CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

MONETARY POLICY REVIEW

FEBRUARY 2026

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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
OPEC	Organization for Economic Cooperation and Development
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 2025, the Central Bank concentrated its efforts on its primary mandate – price stability in accordance with "The Statement of the Central Bank of the Republic of Azerbaijan on Main Directions of Monetary Policy for 2025".

During the reporting year, the national economy continued to expand despite a complex global economic environment, external sector indicators remained favorable, and strategic foreign exchange reserves continued to significantly exceed internationally accepted adequacy standards.

By the end of 2025, annual inflation remained within the pre-announced target band (4±2%). Updated forecasts indicate that inflation is expected to stay within the target range through the end of 2026 and in 2027.

Monetary policy decisions were guided by macroeconomic forecasts and shifts in the balance of risks stemming from demand and supply factors of inflation in 2025. Monetary policy tools were implemented with due consideration of interbank money market developments and banking system's liquidity position. Reforms continued to improve the monetary policy operational framework.

RECENT MONETARY POLICY DECISIONS

Date	Floor of the interest rate corridor	Refinancing rate	Ceiling of the interest rate corridor
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%*
23 July 2025	*6.25%→6.00%*	**7.25%→7.00%**	*8.25%→8.00%*
10 September 2025	*6.00%*	**7.00%**	*8.00%*
22 October 2025	*6.00%*	**7.00%**	*8.00%*
10 December 2025	*6.00%→5.75%*	**7.00%→6.75%**	*8.00%→7.75%*
4 February 2026	*5.75%→5.50%*	**6.75%→6.50%**	*7.75%→7.50%*

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GLOBAL ECONOMIC TRENDS

1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

In 2025, the global economic environment was characterized by elevated tariffs, persistent geopolitical uncertainty, and the increasing indirect effects of trade restrictions on economic activity.

1.1.1 Global economic activity indicators

Despite uncertainties and shocks, global growth remained resilient in 2025. According to the IMF's January 2026 World Economic Outlook, the global economy expanded by 3.3% in 2025, remaining unchanged from the growth rate in 2024.

Economic growth in AEs remained relatively slack at 1.7% (1.8% in 2024); it stood at 2.1% in the United States, 1.1% in Japan, 1.4% in the UK, 1.6% in Canada, and 2.3% in other AEs.

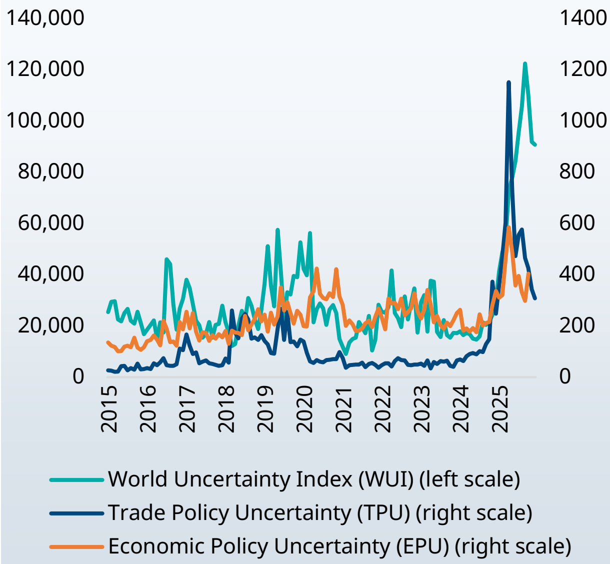
Growth in the euro area increased by 0.6 percentage points (pp) compared with 2024, reaching 1.5%, driven by household consumption and investments. In Germany, Europe's largest economy, a two-year recession gave way to modest growth of 0.2% in 2025, driven by stronger household final consumption and higher government spending. However, exports declined amid U.S. tariffs, intensifying competition from China, and the appreciation of the euro.

In EMDEs, economic growth edged up to 4.4% in 2025 (4.3% in 2024), although it remained slightly below expectations. Growth was high in India (7.3%) and Kazakhstan (6.2%), while it was relatively subdued in Russia (0.6%) and Mexico (0.6%).

The Chinese economy grew by 4.5% year-over-year in Q4 2025 (lower than 4.8% in Q3), marking the weakest growth rate of the past three years, due to weaker retail sales amid prolonged stagnation in the real estate sector and deflationary pressures. Overall economic growth stood at 5% in 2025, consistent with the government's target. Growth mainly stemmed from a record-high trade surplus ($1.2 trillion) and high exports to foreign markets (excluding the United States).

Chart 1. Global uncertainty indices[1]

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



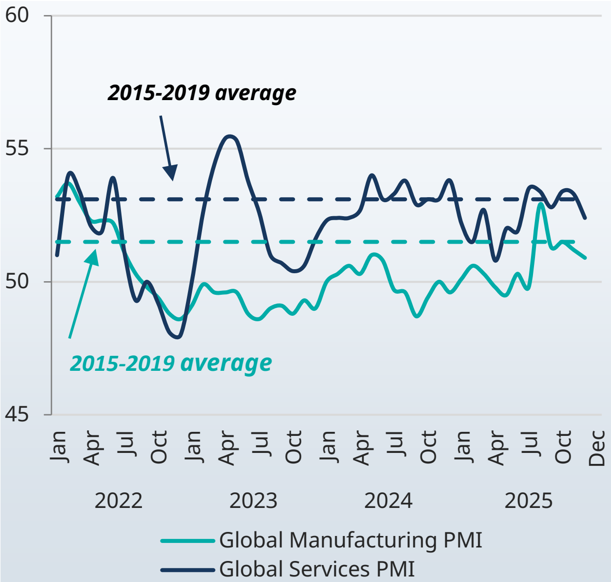
In 2025, uncertainty in the global economy remained elevated. The Trade Policy Uncertainty (TPU) Index increased from the beginning of the year, rising sharply in the spring amid the tightening of U.S. tariff policy. In the subsequent period, as trading partners reached agreements and tensions partially eased, the index gradually declined and weakened significantly toward the end of the year. The Economic Policy Uncertainty (EPU) Index followed a similar pattern; however, it rose again in October. The World Uncertainty Index (WUI) increased significantly from the beginning of 2025, followed by a downward trend in the final quarter. Despite the decline in the

[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).

indicators by the year-end, they remained high compared with previous years, indicating that global risks have not been fully resolved and that uncertainty continues to characterize the economic environment.

Although the Global Composite PMI was higher by 0.2 pp in December compared with the beginning of the year, it was at its lowest level in the past six months.

Chart 2. Purchasing Managers' Index
Source: S&P Global



The production PMI was higher in 2025 than in 2024. In Q2 2025, the index declined and fell below the neutral threshold amid the announcement of new trade tariffs, indicating some stagnation in the production sector. However, there was a recovery trend beginning in the second half of the year. In four of the last five months, all three components forming the production PMI (consumer, intermediate, and investment goods) remained above the neutral level, indicating the fact that the negative impact of trade shocks on production has been gradually diminishing.

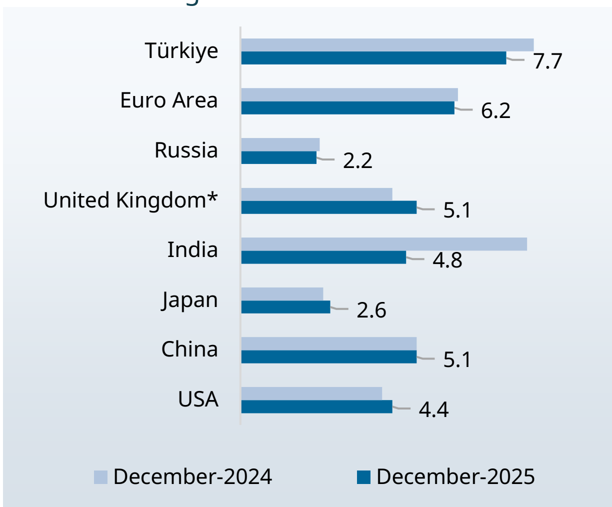
The Services PMI in 2025, as in the previous three years, consistently remained above the neutral level. Although activity was weak in the first half of the year, the indicator increased significantly from the second half onward and, over the last six months, reached the 2015–2019 average (53.1). This suggests that economic activity in the services sector has, in recent months, returned to pre-pandemic levels.

According to December data, production PMI indicators signaled an expansion in economic activity in 18 of the 29 countries for which data were available. Indicators were the highest in India, Vietnam, and Greece, while the lowest were recorded in Mexico, Germany, and Brazil.

1.1.2 Global unemployment

During the reporting period, unemployment trends varied across countries. Unemployment decreased in the euro area, Türkiye, Russia, and India, remained stable in China, and increased in the United States, the UK, and Japan year-over-year.

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



* November data.

The ILO's global employment growth forecast for 2025 was revised down to 1.5% from 1.7%, due to the slowdown in GDP growth resulting from persistent geopolitical uncertainties and trade tensions.

The OECD September 2025 Economic Outlook reports that although global unemployment remains low by historical standards, the median unemployment rate in OECD countries has risen to 5.5% since the end of 2024, a sign of gradual weakening in labor markets. The decline in the ratio of vacancies to the unemployed points to weaker demand for labor, exerting upward pressure on unemployment.

1.1.3 Global inflation

Although global inflation varied across countries during the reporting year, it remained generally stable and was lower than expected.

