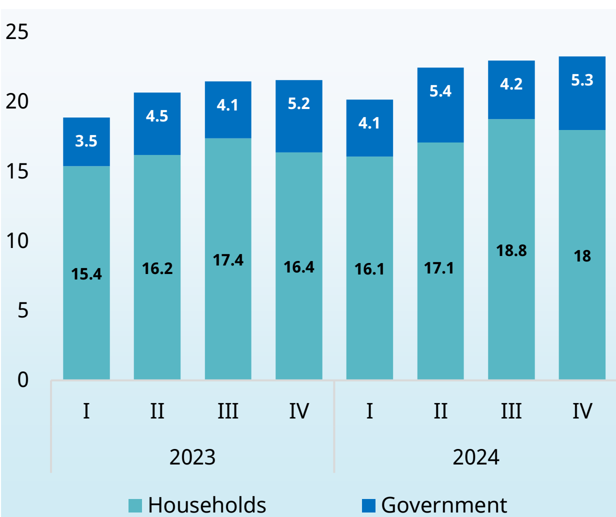
*Aggregate demand continued to grow over the period and supported economic activity. The aggregate demand expansion was driven by consumer demand as in previous years. Over the period, rising income of the population paved the way to the expansion of consumer demand.*

## 2.2.1 Final consumption expenditures

The growth of domestic consumption weighed in on aggregate demand in Q1 2025.

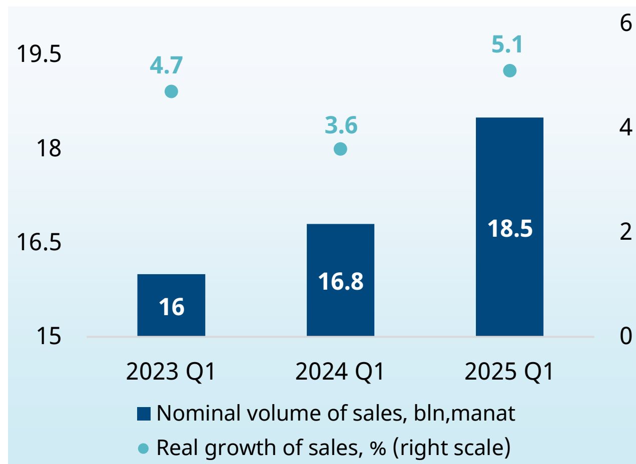
In 2024, households' final consumption expenditures stood at 55.4% (y.o.y. up by 2.7%), and final consumption expenditures of public institutions stood at 14.4% (y.o.y. up by 3.9%). In 2024, households' final consumption expenditures increased by 5.4%, and those of public institutions increased by 6.7% in nominal terms.[6]

**Chart 19. Quarterly dynamics of consumption and its components, in billion AZN**
Source: Calculations of the SSC and CBA




The value of goods sold, and services supplied to the population y.o.y. increased by 5.1% to AZN18.5B in Q1 2025. Total value on non-state property y.o.y. increased by 4.9% to AZN17.7B. Retail trade turnover accounted for 78.9%, paid services 18.1%, and public catering turnover 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 billion manats**
Source: SSC




Retail trade turnover y.o.y. increased by 3.8% in real terms – 1.7% on food, beverages, and tobacco products and 6.3% on non-food stuff. Consumers allocated 55.6% of their retail trade expenditures to food, beverages, and tobacco products, while 44.1% was spent on non-food products. Average consumer spent y.o.y. 9.8% more funds per month on average.

[6] The SSC's 'Use of GDP' table was used in the calculation. The percentage ratio of the total indicator for four quarters of 2024 to the total indicator for four quarters of 2023 was calculated and applied for each component.

**Chart 21. Real growth of retail trade turnover, year-over-year, in %**

Source: SSC

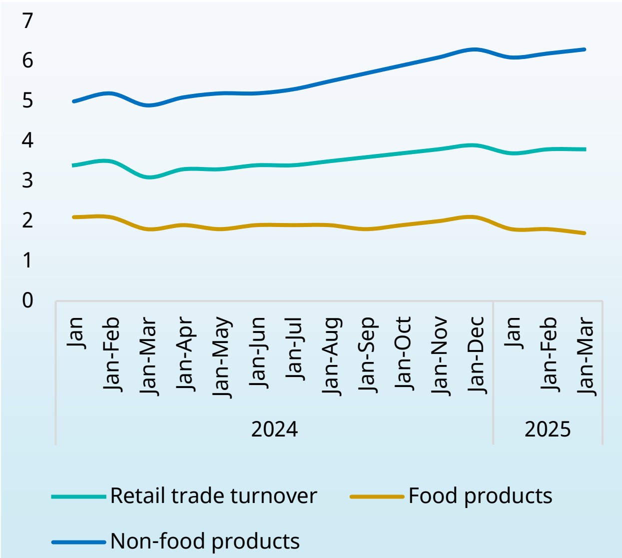
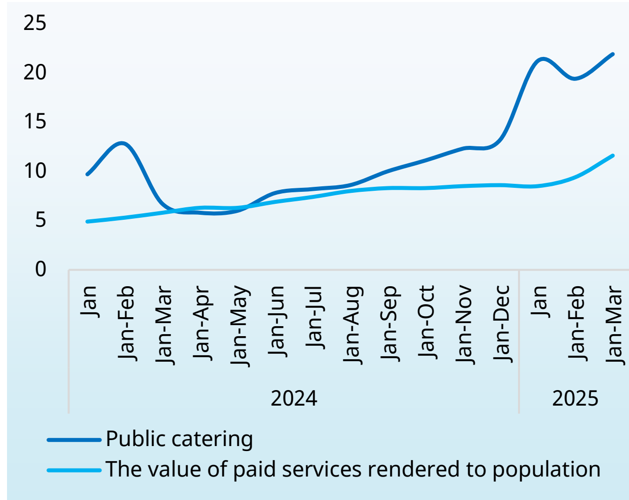



**Chart 22. Real growth of public catering and paid services, year-over-year, in %**

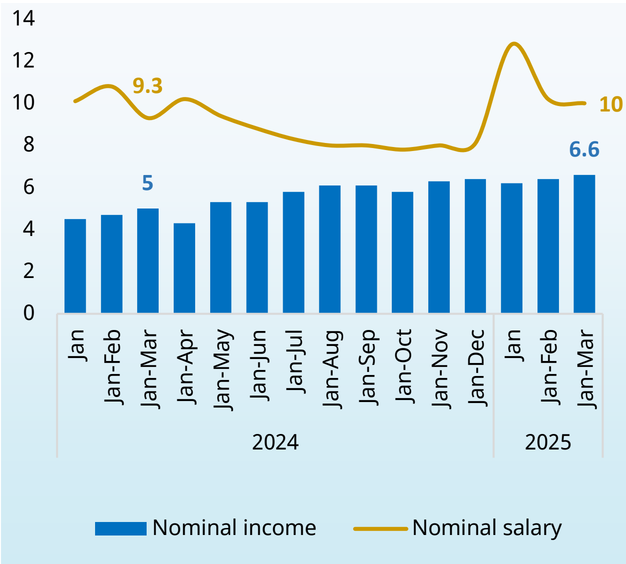
Source: SSC




The increase in public catering and paid services to the population indicates robust consumer demand. Public catering turnover y.o.y. increased by 17.6% in real terms, while services provided to the population grew by 9.4%. Legal entities accounted for 50.9% and individuals engaged in entrepreneurial activity accounted for 49.1% of public catering in the private sector. A 17.5% increase in turnover was recorded for legal entities.

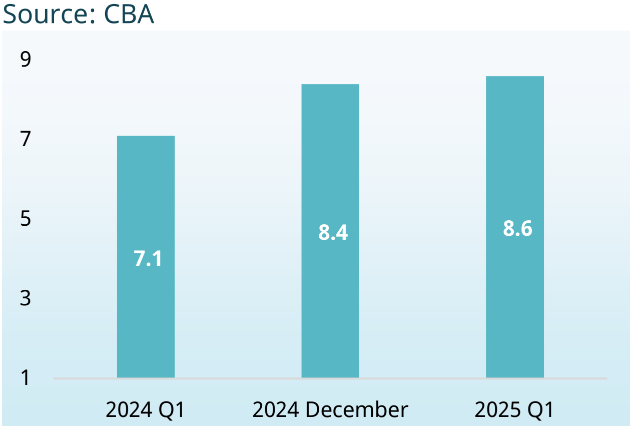
Consumer demand was driven by the growth of income of the population both in real and nominal terms. According to the SSC, nominal income of the population y.o.y. increased by 6.6% to AZN20.7B. Disposable income of the population increased by 6.3% to AZN18.1B. In January-February 2025, the average monthly nominal salary of hired labor increased by 10.2% to AZN1043.6. Salary in the oil-and-gas sector was higher than in the non-oil-gas-sector.

**Chart 23. Growth dynamics of nominal incomes and salaries, 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, consumer loans increased by 1.9% in March 2025 compared to December 2024.