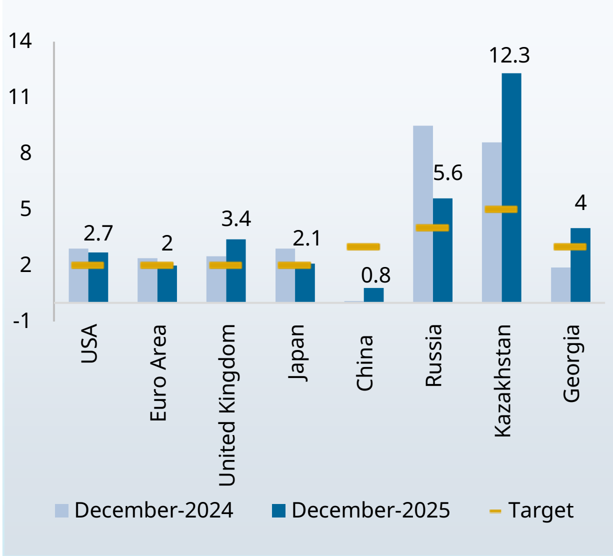
In December 2025, annual inflation stood at 2.7% in the United States. As in the first half of the year, annual inflation slowed in the last quarter to 2% in December in the euro area, the lowest level since August, indicating a return of inflation to the ECB's target and reinforcing expectations that interest rates will remain stable in the near term. The decline in inflation was mainly due to slower price growth in services and non-energy industrial goods, as well as a sharp drop in energy costs. Core inflation also fell to 2.3%, the lowest level in the past four months.

In China, annual inflation rose to 0.8% in December, the highest level of recent three years, driven by higher food prices and government measures aimed at stimulating domestic demand. Annual core inflation increased to 1.2%, the highest level of recent 20 months.

In Russia, annual inflation fell sharply to 5.6% in December 2025, the lowest level in the past two years, reflecting a prolonged period of tight policy. However, inflation is expected to rise again due to the VAT increase effective January 2026, and the indexation of regulated prices and tariffs.

Chart 4. Annual inflation, in %

Source: National Statistic Offices



Inflation continued to decline in Türkiye. In December 2025, annual inflation decreased to 30.89%, down by 13.5 pp year-over-year, attributable to the slowdown in prices for housing and utilities, transportation, furniture and household appliances, as well as recreation and culture. Annual price increases were 28.31% for food and non-alcoholic beverages, 49.45% for housing and utilities, and 66.27% for education.

In Kazakhstan, annual inflation began to decline in October 2025 and fell to 12.3% in December, driven mainly by slower price growth in non-food goods and services.

In Georgia, annual inflation decreased to 4% in December 2025, while annual core inflation stood at 2%.

1.2 GLOBAL COMMODITY PRICES

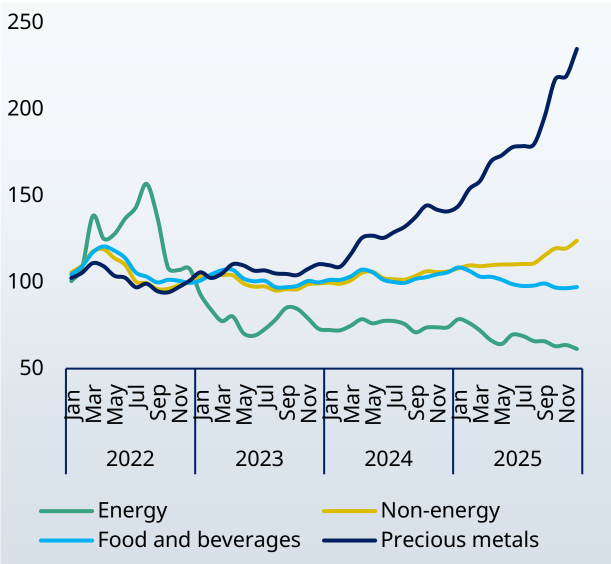
In 2025, prices in the commodity markets were shaped amid rising geopolitical risks. During the reporting period, prices for certain energy and food products decreased, while prices for precious metals experienced significant increases.

1.2.1 Dynamics of global commodity prices

In December 2025 the IMF's global commodity price index increased by 2.1% year-over-year. Non-energy prices had an upward, while energy prices had a downward impact on the index change.

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

Source: IMF



Energy prices edged down during the reporting period, due to the drop in crude oil prices and natural gas prices in Europe.

The IMF's non-energy price index increased by 16.7% in December compared to the end of the previous year. Food and beverage prices exerted downward pressure on the index, while precious metal prices contributed to its increase. The IMF's precious metals index rose by 66.6%, amid geopolitical uncertainties. Gold prices reached historical highs as investors shifted toward safe-haven assets and central banks expanded their gold reserves. At the same time, expectations of lower yields on deposits and securities further supported the increase in precious metal prices amid the depreciation of the US dollar, together with policy rate cuts by major central banks.

Chart 6. International transportation costs, U.S. dollars/40ft

Source: Drewry World Container Index (WCI)[2]

The drop in international transportation costs also exerted a downward effect on global commodity prices. The WCI was prone to falling throughout the year. The transportation cost per 40ft container decreased from $3,803 at the end of 2024 to $2,213 in December 2025.

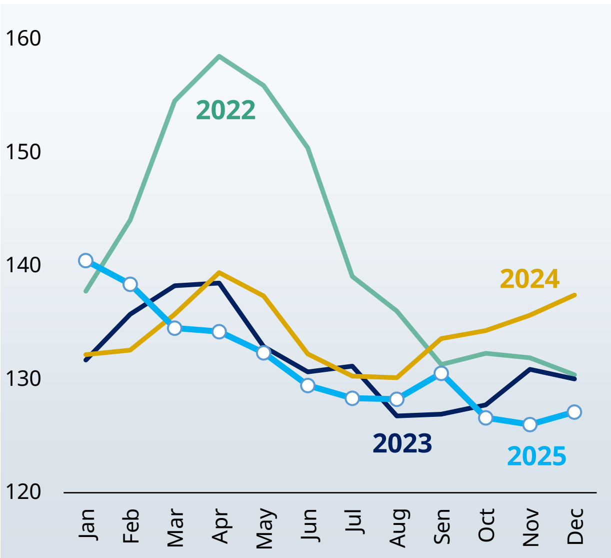
1.2.2 Dynamics of global food prices

In 2025, global food prices generally declined. The agricultural price index

[2] The World Container Index measures the average price of container shipments and indicates the overall level of trade costs by sea.

released by the IMF in December 2025 was 7.5% lower year-over-year. The agricultural price index includes the indices for food, beverages, and agricultural raw materials. Favorable weather conditions and improvements in irrigation systems supported productivity growth, consequently, strong agricultural output contributed to lower prices. Energy costs also play an important role in food production and transportation. According to the IMF, falling energy prices during 2025 led to lower manufacturing and transportation costs for agricultural products, which, in turn, had a downward impact on food prices.

Chart 7. The Agricultural Price Index (2016=100)
Source: IMF



According to FAO, the dairy price index y.o.y. decreased by 7.7%, and sugar prices decreased by 24% The reasons for fall in sugar prices were expectations of adequate global sugar supplies in 2025, high yields, and favorable production prospects in India. The cereal price index declined by 3.7% over the year, due to the availability of large wheat stocks in Argentina and Australia, as well as abundant supply in global markets. In contrast, maize prices increased due to strong demand in both Brazil and the United States. The vegetable oil price index rose by 1.6% over the past 12 months, driven by higher palm oil prices. The meat price index increased by 3.4% compared to the end of 2024, associated with rising global import demand and the spread of animal diseases. In particular, prices of bovine and ovine meat increased due to stronger demand and limited export availability

In general, the FAO's food price index was down by 2.3% year-over-year.

1.2.3 Dynamics of global energy prices

Amid escalating geopolitical conflicts, global energy prices declined in 2025. The IMF reports that the energy price index in December decreased by 17% compared to the end of the previous year. As global supply exceeded global demand, prices in crude oil markets declined.

However, as tensions between the United States and Venezuela peaked, oil blockades and sanctions led to a decline in production, resulting in partial restrictions on Venezuela's oil exports. At the same time, the expansion of domestic unrest in Iran affected oil price expectations.

In 2025, the IMF's oil price index declined by 19.8%. Tariffs imposed by the United States and other countries led to a weakening of global demand expectations. Although supply restrictions from Russia created upside risks for prices, the faster increase in supply by OPEC+ exerted downward pressure on prices. According to the report of the U.S. Energy Information Administration, amid slower demand growth and a rapid increase in crude oil production, the average price of Brent crude oil stood at $69.1/barrel in 2025.

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

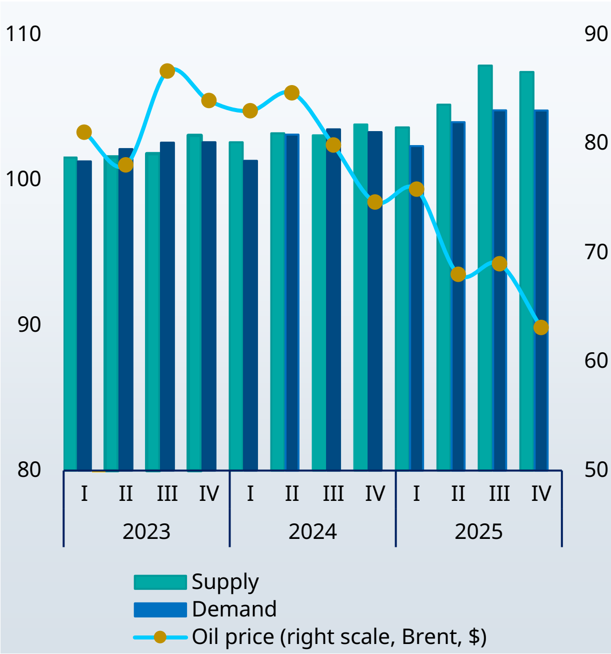
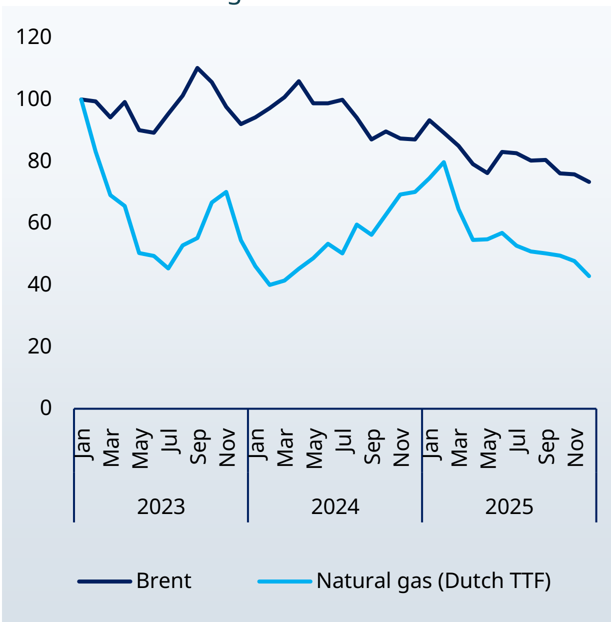


Chart 9. Monthly price index of Brent oil and natural gas (January 2023=100)
Source: Bloomberg



In 2025, natural gas prices declined due to ample supply and relatively mild weather conditions. Mild winter temperatures across most parts of Europe reduced heating demand, while weak demand in Asia exerted additional downward pressure on prices. At the end of the year, the European Union announced a strengthened commitment under the REPowerEU strategy to gradually phase out imports of Russian gas. This policy reflects the EU's long-term diversification objectives and increases expectations that Russian gas will increasingly be redirected to alternative markets, primarily in Asia. By the end of the year, Europe had imported about 30% more liquefied natural gas (LNG) compared to 2024. Strong LNG inflows enabled Europe to offset low storage levels and limit potential price increases.