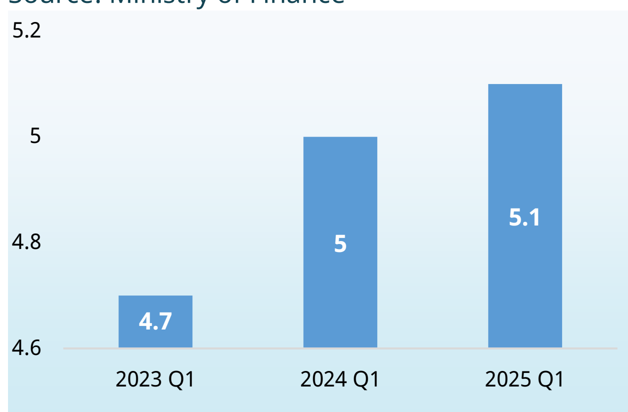
**Chart 24. Dynamics of consumer loans, in billion manats**
Source: CBA




## 2.2.2 Government spending

Government spending was critical in supporting domestic demand over the year. In Q1 2025, budget expenditures amounted to AZN8.1B, current expenses increased by 1.7% to AZN5.05B. 62.2% of state budget expenditures was channeled to current expenses, 31.8% to capital expenses and 6% to sovereign debt service.

**Chart 25. Dynamics of current expenses of state budget, in billion manats**
Source: Ministry of Finance




During the period, social expenditures (the wage fund of budget expenditures, purchase of food products, pensions, and social benefits, etc.) y.o.y. increased by 1.3% to 46.3% of actual expenditures. Expenditures on social protection and social security increased by 14.4%, or AZN156.7M, to AZN1.2B.[7]

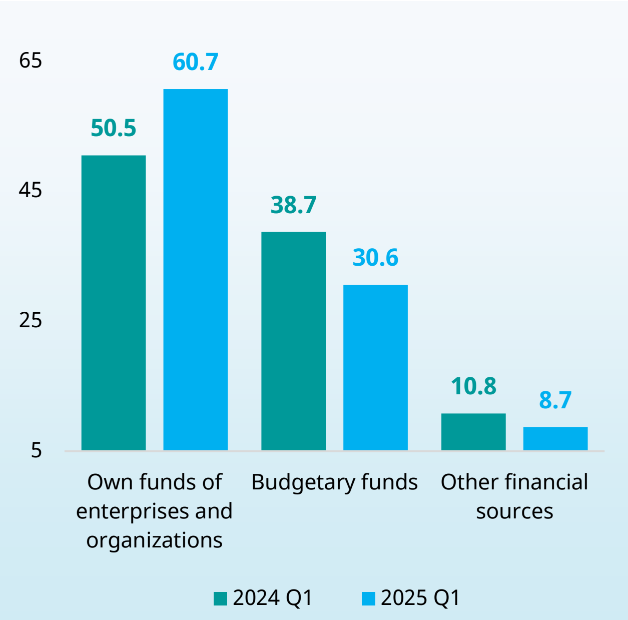
## 2.2.3 Investment expenses

Total investment to the economy amounted to AZN3.5B – AZN1.03B to the oil-and-gas sector, AZN2.4B to the non-oil-and-gas sector. The value of investments from enterprises' and organizations' own funds increased by 7.9% to AZN2.1B. 52.3% of the

[7] Ministry of Finance

total investment was allocated to production, 28% to services, and 19.7% to residential housing construction.

**Chart 26. The dynamics of total investments in fixed capital, in billion manats**
Source: SSC




43.1% of investments were made by public and 56.9% by non-public investors. 77.7% of total investment was spent on construction and installation works. The industry (45.2%) and construction (26%) sectors accounted for the major share in investments. 72.6% of total investments stemmed from internal sources. Foreign investments increased by 19.4% year-over-year.

## 2.3 AGGREGATE SUPPLY AND LABOR MARKET

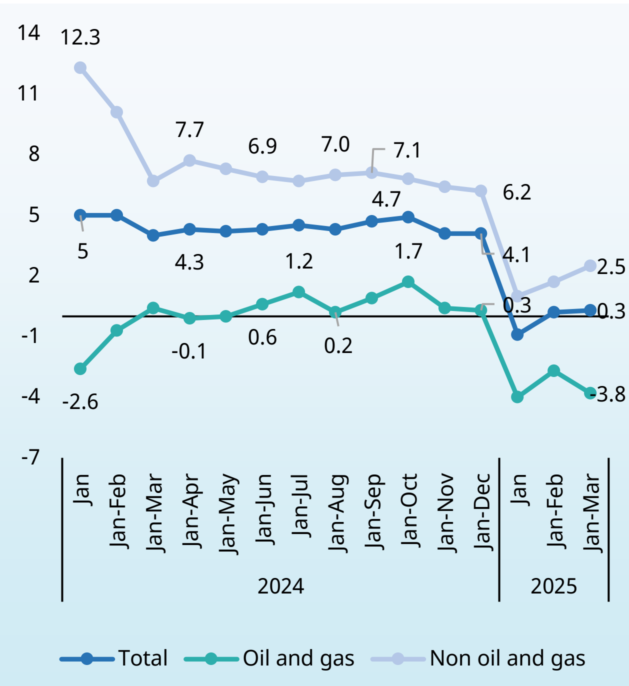
*In the first quarter of 2025, the economy of Azerbaijan continued to grow, driven by the non-oil and gas sector. Employment indicators also showed positive dynamics, with increases in the labor force and the number of salaried workers.*

### 2.3.1 Economic growth

According to the SSC, in January–March 2025, GDP increased y.o.y. by 0.3% in real terms to nominal AZN29.9B. Per capita GDP stood at AZN2922.2. Non-oil and gas GDP made 67.3% in the nominal GDP structure.

Oil-gas value added decreased by 3.8% to nominal AZN9.8B. Crude oil production y.o.y. decreased by 5.5%, while gas extraction increased by 1.1%.

**Chart 27. Economic growth, year-over-year, in %**
Source: SSC




In January–March 2025, non-oil-gas value added year-over-year increased by 2.5% in real terms to nominal AZN20.1B. Production in the non-oil-gas industry increased by 0.5%.

Agriculture recorded a 1.9% increase. Livestock products increased by 1.2%, and plant products increased by 13%.

Growth dynamics continued in services sector. Transport and warehousing grew by 3.1%, freight and passenger transport increased by 2.3% and 4.2% respectively. The volume of cargo transported by vehicles owned by the non-public sector increased by 3.8%. Freight transportation by road, with the largest share in cargo transportation, increased by 6.8% year-over- year. The value added in the information and communication sector y.o.y. grew by 7.7%, while the tourism and public catering sector increased by 12.5%.

The CBA’s real sector monitoring findings confirm that economic activity is continuing. Whereas the BCI varied across sectors in Q1 2025, it remained in the positive zone.

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

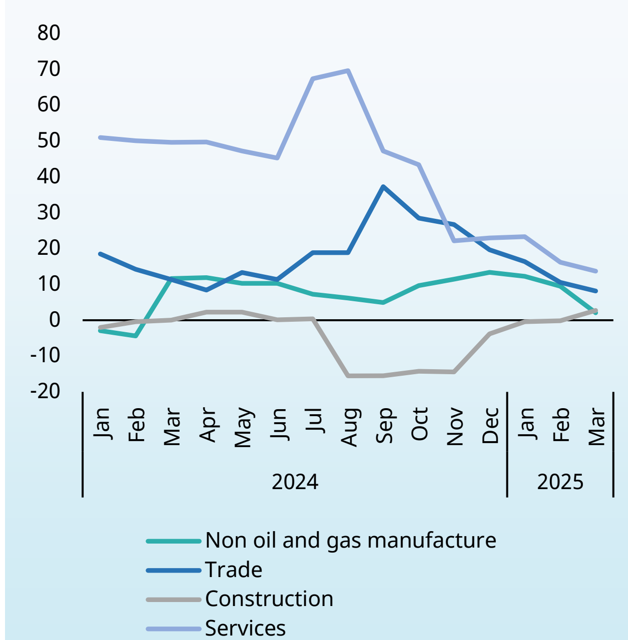
| Sectors | 2025 (January-March) | 2024 (January-March) |
|---|---|---|
| Industry | -3.9 | 0.6 |
| Construction | -3.8 | 11.8 |
| Agriculture, forestry, and fishery | 1.9 | 1.1 |
| Trade, repair of vehicles | 3.8 | 3.2 |
| Transport and warehousing | 3.1 | 17.3 |
| Tourism and public catering | 12.5 | 10.2 |
| Information and communication | 7.7 | 10.4 |
| Other | 1.9 | 3.7 |
| Net taxes on products and import | 1.7 | 8.4 |

The BCI for non-oil industrial enterprises increased on average in January–March 2025 year-over-year. The BCI mainly rose in the textile, plastic products manufacturing, and metallurgy sectors.

The trade BCI decreased in January-March 2025. The Index increased in electrical household appliances, automobile and household goods and decreased in furniture production.

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

**Chart 28. Business Confidence Index across sectors**
Source: CBA calculations based on RSM results [8]




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 April 2025, commercial organizations registered in the country numbered 198,000 units (y.o.y. up by 8.1%).

## 2.3.2 Employment

As of 1 April 2025, total labor force was 5316.0 thousand persons (y.o.y. up by 1.2%), employed population numbered 5032.8 thousand persons.

As of 1 March 2025, the number of hired employees was 1758.8 thousand persons (y.o.y up by 1.8%) – 878.5 thousand persons were engaged in the public sector,

[8] 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

while 880.3 thousand persons were employed in the non-public sector.