Overall, prices in energy markets declined in 2025 as supply exceeded demand amid geopolitical risks and uncertainties in supply chains.

1.3 GLOBAL FINANCIAL SYSTEM TRENDS

In 2025, uncertainties in global trade and geopolitical developments triggered high volatility in international financial markets. Most central banks cut policy rates amid declining inflationary pressures and weakening economic growth. Favorable financing conditions and subdued currency volatility strengthened portfolio investment flows to emerging market economies.

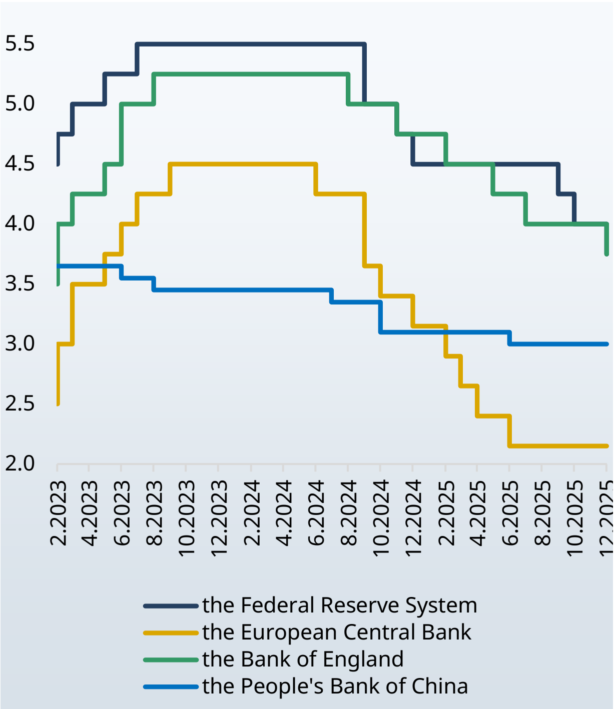
1.3.1 Monetary policy decisions of central banks

In 2025, most central banks eased the monetary policy stepwise, due to lower inflationary pressures, expectations that inflation will hit the target in the medium run and slack economic growth.

Despite slightly higher-than-the-target inflation throughout the year, the FED cut the interest rate range by 0.75 pp down to 3.50–3.75%. The decision was driven by a slowdown in economic growth, a deceleration in job creation in the labor market, increase in the unemployment rate and rising employment-related risks.

Chart 10. Key policy rates of major central banks

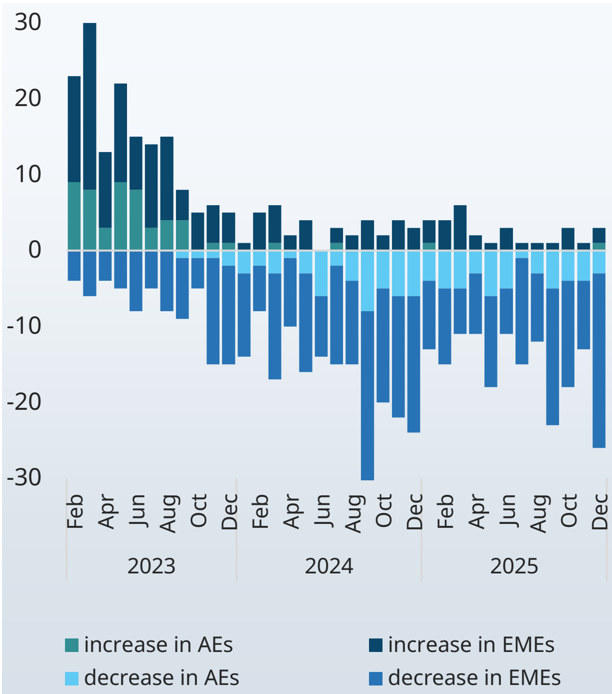
Source: tradingeconomics.com



The ECB lowered its policy rate from 3.15% to 2.15% to support economic growth, amid the gradual convergence of inflation toward the target and the weakening of price pressures. Expectations that inflation will reach its target in the medium term were critical in justifying these decisions. Over the year, the Bank of England also reduced its policy rate from 4.75% to 3.75% due to the easing of wage pressures and service inflation, as well as weak economic growth. The People's Bank of China cut its policy rate to 3% to ease deflationary pressures and stimulate economic growth and implemented an accommodative monetary policy.

Chart 11. Change in key policy rates across 83 central banks

Source: centralbanknews.com, cbrates.com



The Bank of Russia also reduced its policy interest rate by 5 pp to 16%, amid weakening inflationary pressures, a slowdown in domestic demand growth, and a return of the economy to a balanced growth pace. However, the current monetary policy is still considered tight enough. Although the Bank of Japan raised the policy rate to 0.75% to achieve price stability amid rising inflation risks, overall monetary policy remained accommodative.

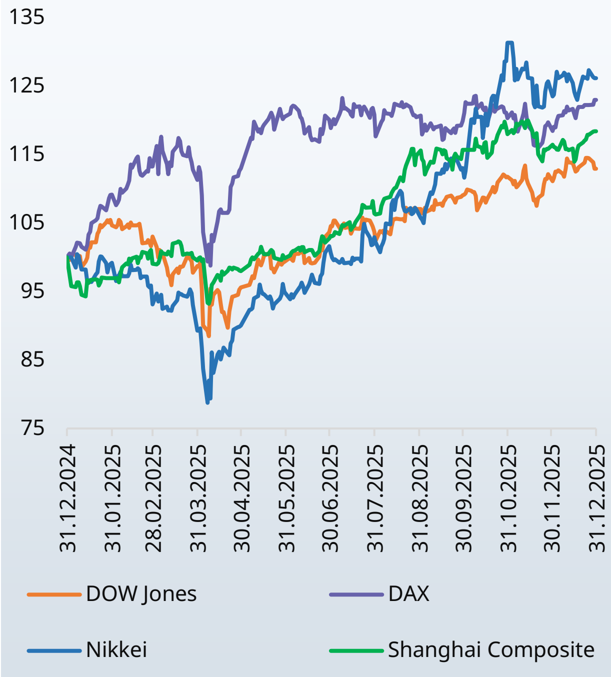
In upcoming periods, central banks are expected to act more cautiously in their monetary policy decisions. Geopolitical and geoeconomic tensions, volatility in energy prices, and risks to macroeconomic stability will directly influence the direction of future policy measures.

1.3.2 Financial market trends

In 2025, international financial markets were highly volatile. Rising trade tensions caused financial asset prices to plunge significantly at the beginning of the second quarter. However, the delay in trade tariffs and the reduction of tariff rates reduced market uncertainty, partially restored investor confidence, and led to renewed gains in equity markets. In 2025, Dow Jones increased by 13%, Nikkei by 26%, FTSE Eurotop by 15%, MSCI World by 19%, DAX by 23%, Shanghai Composite by 18%, and RTSI by 25% year-over-year.

Chart 12. Dynamics in stock exchanges (31 December 2024=100)

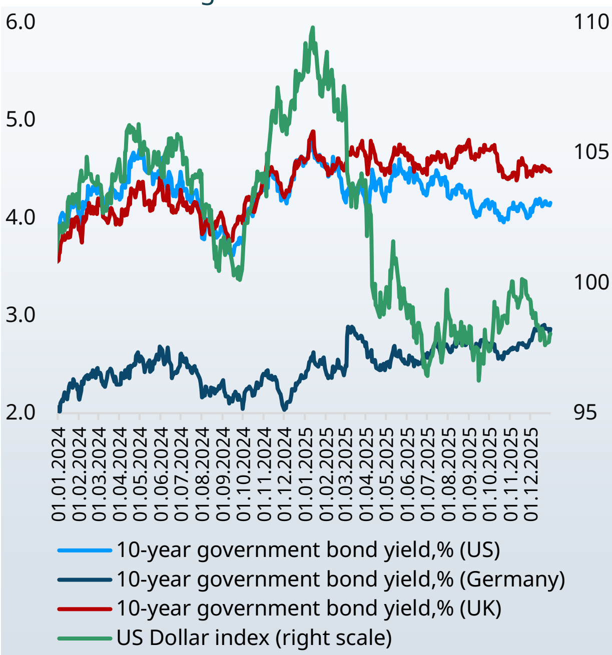
Source: Bloomberg



Notwithstanding a modest increase by the end of 2025, the US dollar index remained below the 100 thresholds, suggesting that underlying weakness has persisted.