**Chart 29. Total labor force, in thousand persons**
Source: SSC


As of 1 April 2025, the number of registered unemployed persons was 231.2 thousand persons (women 47.9%).

Findings of the March 2025 survey suggest that employment by enterprises increased by 1.9% year-over-year.

## 2.4 INFLATION

*In the first quarter of 2025 annual inflation followed the projected trajectory and remained within the target range.*

### 2.4.1 Consumer price index

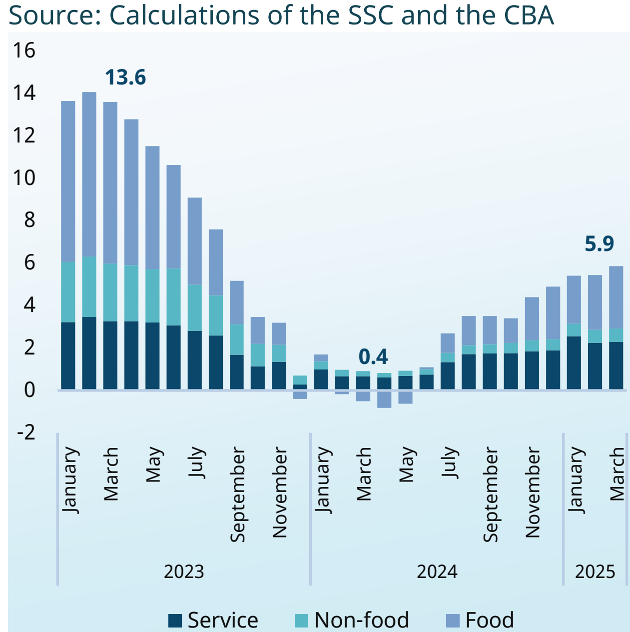
In March 2025, the CPI for all goods and services y.o.y. increased by 5.9%. Average annual inflation [9] stood at 5.6% according to official statistics.

The CBA estimated that, government and household consumption made 1.67 pp, APPI 2.88 pp, and inflation in trade partners 3.86 pp upward, while the appreciated NEER made 2.33 pp downward contribution to annual inflation.

**Chart 30. Annual inflation, in %**
Source: SSC


Annual food inflation stood at 6.5%, and average annual price hike was 5.7%. Annual non-food inflation stood at 2.8% and average annual inflation was 2.7%. The annual and average annual highest growth rate was on services. Annual service inflation was 7.5% in March 2025, and average annual service inflation was 7.8%. Out of the paid services to the population, the price index for central heating services and passenger transportation by air posted the highest annual growth. Prices for central heating services doubled, while the prices for passenger transportation by air increased by 17.2% year-over-year.

**Chart 31. Contribution of CPI components, in %**
Source: Calculations of the SSC and the CBA



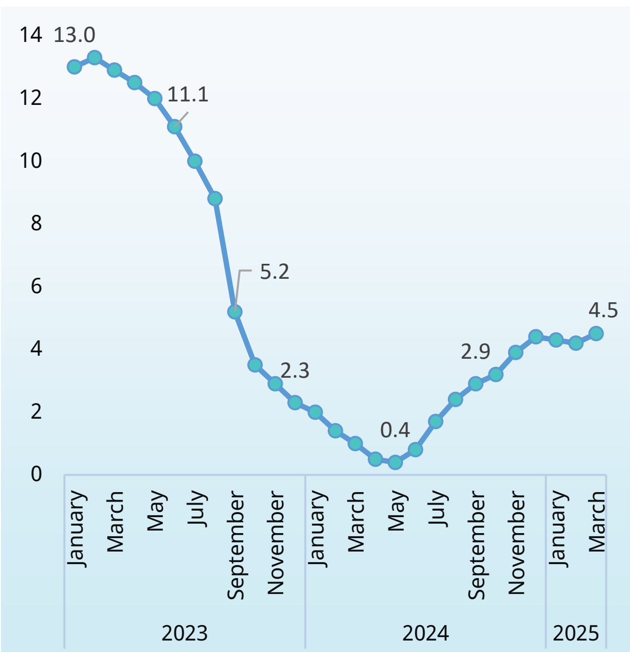

In March 2025, inflation growth was primarily driven by food products and services. Contribution of food to inflation increased from -0.5% to 3%, and that of services increased from 0.7% to 2.3% year-

[9] January-March 2025 vs January-March 2024

over-year. The impact of non-food products remained stable, playing a neutral role. Accordingly, over the past year, the main drivers of inflation were food and services, while the non-food component had a lower impact in terms of volatility.

Annual core inflation calculated by excluding changes in regulated prices and prices for seasonal products and services was 4.5% in March 2025, while average annual core inflation was 4.3%.

**Chart 32. Change of annual core inflation, in %**
Source: SSC



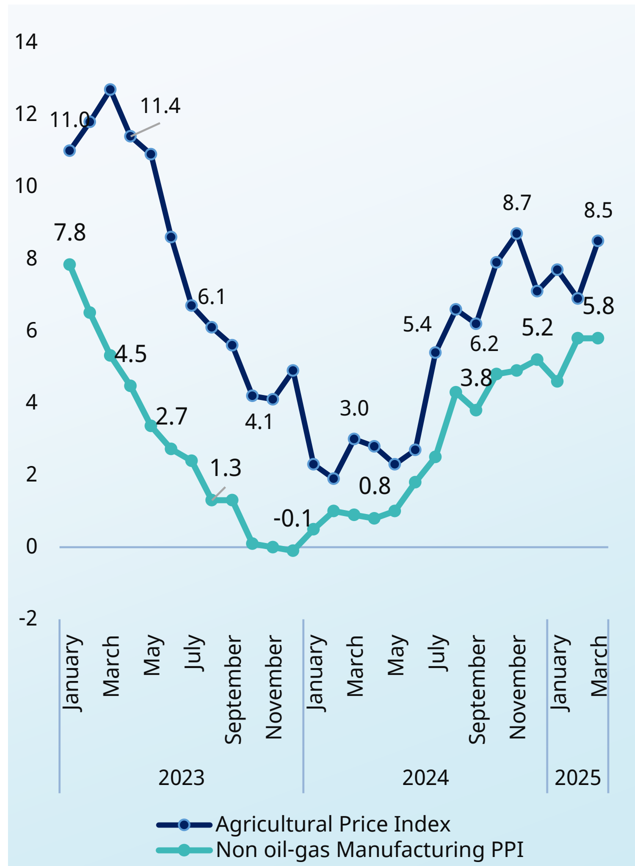

### 2.4.2 Producer price index

According to the SSC, in March APPI increased by 8.5% annually, prices for plant growing products increased by 8.3%, and prices for livestock products increased by 8.7%.

In March 2025, the IPPI decreased by 8.7% annually. The oil and gas IPPI decreased by 12.1% and the non-oil and gas IPPI increased by 5.8%.

In March 2025, the PPI in processing increased by 6.8% annually, and by 7.5% in food production.

**Chart 33. Annual change in PPI, in %**
Source: SSC



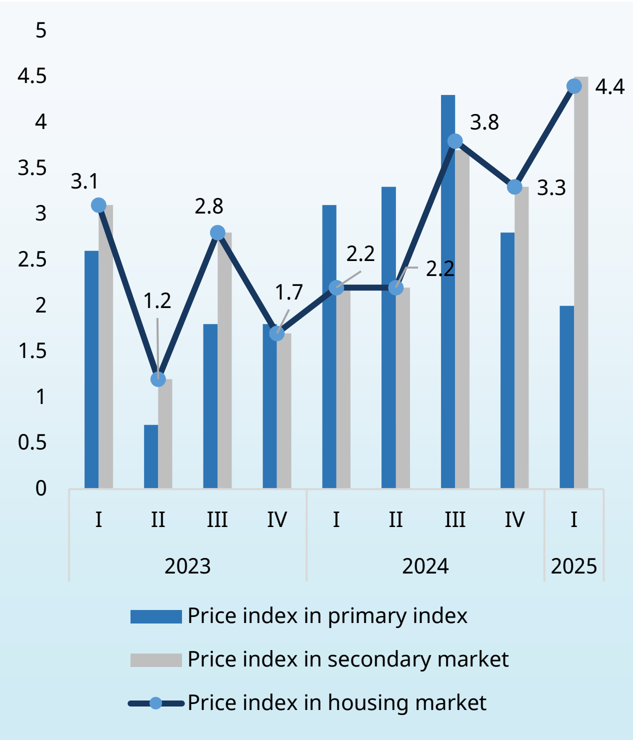

In March 2025, prices for transport and warehousing y.o.y. increased by 3.8%, the price index for freight transportation services increased by 1.9% annually.

In March, postal and courier, as well as communication service prices increased by 2.9% and advertising services went up by 2.5% annually. The price index for internet communication y.o.y. increased by 0.3%, and the price index for information and communication technologies rose by 3.8%.

### 2.4.3 Housing price index

According to the SSC, the housing price index increased by 4.4%, prices in the primary housing market rose by 2% and in the secondary market by 4,5% in Q1 2025 compared to Q4 2024.

**Chart 34. Housing price index, quarter-over-quarter, in %**
Source: SSC




In January-March 2025, the housing price index increased by 14.4% year-over-year, by 12.9% in the primary market and by 14.4% in the secondary market.