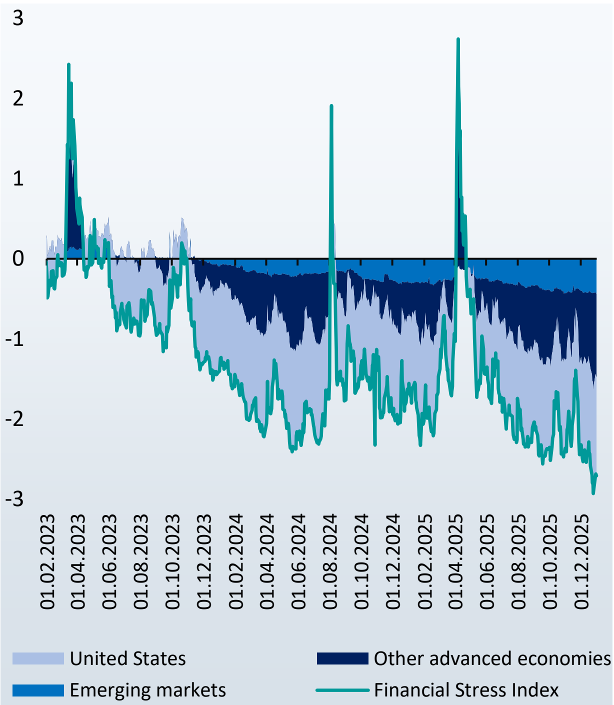
Chart 13. U.S. dollar index and AE's 10-year government bond yields

Source: investing.com



Against the backdrop of the FED's policy rate cuts, yields on 10-year US Treasury bonds slightly declined, but remained elevated due to prevailing risks. Rising sovereign debt and current uncertainties in trade policy weighed on investor behavior, weakening demand for the US dollar and increasing volatility in the bond market.

Chart 14. Global Financial Stress Index[3]
Source: The U.S. Office of Financial Research



According to the U.S. Office of Financial Research, although the Global Financial Stress Index moved into positive territory in April amid heightened trade tensions, it declined again in the subsequent months, reaching its lows in recent years. The elevated volatility of the index in 2025 was largely associated with developments in equity, credit, foreign exchange and commodity markets.

According to the IMF January 2026 WEO, global financial conditions remained broadly accommodative in the final quarter of 2025. Expectations of further monetary policy easing across countries supported elevated equity valuations and compressed spreads in credit markets. Favorable financing conditions and reduced exchange rate volatility strengthened portfolio inflows to EMEs, facilitating record levels of international sovereign bond issuance and an increase in local currency borrowing. At the same time, high volumes of issuance and shifts in investor behavior contributed to a greater reliance on shorter-term sovereign debt instruments. According to the report, global sovereign debt is projected to exceed 100% of global GDP by the end of the decade.

[3] 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

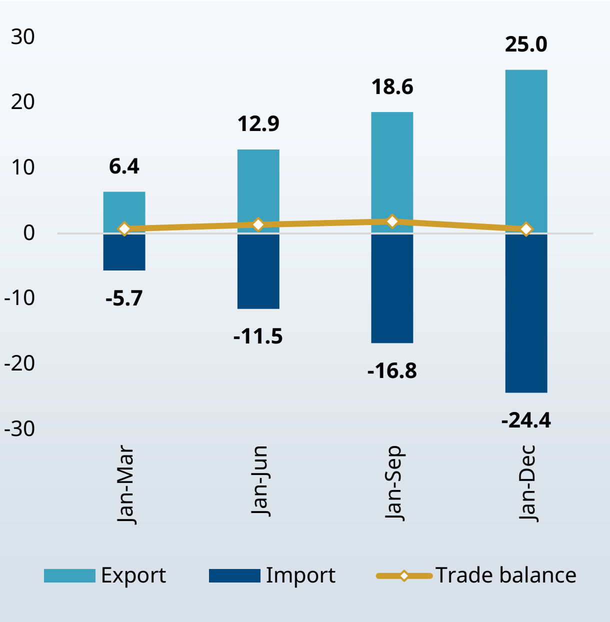
2.1 EXTERNAL SECTOR OF AZERBAIJAN

In 2025, foreign trade balance, one of the primary components of the balance of payments, was in surplus. Non-oil and gas exports peaked to historical high year-over-year. The national economy continued to provide a favorable environment for foreign investments. Foreign exchange reserves continued to exceed the internationally accepted sufficiency norms.

2.1.1 Foreign trade turnover

According to the SCC, in 2025, foreign trade turnover amounted to $49.4B – export $25B (50.7%) and import $24.4B (49.3%). Foreign trade surplus stood at $0.6B.

Chart 15. Foreign trade balance in 2025, in billion U.S. dollars
Source: SCC

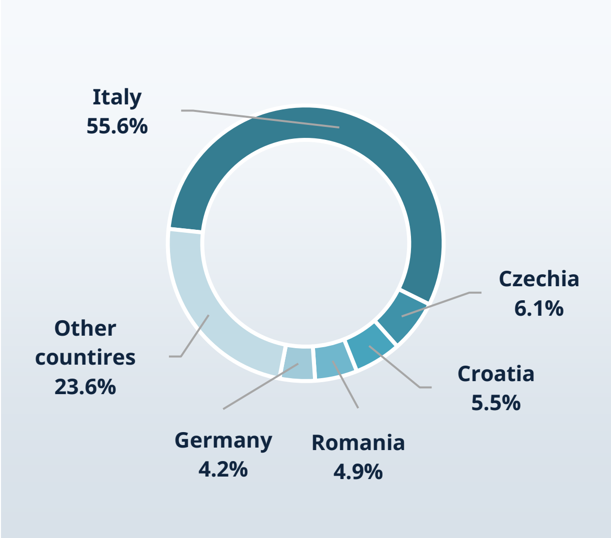


In the reporting year, the EU accounted for 40%, the CIS for 15.4%, and other countries for 44.6% of total foreign trade turnover. Italy, Türkiye, Russia, China, Switzerland, the United States, Germany, the UK, Australia, and Georgia accounted for over half of trade turnover.

Main partners in export included Italy (45.3%), Türkiye (13.5%), Russia (4.7%), Greece (3.3%) and Bulgaria (3.2%). The share of other countries was 30%.

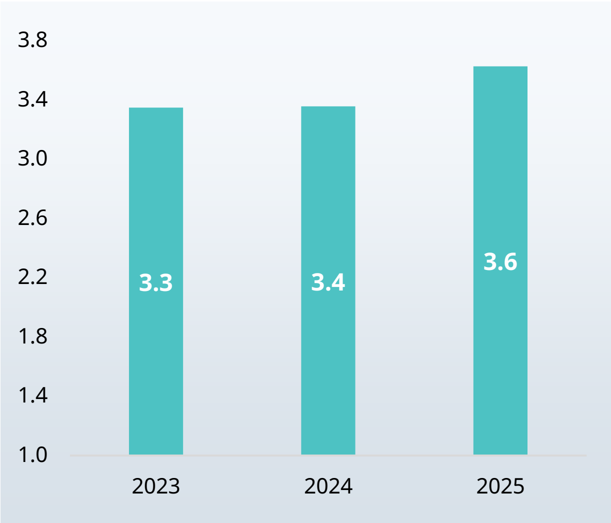
In 2025, the total value of oil and gas exports amounted to $21.4B, comprising $12.6B from crude oil and other manufactured oil products, and $8.8B from natural gas.

Chart 16. Crude oil exports by country in 2025, in %
Source: SCC



Non-oil-gas export y.o.y. increased by 8.1% to $3.6B. The main contributors to the growth of non-oil-gas exports were sugar, fruits and vegetables and their processed products, aluminum and related products, cotton yarn, cement, chemical products, alcoholic and non-alcoholic beverages and oils.

Chart 17. Non-oil-gas exports, in billion U.S.
Source: SCC



In the reporting year, commodity imports amounted to $24.4B – the public sector accounted for 34%, legal entities for 57%, and individuals for 9% of total commodity import. Import of machinery and equipment (15.2%), vehicles (12.7%) and food products (10.6%) prevailed in total imports.

China accounted for 19.7%, Russia for 15.3%, Türkiye for 9.6%, the United States for 6.1%, Switzerland for 5.3%, Australia for 3.7%, Germany for 3.4%, the UK for 3.3%, Uzbekistan for 3%, Iran for 2.6%, and other countries for 28% of total imported products.

2.1.2 Foreign investments

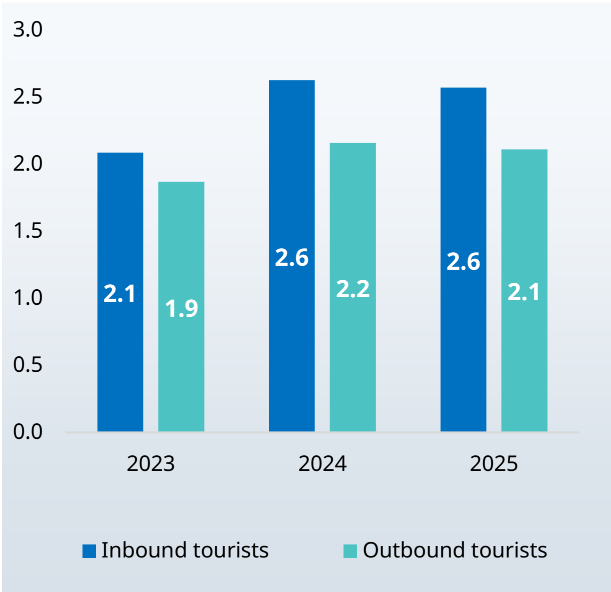
Capital inflows from foreign enterprises and organizations continued in 2025. According to the SSC, total investments from external financial sources amounted to AZN4.2B (y.o.y. by 24%) (19.8% of total investments).

Investor funds from the UK, the UAE, Türkiye, Russia, the United States, Switzerland, Japan, the Islamic Republic of Iran, Hungary, India and France accounted for 96.3% of total foreign investment. The countries investing in Azerbaijan's economy include both traditional foreign partners and investors from various regions across the global arena. The continued inflow of foreign investment reflects the depth of the country's integration into the global economy and the sustained interest of global investors in the country.

2.1.3 Tourism services

Total 2.6 million tourists visited Azerbaijan from 189 countries in 2025 (y.o.y. down by 2.1%). Russia accounted for 23.9%, Türkiye for 17.7%, Iran for 8.1%, India for 6.5%, Georgia for 4.3%, Saudi Arabia for 4.1%, Kazakhstan for 4%, Pakistan for 3.5%, Israel for 2.7%, China for 2.5%, Uzbekistan for 2.4% and other countries for 20.3% of the total number of tourists.

Chart 18. Number of people traveling to the country and going abroad for tourism, in million people
Source: SSC



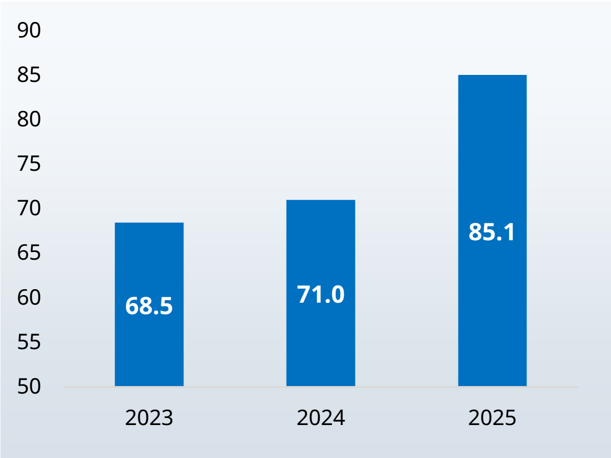
The number of people travelling abroad for tourism was 2.1 million (y.o.y. down by 2.3%). Those travelling abroad for tourism visited Türkiye (41.2%), Russia (14.5%), Georgia (10.7%), Iran (9.7%) and other countries (23.9%).

2.1.4 Foreign exchange reserves

In 2025, strategic foreign exchange reserves increased by $14B, or 19.8%, reaching $85.1B. CBA's foreign exchange reserves increased by 5.1% to $11.5B by the year-end.

Chart 19. Strategic reserves, in billion U.S. dollars

Source: CBA



Strategic foreign exchange reserves continued to exceed internationally accepted sufficiency norms as of the end of 2025. As of the end of December 2025, strategic reserves were sufficient for 38-month import of goods and services (considering the import of goods and services for 9 months of 2025) and surpassed broad money supply in manat (M2) by 3.6 times (M2 money aggregate as of 01.01.2026).

These indicators demonstrate the country's resilience to external and internal economic shocks and confirm that debt risks are kept at a fully manageable level.

2.2 AGGREGATE DEMAND

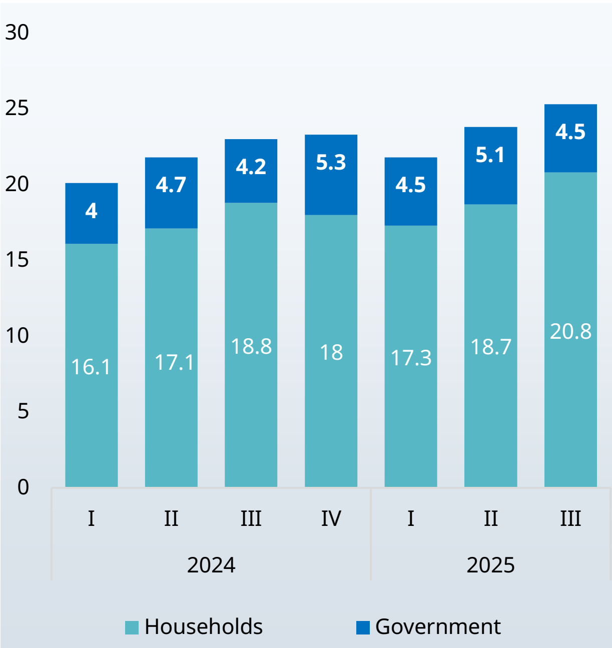
In 2025, the growth of aggregate demand supported economic activity. The aggregate demand expansion was driven by consumer demand as in previous years. Rising income of the population paved the way to the expansion of consumer demand.

2.2.1 Final consumption expenditures

The growth of aggregate demand was driven by domestic consumption in 2025.

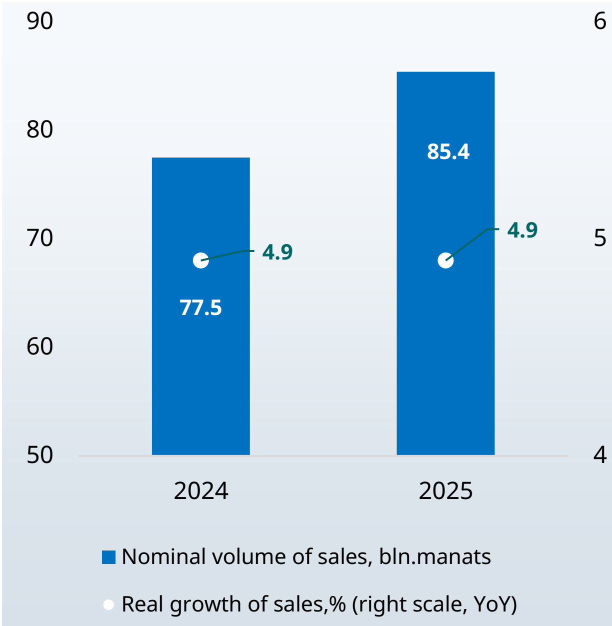
Over 9 months of 2025, households' final consumption expenditures stood at 59.7% (y.o.y. up by 3.5 pp) of nominal GDP, while public institutions accounted for 14.8% (y.o.y. up by 1 pp). Households' final consumption expenditures increased by 9.3%, and those of public institutions increased by 9.4% in nominal terms year-over-year[4].

Chart 20. Consumption and its sources, in billion AZN
Source: SSC



The value of goods sold, and services supplied to the population y.o.y. increased by 4.9% to AZN85.4B. In the consumer market, 79.2% of the total value was accounted for by retail trade turnover, 17.5% by paid services, and 3.3% by public catering turnover.

Chart 21. Dynamics of total value of goods sold and services supplied in the consumer market, in billion AZN
Source: SSC



Retail trade turnover increased by 3.8% y.o.y. in real terms, including 1.2% on food, beverages, and tobacco products and 6.8% on non-food products.

The increase in public catering and paid services to the population indicates active consumer demand. Public catering turnover y.o.y. increased by 12.2% in real terms, while services provided to the population grew by 9%.

[4] The SSC's 'Use of GDP' table was used in the calculation. The percentage ratio of nine months of 2025 to same period of 2024 was calculated and applied for each component.

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

Source: SSC

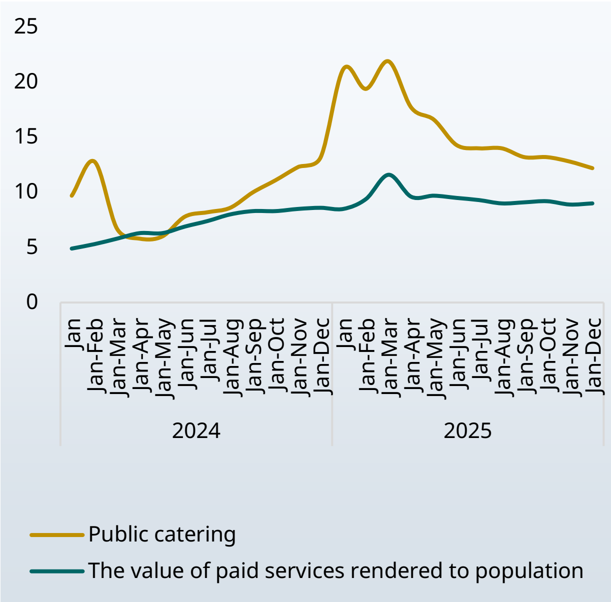
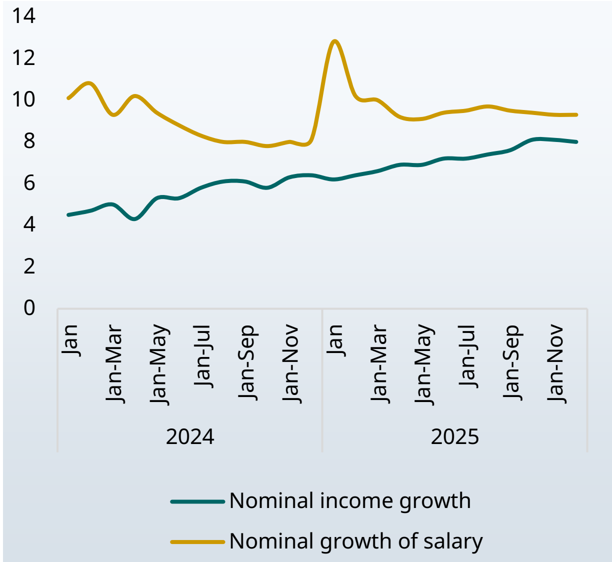


Chart 23. Growth dynamics of nominal incomes and salaries of the population, year-over-year, in %

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 8% to AZN89.9B. Disposable income of the population increased by 8% to AZN74B. The average monthly nominal salary of hired labor increased by 9.3% to AZN1102.9.

One of the main factors driving the increase in consumer demand was the growth of consumer loans. Consumer loans issued by banks increased by 10.8% throughout the year[5].

Government spending was a funding source of aggregate demand. State budget expenditures y.o.y. increased by 2.4% to AZN38.6B. Within this, current expenditure rose by 3.6% to AZN22.1B. In 2025, spending on social protection and social security y.o.y. increased by 9.7% to AZN4.5B [6].

2.2.2 Investment expenses

In 2025, total investment to the economy from all funding sources amounted to AZN21.2B. AZN10.1B (51.7%) was directed to production. Investments in the oil and gas sector totaled AZN5.3B, while AZN15.9B was allocated to the non-oil and gas sector. Of the investment in the non-oil and gas sectors, AZN2.6B was utilized in the non-oil industrial sector.

53.2% of investments were made by public and 46.8% by non-public investors.