# 3

# MONETARY AND EXCHANGE RATE POLICY

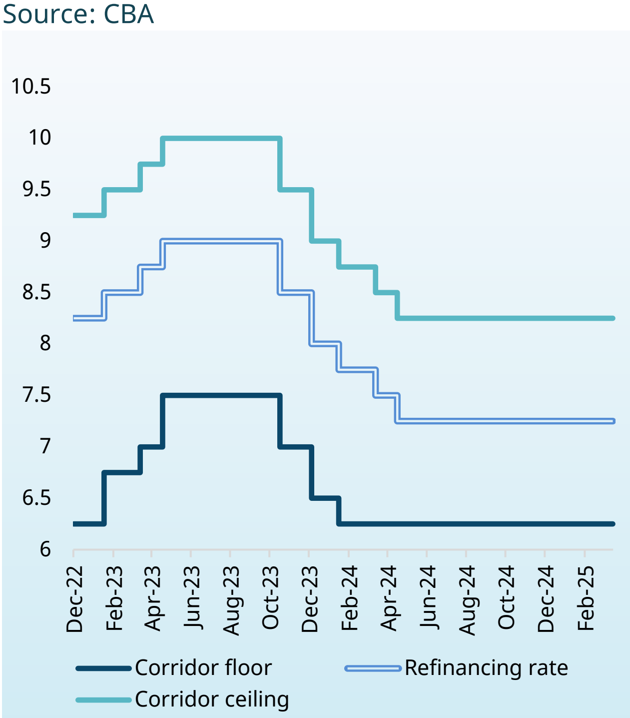
# 3.1 MONETARY POLICY TOOLS, MONEY MARKET AND EXCHANGE RATE

*In the first quarter of 2025 the CBA's monetary policy focused on maintaining inflation within the target range through managing the monetary condition. During the reporting period, efforts continued to enhance the operational framework and strengthen transmission of the interest rate channel. The interbank money market remained active and the 1D AZIR index moved within the interest rate corridor.*

## 3.1.1 Monetary policy tools

Over the past period of 2025 monetary policy decisions were made considering the dynamics of inflation, medium-term changes in the balance of inflation risks, uncertainty of the global economic and geopolitical environment, and the nature of monetary policy transmission.

**Chart 35. Interest rate corridor parameters, in %**
Source: CBA




The CBA's Management Board has discussed the interest rate corridor parameters 3 times over the past period of 2025. At those meetings dedicated to the monetary policy 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%. These decisions were driven by the fact that, actual and projected inflation remained within the target range (4±2%), along with the global economic environment, analysis of macroeconomic trends, and the stabilization of inflation expectations. The CBA announced its interest rate decisions to the public in accordance with the pre-announced schedule with relevant analytical commentary.

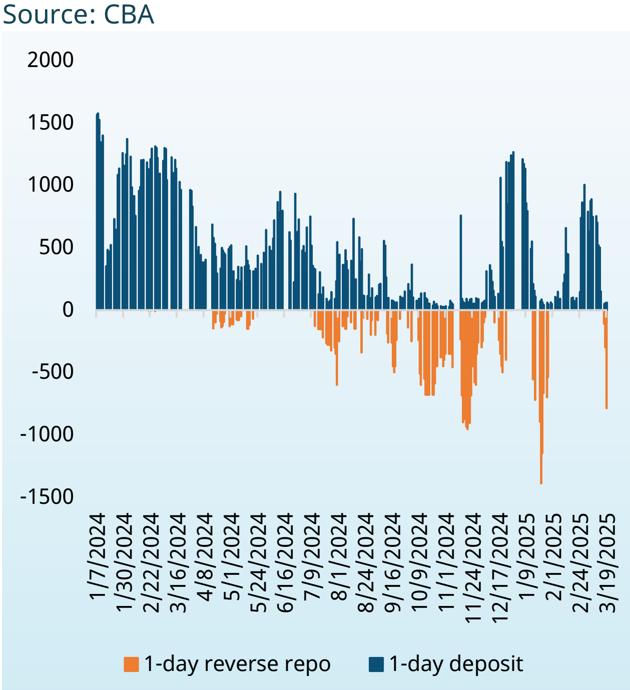
Monetary policy tools were implemented in response to developments in financial markets and changes in the liquidity position of the banking system. In January-March 2025, the Central Bank continued various duration monetary operations to manage liquidity. During the period, standing facilities were actively used, and parameters of open market operations were flexibly adjusted in line with the current liquidity position. Banks used CBA's both liquidity absorbing and liquidity providing standing facilities. In January-March, banks utilized the overnight deposit standing facility on 100% of business days and conducted overnight reverse repo operations on 24% of business days. Average daily amount of one-day deposit operations was AZN400.1M, average daily amount on the absorbing standing facility was AZN692.7M[10].

During the reporting period, changes in the liquidity position of the banking sector weighed on the demand for the CBA's standing facilities year-over-year.

Since the beginning of 2024, amid a decline in excess liquidity in the banking sector in recent months, the CBA has reduced the volume of sterilization operations to neutralize the impact of autonomous factors on monetary conditions.

**Chart 36. Amount placed by (overnight deposit) and attracted by (overnight reverse-repo) banks by CBA's standing facilities, in million manats**

Source: CBA

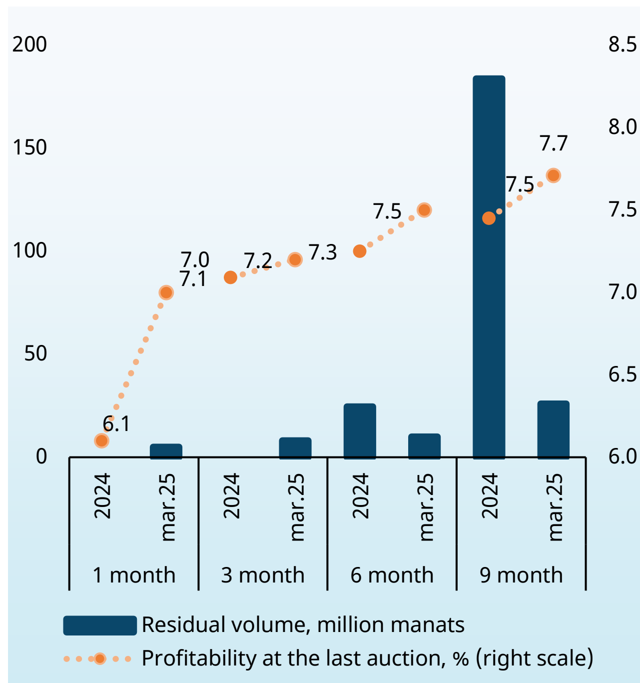



In Q1 2025, auctions continued as open market operations on the placement of 28-day (1 month), 84-day (3 months), 168-day (6 months) and 252-day (9 months) notes for liquidity absorbing purposes. Total 18 various duration note auctions were held over the period – 5 auctions were on 28-day, 4 on 84-day, 5 on 168-day and 4 on 252-day notes. As of the end of March 2025, total outstanding amount of funds absorbed through notes made AZN48.2M, down by 4.3 times compared to the end of 2024.

Yield at recent auctions was 7% on 28day, 7.16% on 84-day, 7.5% on 168-day, and 7.71% on 252-day notes.

**Chart 37. Amount and yield on CBA's short-term notes in circulation**

Source: CBA




In January-March 2025, 1 week repo/reverse repo operations were utilized to regulate interest rates at interbank money market, promptly contain effects of autonomous factors, and more flexibly manage liquidity. Over the reporting period the CBA held 5 liquidity absorbing 7-day repo auctions and one liquidity providing 7-day reverse repo auctions.

Ongoing implementation of reserve requirements under the averaging regime

[10] Calculated by dividing the total amount of transactions by the number of days on which the transactions were conducted.

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. No adjustment was made to reserve requirements over the reporting period.

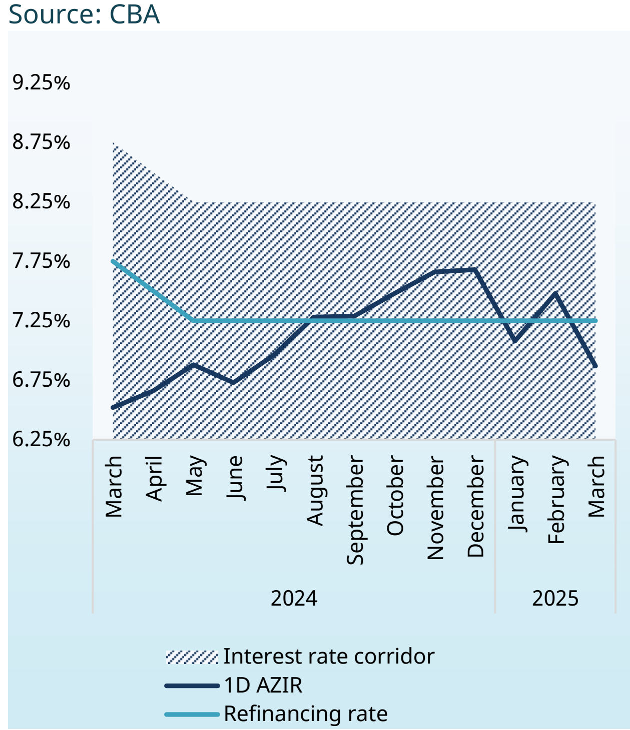
Efforts continued to enhance the monetary policy's operational framework. In February 2025, the CBA introduced changes to the conditions of standing facilities and open market operations. The maturity of one-day standing deposit and reverse repo operations was changed from 24 hours to overnight and the 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. 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 the 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. Strengthening communication with market participants and aligning the current framework with best practices remain among the CBA's priorities.