[5] CBA

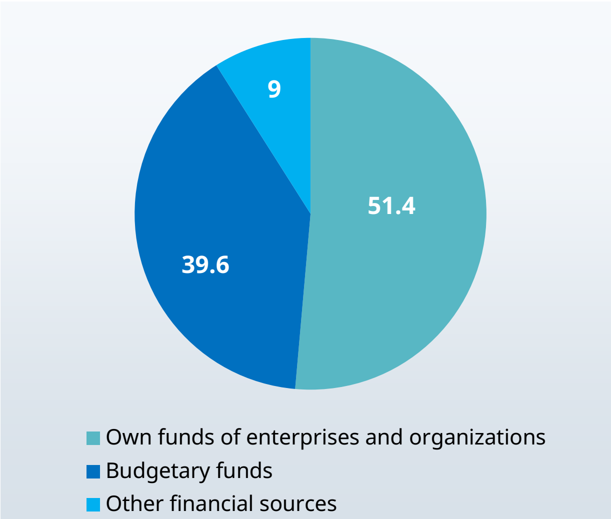
[6] Source: Maliyye.gov.az

Investments channeled to the economy from domestic sources accounted for 80.2% of total investments.

Industry (37.3%) and construction (27%) account for the main share in the structure of investments. Investments in tourism and public catering increased by 32.3% year-over-year.

Chart 24. The structure of total investments in 2025, in %

Source: SSC



2.3 AGGREGATE SUPPLY AND LABOR MARKET

The national economy continued to grow in 2025, 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.

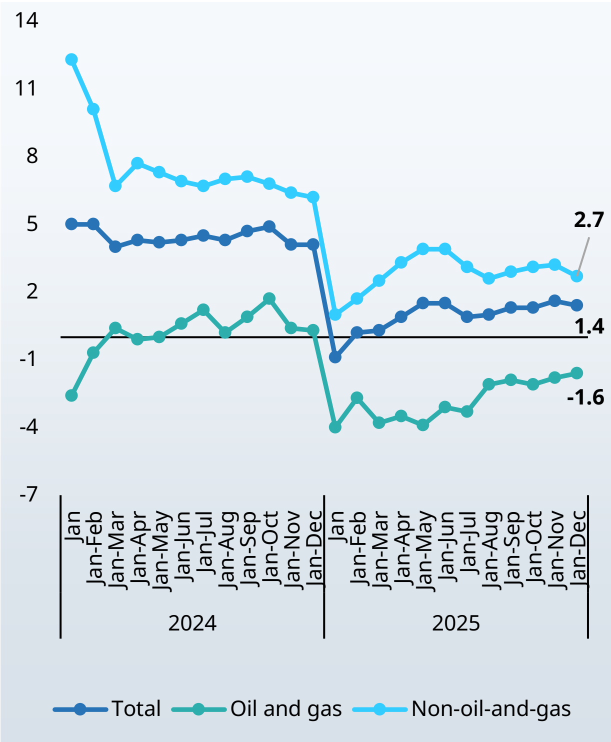
2.3.1 Economic growth

According to the SSC, in 2025, GDP increased y.o.y. by 1.4% in real terms to nominal AZN129.1B. Non-oil-and-gas GDP made 71.5% in the nominal GDP structure. Per capita GDP stood at AZN1,2602.2.

Nominal oil-and-gas GDP decreased by 1.6% to AZN36.8B. Crude oil production y.o.y. decreased by 4.8%, while gas extraction increased by 0.7%.

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

Source: SSC



In 2025, non-oil-and-gas value added y.o.y. increased by 2.7% in real terms to nominal AZN92.3B. Production in the non-oil and gas industry increased by 5.5%.

Agriculture grew by 0.9%. Livestock products increased by 0.3%, and plant products increased by 1.5%.

Growth continued in services. Transport and warehousing grew by 4.6%, freight and passenger transport increased by 1.8% and 6.1% respectively. The volume of cargo transported by vehicles owned by the non-public sector increased by 3.2%. Freight transportation by road, with the largest share in cargo transportation, y.o.y. increased by 5.7%. The value added in the information and communication sector y.o.y. grew by 8.7%, while the tourism and public catering increased by 8.5%.

The CBA's RSM findings confirm that economic activity is continuing. The BCI varied across sectors in 2025 and mainly remained in the positive zone.

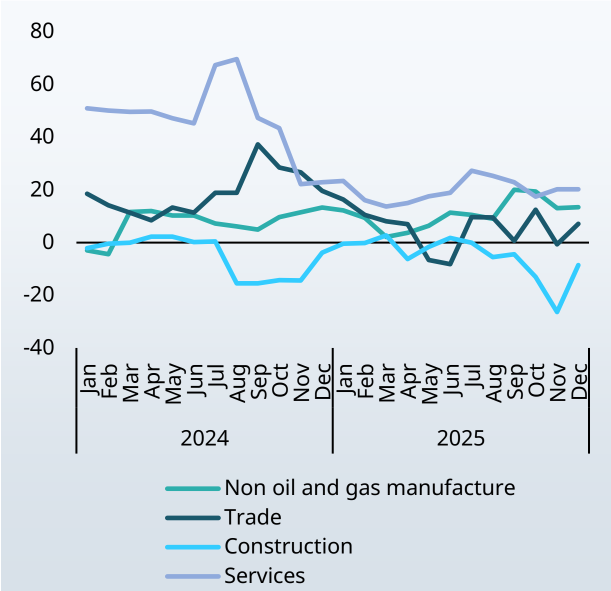
Table 1. Dynamics of economic growth by sectors of the economy, year-over-year, in %
Source: SSC

Sectors	2024	2025
Industry	0.9	-0.8
Construction	9.6	-0.4
Agriculture, forestry, and fishery	1.4	0.9
Trade, repair of vehicles	3.8	3.3
Transport and warehousing	14.1	4.6
Tourism and public catering	12.9	8.5
Information and communication	11.4	8.7
Other	4.0	1.2
Net taxes on products and import	5.3	3.3

The BCI for non-oil industrial enterprises mainly rose in chemical, metallurgy, plastic, food and beverages sub-sectors. Throughout the year the BCI remained in the positive zone in furniture and electric appliances production and in the negative zone in production of vehicles and household goods.

The BCI was high and positively zoned in tourism, healthcare and transportation sub-sectors.

Chart 26. Business Confidence Index across sectors
Source: CBA calculations based on RSM results [7]



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 January 2026, commercial organizations registered in the country numbered 209 thousand (y.o.y. up by 7.1%).

2.3.2 Employment

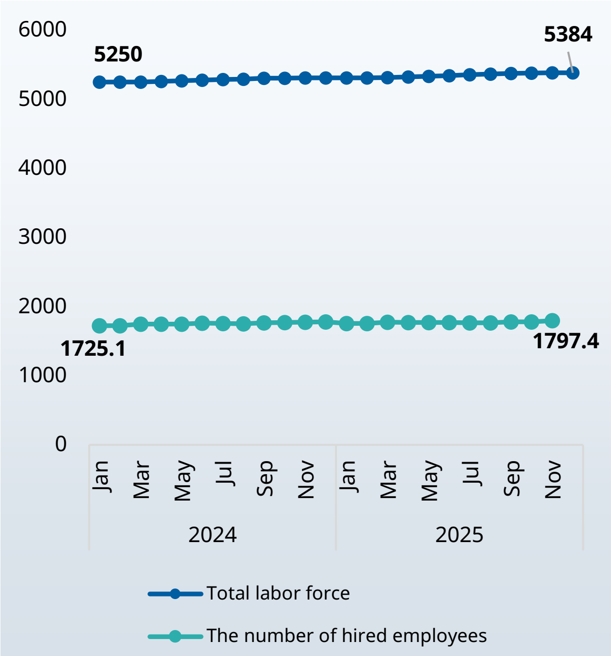
In 2025, total labor force was 5,384.3 thousand people (y.o.y. up by 1.4%), employed population numbered 5,105.2 thousand people (y.o.y. up by 1.5%). As of 1 December 2025, the number of hired employees was 1,797.4 thousand persons (y.o.y. up by 1.2%) – 869 thousand persons were engaged in the public sector, while 928.4 thousand persons were employed in the non-public sector. The number of those employed in the non-public sector increased by 3.7% as of December 1, compared with the early year. The oil-and-gas sector employs 31,000, while the non-oil-and-gas sector employs 1,766.4 thousand people.

[7] 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

Chart 27. Total labor force, in thousand persons
Source: SSC



As of 1 January 2026, the number of registered unemployed people increased by 10.4% to 239.8 people.

According to the survey carried out as part of RSM, in 2025 average indicators of employment expectations improved year-over-year in non-oil-and-gas manufacturing sectors, including textiles, machinery and equipment production, chemical industry and metallurgy.

2.4 INFLATION

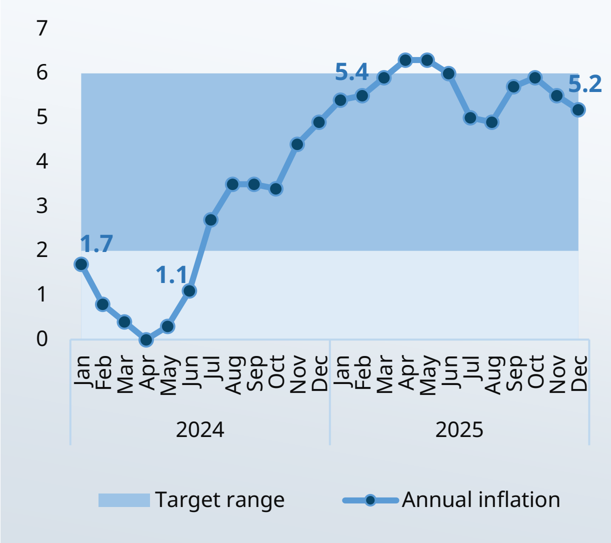
Annual inflation remained within the pre-announced target range at end-2025. Monetary policy contributed to maintaining inflation within the target band through appropriate monetary conditions.

2.4.1 Consumer price index

In December 2025, the CPI stood at annual 5.2% on total products and services.