### 3.1.2 Money market

Short-term interest rates in the money market continued to respond to the change in the interest rate corridor. In Q1 2025, although the average interest rate on 1-3-day operations (1D AZIR) in the interbank unsecured money market varied across months, it was within the corridor. The spread between the 1D AZIR index and the refinancing rate was -0.2 pp in January, +0.2 pp in February, and -0.4 pp in March 2025. Over 36 workdays (71% of total working days) the spread between the 1D AZIR and the refinancing rate ranged between ±0.5%.

**Chart 38. Dynamics of the refinancing rate and 1D AZIR index**
Source: CBA



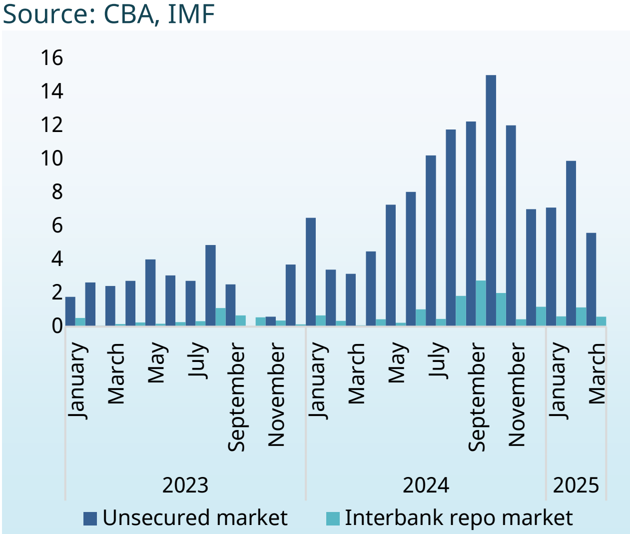

Benchmark interest rate indices in the interbank repo market were also shaped within the corridor along with the unsecured interbank market. In March 2025, the average interest rate on 1-3-day operations in the interbank secured repo market (1D $AINA_{IB}$)

was 7.75%, and 7.19% on 6-8-day operations (1W AINA$_{IB}$).

Analyses suggest that the impact of the 1D AZIR index on market rates gradually strengthens. As the next stage in transmission mechanism - bank-customer rates is expected to be further strengthened through the steps taken with respect to the policy framework and deepening of the financial sector.

In general, over the reporting period, both interbank secured and unsecured markets were highly active. In Q1 2025, AZN22.6B worth of 1162 unsecured transactions were concluded in the Bloomberg trading system. 94% of them were 1–3-day transactions in terms of volume. AZN2.4B worth of 133 transactions were concluded at the interbank repo market. 11% of these transactions were 1-3-day and 87% were 6-8-day transactions. The volume of transactions concluded in the unsecured money market increased by 1.7 times and those concluded in the interbank repo market increased by 2.1 times year-over-year.

**Chart 39. Volume of operations in the interbank money market, in billion manats**
Source: CBA, IMF

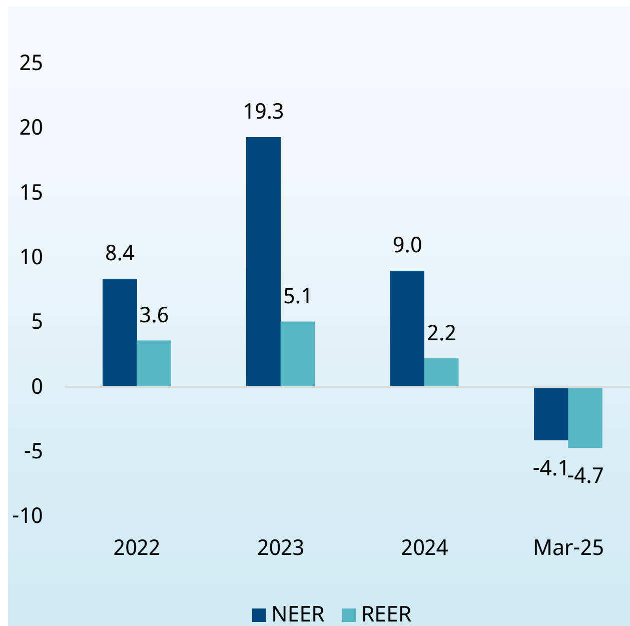



### 3.1.3 Bilateral and multilateral exchange rates

The official 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 0.2% and 0.15%, respectively.

**Chart 40. Effective exchange rate indices (compared to December 2024)**
Source: CBA




In March 2025, non-oil trade weighted NEER of the manat depreciated by 4.1% and the REER depreciated by 4.7%. 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 5.9% in Azerbaijan in March 2025, average weighted inflation across partner countries stood at 9.6%.

# 3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

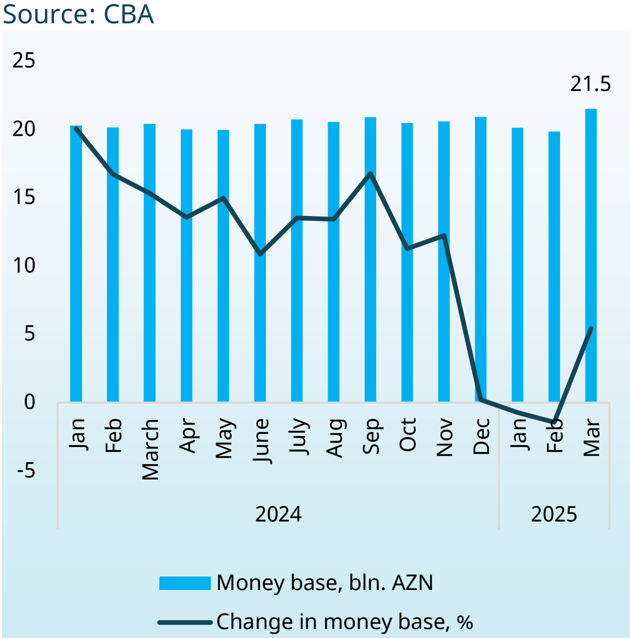
*In the first quarter of 2025, money supply was managed in consideration of the monetary policy targets. Both CBA's monetary policy tools and autonomous factors weighed in on money supply. Credit to the economy remained elevated during the quarter.*

## 3.2.1 Base money and money supply

In Q1 2025, the base money in manat increased by 2.8% to AZN21.5B as of the end-period. The main factors influencing the base money were the CBA's standing facilities, changes in government account balances, and open market operations. Cash in circulation, a structural element of base money in manat[11] increased by 4.1%, while the balance of correspondent accounts in manat decreased by 3.6%.

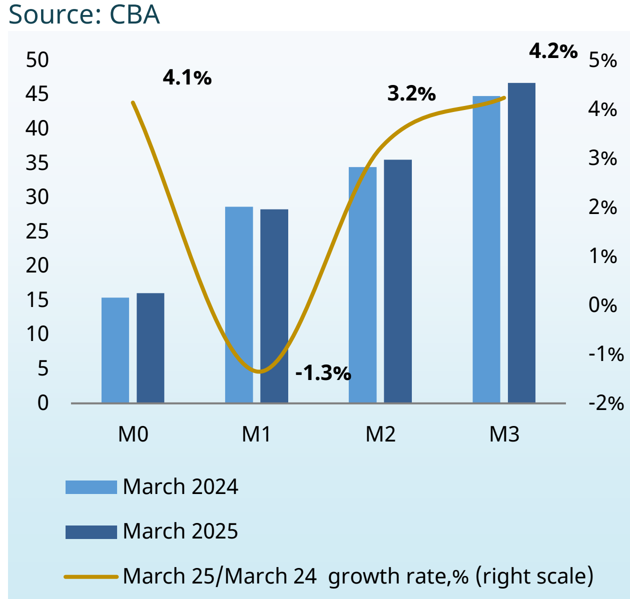
During the quarter, the average monthly value of money multiplier in manat (broad money supply in manat/base money in manat) was 1.72 during.

**Chart 41. Amount of base money and its year-over-year change**
Source: CBA




In Q1 2025, broad money supply in manat (M2) decreased by 3% to AZN35.6B, y.o.y. up by 3.2%. Broad money supply (M3) increased by 0.5% to AZN46.7B as of end of March, y.o.y up by 4.2%.

**Chart 42. Amount of and change in money aggregates, in billion manats**
Source: CBA

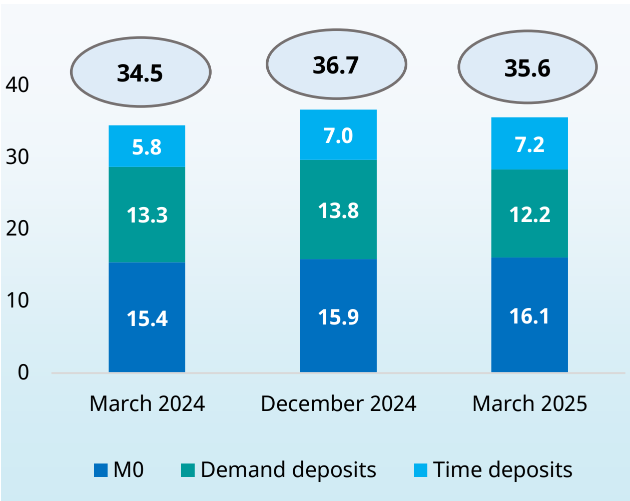



Structural elements of M2 money aggregate changed in different directions during the reporting period. M0 - cash money supply increased by 1.4%, demand savings and deposits decreased by 11.3%, and term savings and deposits increased by 3.5%. M0 increased by 4.1%, demand savings and deposits decreased by 7.7% and term savings and deposits increased by 25.9% year-over-year.

[11] Cash money outside the banking system, cash in bank ATMs and cash offices

Share of demand deposits in M2 decreased (by 3.2 pp to 34.4%), while the weight of term deposits in M2 increased (by 1.3 pp to 20.4%). Share of demand deposits in M2 decreased by 4.1 pp, while that of term deposits increased by 3.7 pp year-over-year.

**Chart 43. Composition of broad money supply, in billion manats**
Source: CBA




The weight of cash (M0) in broad money supply in manat (M2) amounted to 45.2% by the end of the reporting period.

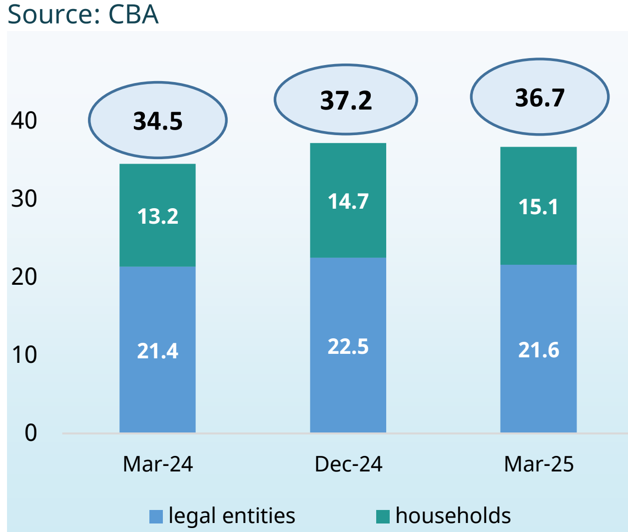
As of the end period, foreign currency denominated savings and deposits amounted to AZN11.2B equivalent. Its weight in total savings and deposits amounted to 36.4% by the end of the period. The weight of foreign currency denominated savings and deposits in M3 money aggregate stood at 23.9%.

### 3.2.2 Deposit market

As of the end of the first quarter of 2025, the deposit portfolio (less the financial sector) amounted to AZN36.7B. Term deposits increased by 2.2% to AZN14.8B as of the end-period, while current deposits decreased by 3.6% to AZN21.9B. The deposit portfolio (less the financial sector) increased by 6.3%, term deposits increased by 17.4%, with no considerable change in the amount of current deposits year-over-year.

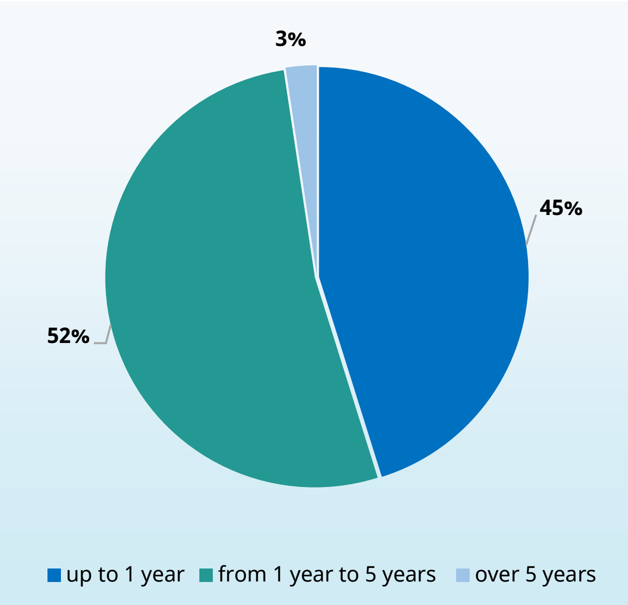
Total deposits of legal entities decreased by 4.1% to AZN21.6B as of the end-period. The share of current accounts in total deposits of legal entities decreased by 0.7 pp at the end of the period compared to the beginning of the year to 73%, while the share of term deposits increased by 0.7 pp to 27%. Total deposits of legal entities increased by 1.1% year-over-year. The share of current accounts in deposits of legal entities decreased by 1.6 pp, while that of term deposits increased by 1.6 pp during the recent one year.

**Chart 44. Deposits, in billion manats**
Source: CBA




Total savings of individuals increased by 2.8% to AZN15.1B. Term deposits accounted for a major part of total deposits of individuals. Deposits with maturities of 1–5 years dominated in total term deposits portfolio (52%). Total savings of individuals y.o.y. increased by 14.6%.

**Chart 45. Structure of term deposits of individuals in Q1 2025, in %**
Source: CBA




Manat deposits amounted to AZN21.7B and foreign currency deposits amounted to AZN15B as of the end-period.

In Q1 2025, dollarization of savings of individuals decreased by 0.6 pp to 33.1%. Dollarization of savings of individuals (less savings of non-resident individuals) stood at 30.1%. Dollarization of savings of individuals decreased by 2 pp, and that of households (less savings of non-resident individuals) decreased by 1.4 pp during the recent one year.

As of end-March the share of foreign currency in deposits of legal entities stood at 46.2%.

**Chart 46. Dollarization of deposits, in %**
Source: CBA

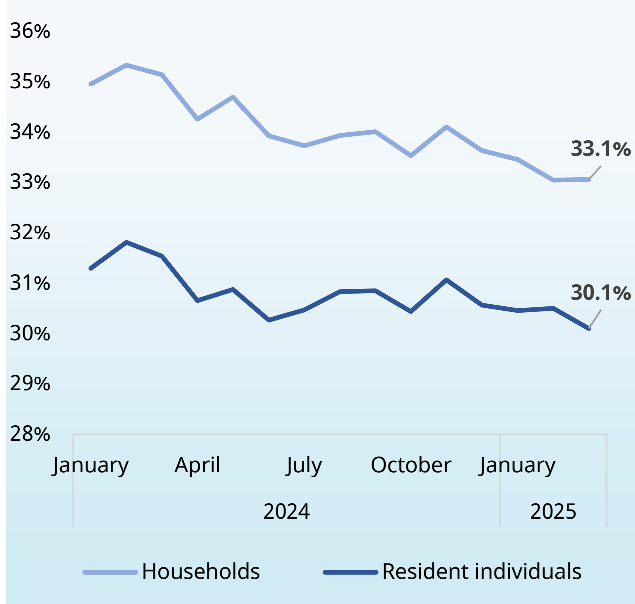
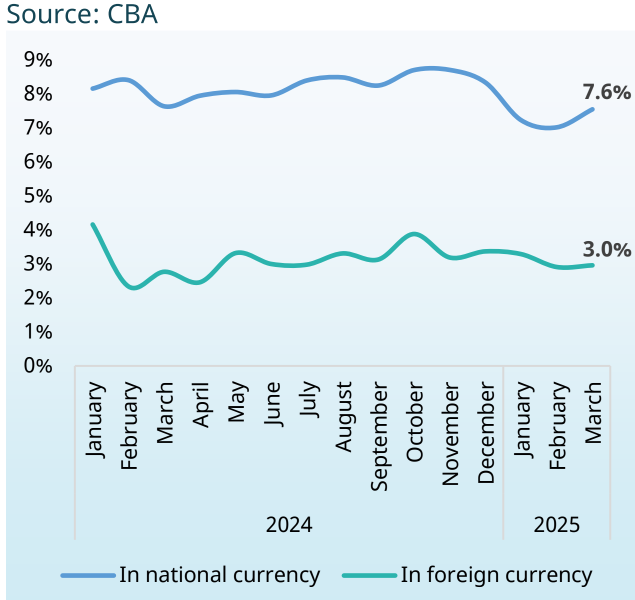



Chart 47 illustrates the dynamics of weighted average interest rates on newly attracted deposits in both manat and foreign currency throughout the year.

**Chart 47. Average weighted interest rates on newly attracted deposits**
Source: CBA



In March, deposit interest rates on newly attracted deposits in manat y.o.y. decreased by 0.1 pp, while those on foreign currency deposits increased by 0.2 pp.

### 3.2.3 Credit market

Credit to the economy continued to grow in Q1 2025.

The lending portfolio (banks and nonbanks) increased by 1.3% to AZN29.7B (y.o.y. up by 16.7%). Throughout the period the share of long-term loans dominated in total loans and stood at 83.5% as of end of the period (AZN24.8B). Short-term loans amounted to AZN4.9B.