Chart 28. Annual inflation, in %

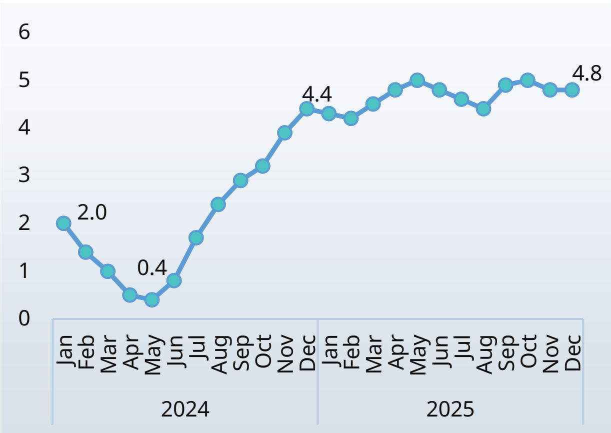
Source: SSC



Annual core inflation, calculated excluding changes in prices regulated by the state as well as prices of seasonal products and services, stood at 4.8% in December 2025.

Chart 29. Change of annual core inflation, in %

Source: SSC



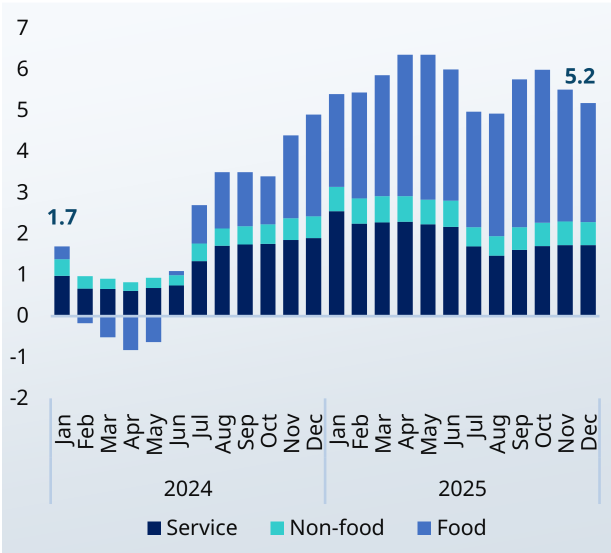
Inflation growth was primarily driven by food products year-over-year. The contribution of food to inflation y.o.y. increased from 2.4 pp to 2.8 pp. In December, annual inflation on food products, alcoholic beverages and tobacco products stood at 6.4%. The highest price hike on food products was in fruits, butter and vegetable oils – 9.3% and 8.5%, respectively.

Annual non-food prices increased by 2.5%. The highest annual price hike among non-food products was in jewelry (25.1%). The contribution of non-food products remained unchanged at 0.6% y.o.y.

The service inflation stood at annual 5.7%. Out of paid services to the population, the highest annual price hike was in central heating (thrice), natural gas supply (11.8%), passenger transport by metro (20.0%) and passenger transport by air (16.5%). In December 2025, contribution of services to inflation decreased from 1.9 pp to 1.7 pp year-over-year.

Chart 30. Contribution of CPI components, in %

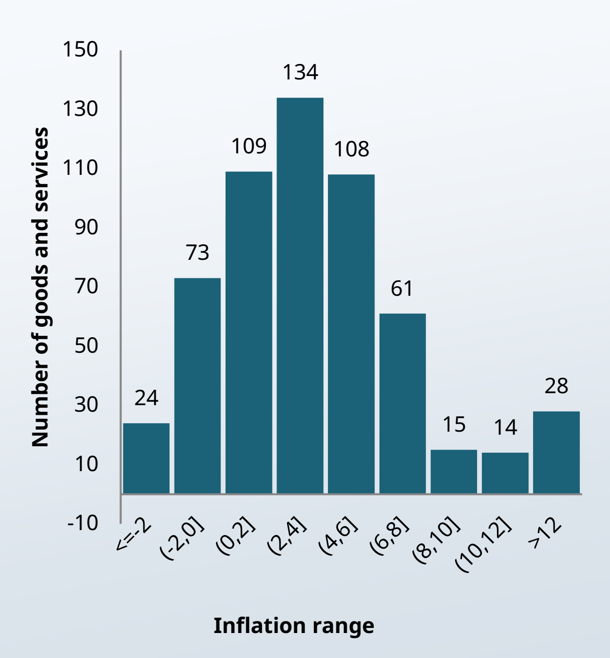
Source: Calculations of the SSC and the CBA



Of the 566 goods and services included in the consumer basket, prices of 134 items increased within the 2–4% range year-over-year. For 79.2% of the items with rising prices, the increase remained below 6%. Prices declined for 10.6% of the goods and services in the basket.

Chart 31. Distribution of annual inflation across goods and services in the consumer basket

Source: Calculations of the SSC and the CBA



Overall, several developments in the global and domestic environment contributed to inflation. The CBA estimated that, government and household consumption together made 1.74 pp, the APPI 2.67 pp, inflation in trade partner countries 2.91 pp upward, while the NEER made 0.34 pp and the factors (inflation expectations etc.) 1.78 pp downward impact on annual inflation.

2.4.2 Producer price index

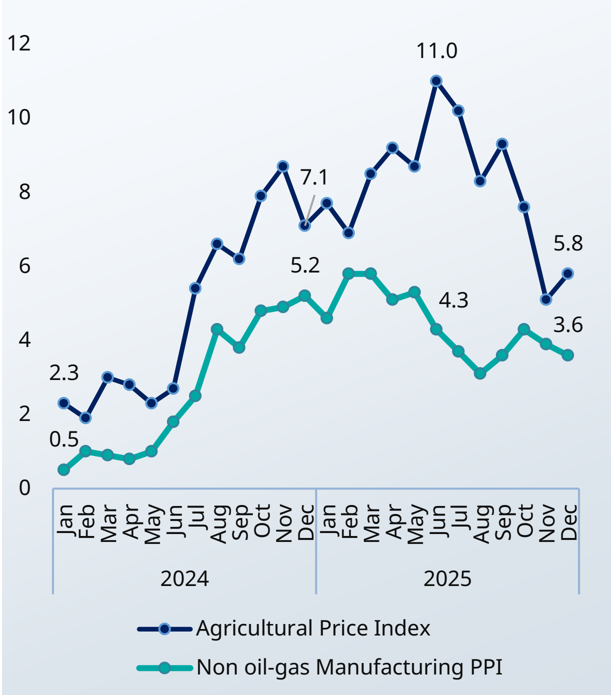
According to the SSC, in December the APPI increased by 5.8%, prices for plant growing products increased by 6.5%, and prices for livestock products increased by 4.9% annually.

In December 2025, the production PPI decreased by 10% year-over-year. The PPI decreased by 14% on the oil-and-gas products and increased by 3.6% on non-oil and gas products.

The PPI in processing increased by 3.9% annually.

Chart 32. Annual change in PPI, in %

Source: SSC

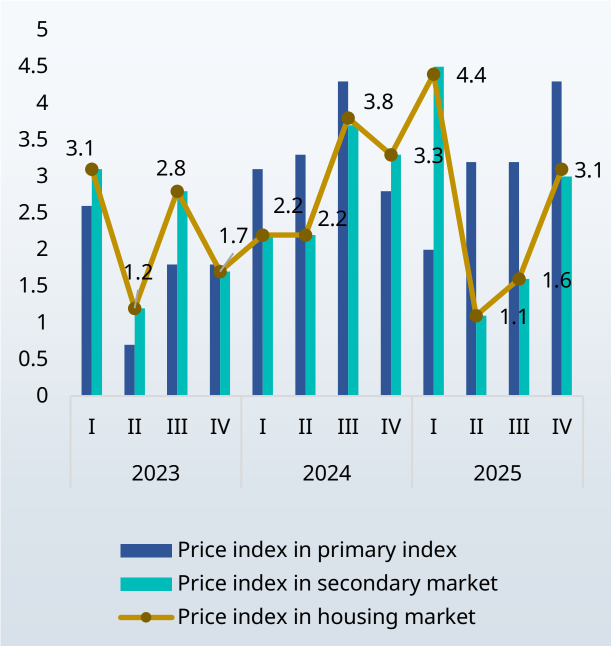


In December 2025, prices y.o.y. increased by 3.8% for transport and warehousing, by 2.9% for freight transportation services, by 0.7% for postal and courier services, by 1.1% for advertising services and by 5.0% for software development-related services.

2.4.3 Housing price index

According to the SSC, in Q4 2025, the housing price index increased by 10.6% year-over-year. Prices in the primary housing market rose by 13.3% and in the secondary market by 10.5%.

Chart 33. Housing price index, quarter-over-quarter, in %
Source: SSC



In January–December 2025, the housing price index increased by 12.7% in the primary market and by 12.2% in the secondary market year-over-year.

In December 2025, rents paid by tenants increased by 7.8% year-over-year. Although the rate of increase in prices for this service moderated somewhat in mid-2025, it has picked up again since September.

3

MONETARY AND EXCHANGE RATE POLICY

3.1 MONETARY POLICY TOOLS, MONEY MARKET AND EXCHANGE RATE

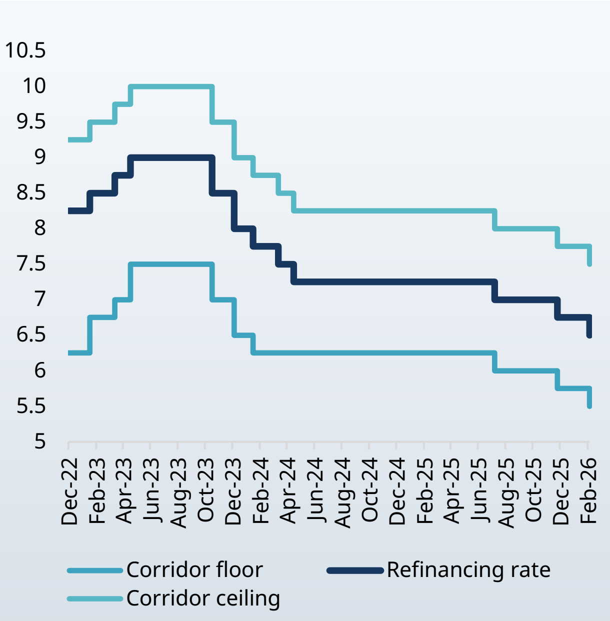
In 2025, the monetary policy of the CBA was geared towards maintaining inflation within the target range through appropriate monetary conditions. Throughout the year, the Bank continued its efforts to further enhance the operational framework. Monetary policy tools were employed in response to financial market developments and changes in the liquidity position of the banking system. Over the reporting year, the interbank money market remained active, with the AZIR index evolving close to the refinancing rate within the interest rate corridor.