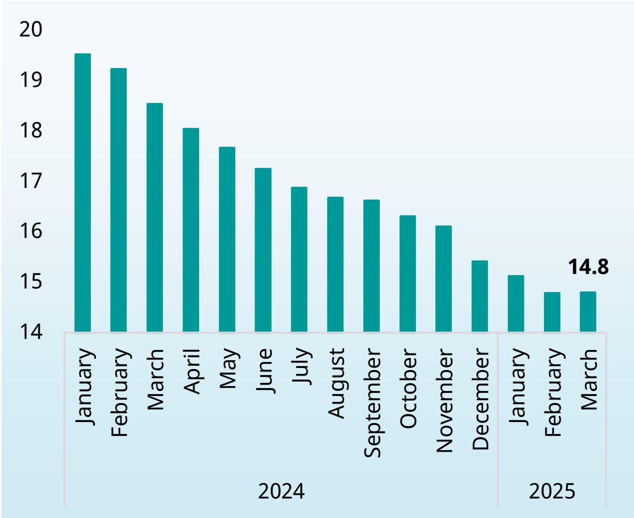
The highest growth in loans to the economy was observed in industry and production (2.5%) and in transport and communication (1.9%) excluding overdue loans.

Banks' business loans increased by 1% relative to the end of the previous year to AZN14.9B. The amount of business loans has increased by 13.1% over recent one year.

Dollarization of loans declined in Q1 2025. Manat denominated loans increased by 2.1%, while foreign currency denominated loans decreased by 2.7%. The share of foreign currency denominated loans in total loans decreased by 0.6 pp to 14.8% by the end of the quarter. The level of dollarization has fallen by 3.7 pp over recent one year. Loans in manat increased by 22%, while loans in foreign currency decreased by 6.9% year-over-year.

**Chart 48. Dollarization of loans to the economy, in %**

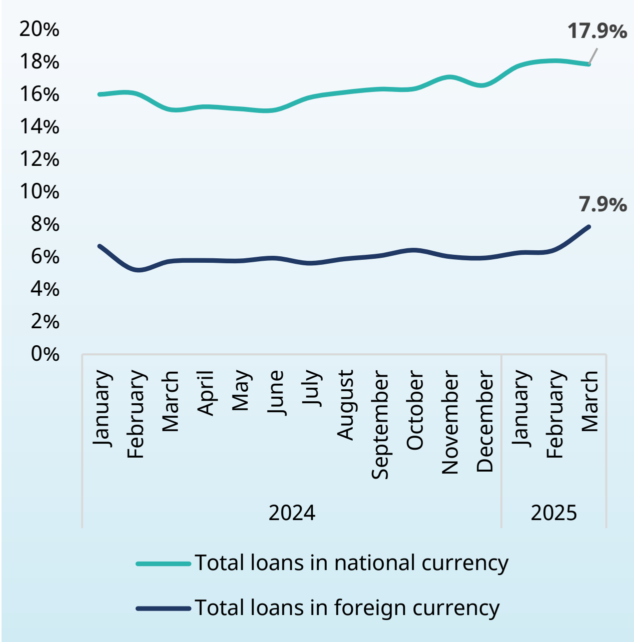
Source: CBA




In March, average weighted interest rates on newly issued loans in manat stood at 17.9%, those in foreign currency stood at 7.9%.

**Chart 49. Average interest rates on newly issued loans (banking sector)**

Source: CBA



# 4

# ECONOMIC OUTLOOK

# 4.1 GLOBAL ECONOMIC FORECASTS AND RISKS

*In the first quarter of 2025, rising geopolitical uncertainty and persistent tensions in international trade complicated the forecasting of global growth. Economic growth is projected to continue in 2025–26, albeit at a slower pace compared to the previous year. At the same time, global inflation is projected to decline further in the coming years, however the pace of disinflation is projected to moderate.*

## 4.1.1 Global economic growth and inflation forecasts

The IMF WEO April 2025 predicted economic growth to stand at 2.8% in 2025 and at 3% in 2026, lower than the historical average of 2000-2019 (3.7%). The global economic growth forecasts for 2025 and 2026 were revised down by 0.5% and 0.3% respectively.

According to the report, rising global uncertainties led to downward revisions of growth forecasts for most AEs. Overall, economic growth projections for AEs were revised down by 0.5 pp to 1.4% for 2025, and by 0.3 pp to 1.5% for 2026. Consequently, growth in AEs is projected to be lower in both the current and upcoming years compared to 2024.

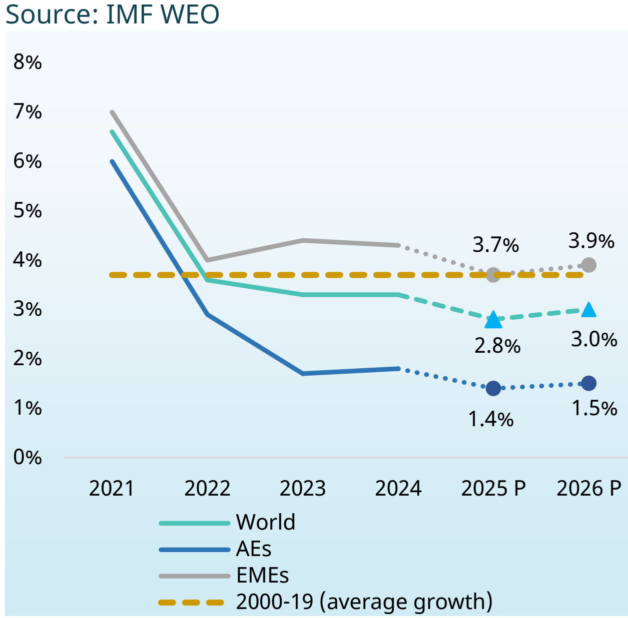
Economic growth in the U.S. is projected to stand at 1.8% in 2025, 1pp down compared to the previous year and 0.9 pp down compared to the previous forecast. The forecast was revised down due to policy uncertainties, rising trade tensions and lower-then-expected growth of consumer demand. Trade tariffs are expected to weigh on economic growth in 2026 too.

The euro area economy is projected to grow by 0.8% in 2025, slightly lower than the previous year, picking up moderately to 1.2% in 2026. The slowdown in 2025 is attributed to high uncertainties and the impact of trade tariffs. In 2026, a gradual recovery in economic activity is expected to be supported by stronger consumption, driven by rising real wages, as well as an easing of fiscal policy in Germany following changes to the fiscal rule.

Economic growth in Japan is expected to stand at 0.6% in 2025, 0.5% down compared to the January forecast. Uncertain effects of the tariff policy announced in April neutralize expected increase in consumption.

Economic growth in the UK is expected to stand at 1.1% in 2025, 0.5% down compared to the January forecast. The forecast was revised down due to recent tariff changes, high yield on government securities, as well as slack consumption amid rising inflation driven by energy and regulated prices.

**Chart 50. Global economic growth forecasts**
Source: IMF WEO




Economic growth forecasts for EMEs are expected to be revised down to 3.7% in 2025 and to 3.9% in 2026 compared to 4.3% growth in 2024. In April, forecasts were revised down by 0.5% and 0.4%, respectively compared to the January forecast.

The Chinese economy was one of the most affected by the tariffs introduced in April. The growth forecast for China was revised down by 0.6 and 0.5 pp for 2025 and 2026, respectively, with growth now projected at 4% for both years. Continued momentum from strong economic activity in 2024, along with fiscal expansion in the budget, is expected to partially offset the impact of the newly implemented tariffs.

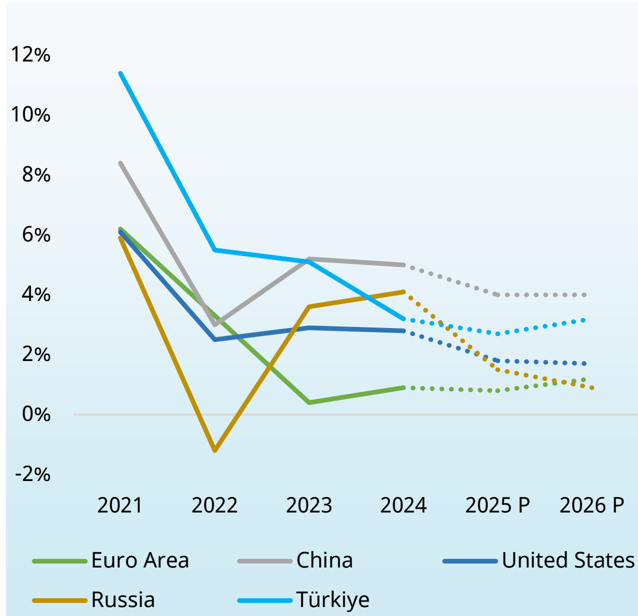
Economic growth in Russia is expected to remain subdued. The growth forecast for 2025 was revised up by 0.1 pp to 1.5%, while the projection for 2026 was revised down by 0.3 pp to 0.9%. Downward revisions are attributable to a slowdown in consumption and investment, driven by labor market conditions.

Türkiye's growth forecast for 2025 was revised up by 0.1 pp to 2.7%, while the projection for 2026 remains unchanged at 3.2%. The core factor influencing economic growth in the upcoming year is the recent monetary policy shifts.

In its April report, the IMF revised the global inflation forecast up by 0.1 pp compared to the January report, to 4.3% for 2025 and 3.6% for 2026.

**Chart 51. Growth projections across certain countries**

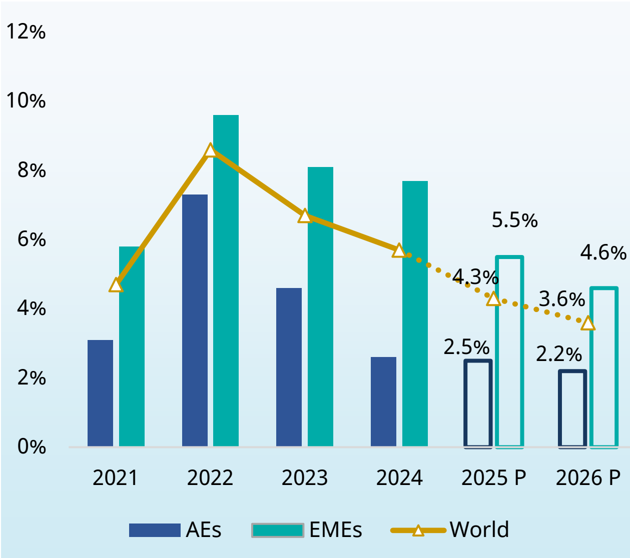
Source: IMF WEO




The inflationary impact of recently imposed trade tariffs across countries depends on several factors. Key determinants include whether the tariffs are temporary or permanent, the extent to which firms adjust their margins to absorb higher import costs, and whether imported goods are invoiced in U.S. dollars or local currencies. For tariff-imposing countries, such measures can generate a supply shock by reducing production and increasing input costs. Conversely, for countries subject to tariffs, weaker external demand may lead to a negative demand shock, exerting downward pressure on prices.

In general, in 2025 inflation forecast for AEs was revised up by 0.4% and for EMEs down by 0.1% to 2.5% and 5.5%, respectively.

**Chart 52. Global inflation forecasts**
Source: IMF WEO




### 4.1.2 Global risks

The IMF's April report states that some of the risks mentioned in the January report have already materialized, and the probability of several additional risks materializing has increased. Overall, it appears that the risks which could drag down forecasts in both the short and medium term are on the rise.

The increase in trade policy uncertainties could further reduce economic growth in both the short and long term and weaken resilience to future shocks. Rising import prices resulting from the trade war may intensify inflationary pressures.

Persisting and accelerating inflation due to the mentioned trade restrictions could urge central banks to keep interest rates at higher-than-expected levels. The current environment may, in turn, result in increased capital outflows and tighter financial conditions, particularly in emerging markets.

A further rise in long-term interest rates may lead to capital accumulating in safer countries and assets, which could cause inefficient capital allocation and exacerbate imbalances. Continued global uncertainty could place additional pressure on U.S. bond yields, prompting an outflow of capital and foreign direct investment from emerging economies.

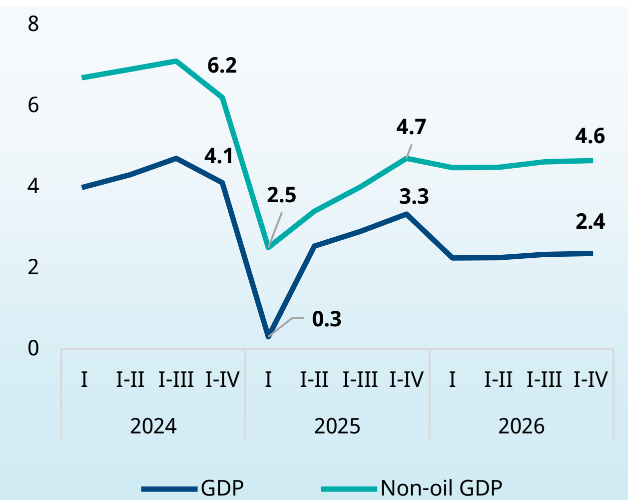
# 4.2 MACROECONOMIC OUTLOOK FOR AZERBAIJAN

*According to April 2025 forecasts, annual inflation is expected to be 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

Overall, expectations for economic growth remain optimistic. According to the CBA's April 2025 forecast, total GDP is expected to stand at 3.3%, and non-oil-gas GDP at 4.7% of in the current year. In 2026, real economic growth is predicted to stand at 2.4% and 4.6%, respectively of total and non-oil-and-gas GDP. In 2026, GDP growth rate will be driven primarily by the oil-and-gas sector. Note that, oil-and-gas forecasts are based upon the official forecasts by the government. Non-oil-and-gas economic growth will be driven by final consumption expenditures of households and the government.

**Chart 53. Real growth forecast for GDP and non-oil-and-gas GDP, year-over-year, in %**
Source: CBA AzIM[12] model




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

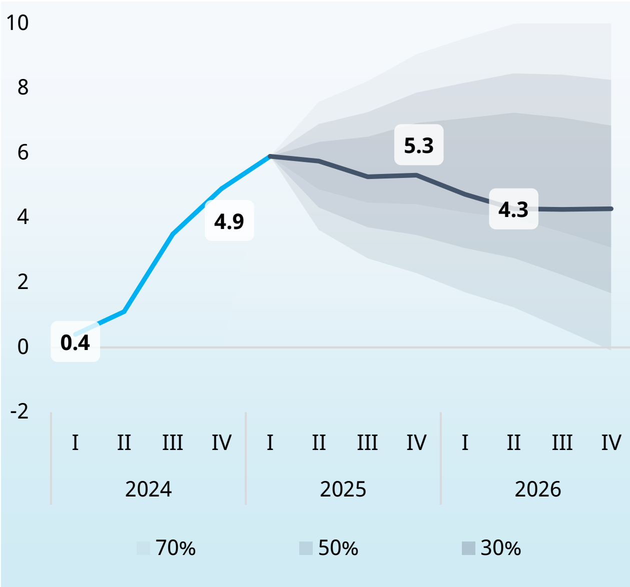
### 4.2.2 Inflation forecast

According to the April forecasts, in 2025 and 2026 annual inflation is predicted to remain within the target range (4±2%).

According to the CBA's April forecast, in 2025 annual inflation will stand at 5.3%. Government and household consumption will make 1.48 pp, APPI 0.60 pp, inflation in trade partners 2.57 pp and other factors 2.12 pp upward contribution, while the NEER is expected to make 1.50 pp downward contribution to annual inflation forecast for 2025.

[12] 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 54. Annual inflation forecast, in %**
Source: CBA AzIM model

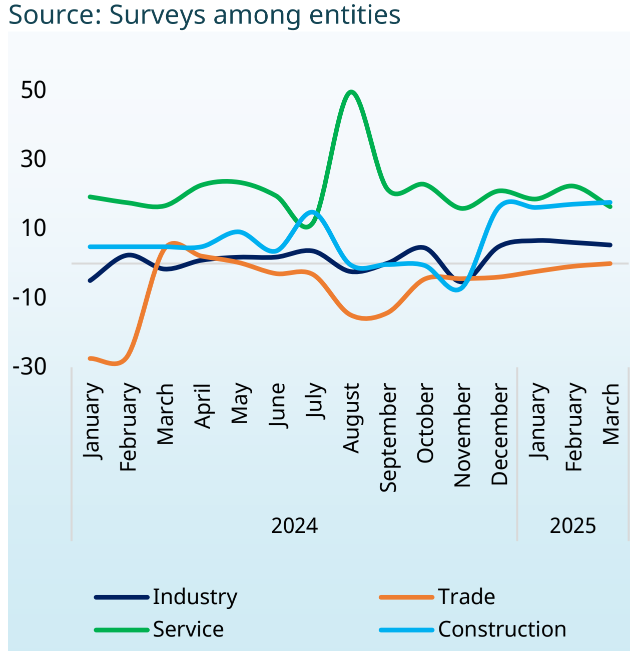



According to the April forecast, annual inflation is expected to stand at 4.3% in 2026. In 2026, annual inflation is projected to be driven upward by the combined impact of government and household consumption (1.98 pp), the APPI (2.70 pp), inflation in trade partners (1.74 pp), and other factors (0.31 pp), while the NEER is expected to exert a downward pressure of 2.45 pp. The realization of these forecasts will depend on changes in several external and domestic factors. One of the key risks is a potential increase in the APPI, which could directly affect inflation through food prices. Inflation in major trade partners also poses a risk. In particular, the acceleration of global inflation amid heightened global economic uncertainty and the continuation of trade wars could amplify domestic inflation through imported inflation. Additionally, fluctuations in the exchange rates of major trade partners could weaken the disinflationary effect of NEER of the manat.

### 4.2.3 Inflation expectations

In Q1 2025, inflation expectations varied across sectors. According to findings of the RSM, the highest price increase expectations over the next three months of the current year were in the services and construction sectors. While expectations in the trade sector increased in absolute terms, they remained negatively zoned. The non-oil industrial sector was volatile compared to February, with a decline in expectations.

**Chart 55. Price expectations for upcoming three months across the real sector[13]**
Source: Surveys among entities




In March, the price index was 5.36 (y.o.y. -1.6) in industry, -0.01 (y.o.y. 4.23) in trade, 17.7 (y.o.y. 4.86) in construction, and 16.45 (y.o.y. 16.67) in services.

[13] 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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**Central Bank of the Republic of Azerbaijan**

**Tel.: (+99412) 493 11 22**

**For proposals and feedback:** **mail@cbar.az**

https://www.cbar.az

**Address:** R. Behbudov Str, 90, AZ1014, Baku