3.1.1 Monetary policy tools

In 2025, monetary policy decisions were made considering the consistency of actual inflation with the forecasted trajectory, medium-term inflation forecasts, domestic and external macroeconomic stance, as well as the nature of monetary policy transmission.

Chart 34. Interest rate corridor parameters, in %

Source: CBA



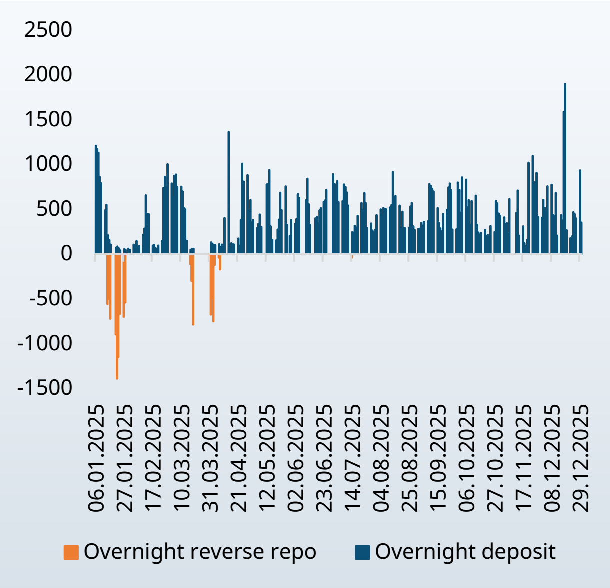
The CBA's Management Board discussed the interest rate corridor parameters eight times in 2025. In six meetings, the parameters were kept unchanged and were decided to be cut at two meetings. Overall, the monetary policy was eased throughout 2025, the refinancing rate was shifted from 7.25% to 6.75%, the ceiling of the interest rate corridor from 8.25% to 7.75%, and the floor of the corridor from 6.25% to 5.75%. Monetary policy easing continued at the beginning of 2026, resulting in a 0.25 pp reduction in all parameters of the interest rate corridor in February. The refinancing rate currently stands at its lowest level in the past four years and is close to the neutral interest rate. The CBA communicated its interest rate decisions to the public in line with the pre-announced schedule, accompanied by the relevant analytical commentary.

Monetary policy tools were employed in response to financial market developments and changes in the liquidity position of the banking system. In 2025, the CBA continued various duration monetary operations to manage liquidity. Standing facilities were actively used, and quantitative parameters of open market operations were determined based on liquidity forecasting.

Banks used CBA's both liquidity absorbing and liquidity providing standing facilities. Banks accessed the overnight deposit standing facility on 100% of business days, while the overnight reverse repo facility was used on 8% of business days. As part of enhancements to the operational framework, the duration of the overnight standing facility deposit and reverse-repo operations was changed from 24 hours to overnight starting from February 2025.

Chart 35. Amount placed by (overnight deposit) and attracted by (overnight reverse-repo) banks by CBA's standing facilities, in million manats

Source: CBA



At the beginning of 2025, the state budget was executed with a surplus, and the balance of the Single Treasury Account increased. Liquidity in the banking sector increased as a consequence of Ministry of Finance's depositing available national currency denominated balances of the treasury account in domestic banks since April 2025. On this backdrop, the CBA mainly relied on 7-day operations to swiftly minimize the impact of autonomous factors on monetary conditions and steer AZIR closer to the policy rate. In January-June 2025, the CBA held 17 7-day repo and 2 7-day reverse repo operations. 7-day repo operations were replaced with 7-day deposit operations from 10th of June 2025 with a view to enhancing the effectiveness of open market operations. In November, adjustments were also made to the management of repayment dates for 7-day open market operations due to non-working days. Where repayments deviated from the operational schedule, now it is possible to conduct shorter-term open market operations on the first working day following the non-working day. This measure allows maintaining the stability of the banking sector's liquidity position and preventing short-term volatility in the AZIR rate. Overall, 58 deposit auctions were conducted between June and the end of December. By the end of 2025, 7-day instruments accounted for a significant share of the CBA's sterilization portfolio. Consequently, the 7-day deposit operation has now become the main tool for open-market operations.

In December 2025, the Management Board of the CBA decided, going forward, not to include the bonds placed through private placement in the list of securities accepted as collateral for monetary policy operations. This decision was taken in view of the requirement that securities accepted as collateral in the Bank's operations should combine low risk with high liquidity, as well as the limited activity of privately placed bonds in the secondary market.

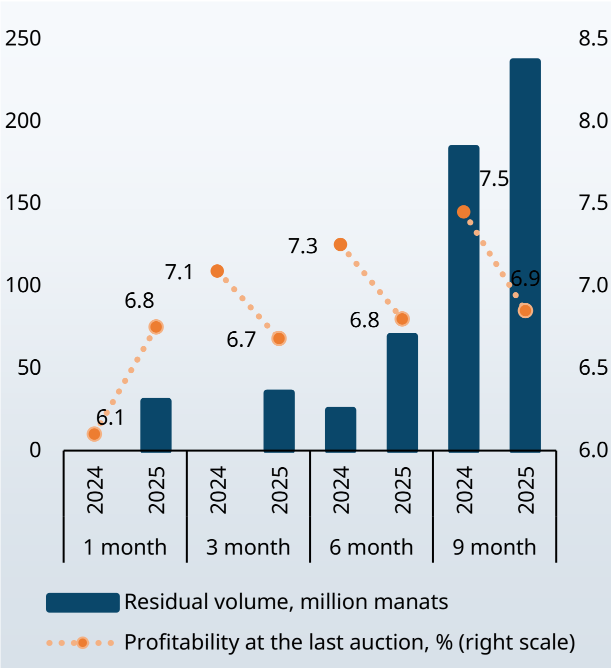
As a result of the measures taken to enhance the operational framework, the AZIR index moved closer to the refinancing rate, and the spread between them was reduced to a minimum. While the average spread between the AZIR index and the refinancing rate stood at 0.18 pp from the beginning of the year through end-June, it declined to an average of 0.06 pp during July–December.

Auctions for the placement of 28-day (1 month), 84-day (3 months), 168-day (6 months), and 252-day (9 months) CBA notes continued to be conducted as supportive instruments for liquidity management through open market operations. Totally 170 note auctions of various duration were held over the period – 43 auctions were on 28-day, 42 on 84-day, 43 on 168-day and 42 on 252-day notes. Total outstanding volume of notes in circulation fluctuated depending on conditions in the banking system and reached its highest level in August 2025 (AZN744.2M). As of end-December, total outstanding amount of funds absorbed through notes reached AZN370.8M.

Yield at recent auctions was 6.75% on 28-day, 6.68% on 84-day, 6.80% on 168-day, and 6.85% on 252-day notes.

Chart 36. Amount and yield on CBA's short-term notes in circulation

Source: CBA



Ongoing implementation of reserve requirements under the averaging regime supported 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.

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 to 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 monitoring and 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

During the reporting period, the benchmark interest rate shaped in the unsecured interbank money market (AZIR) remained within the interest rate corridor and followed a trajectory close to the policy rate. The deviation of the index from the refinancing rate continued to narrow. While the spread between the AZIR index and the refinancing rate stood at 0.18 pp in H1 2025, it declined to 0.06 pp in the second half of the year.

In addition to the unsecured interbank market, interest rate indices in the repo market also respond to the interest rate corridor. While the 6–8-day average weighted repo rate (1W AINA AO) stood at 6.27% in the one-month period prior to the reduction of the policy rate on 10 December 2025, it declined to 6.17% in the subsequent period of the year.

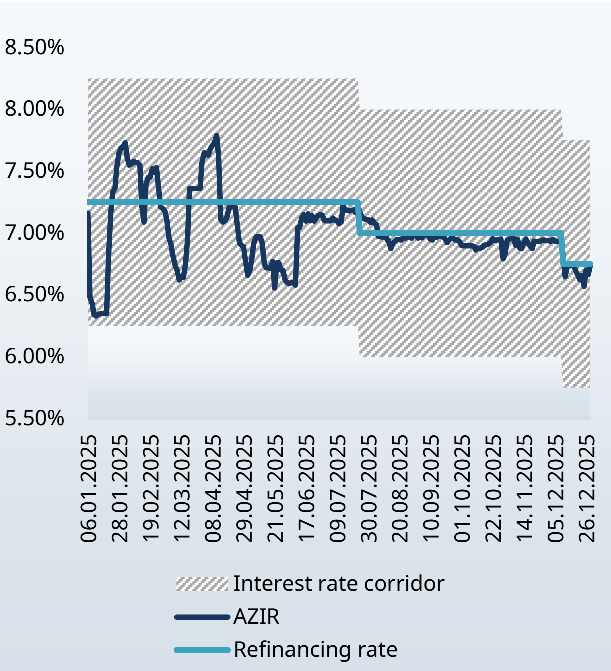
In 2025, a number of actions were taken to develop the domestic money market. On 15 May 2025 the CBA developed and approved new, more advanced regulations for the calculation of the AZIR index in close cooperation with experts from the EBRD considering the analysis of developments in the interbank money market and best practices. To avoid potential distortions and undesirable volatility, 10% of the trading volume, concentrated at the highest and lowest ends of the sorted list by interest rate, is excluded as outliers.

Moreover, the new methodology provides 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.

In the last quarter of 2025, the EBRD, for the first time in the domestic market, issued manat-denominated bonds. The coupon rate of the first floating-rate instrument in the domestic capital market is determined based on the CBA's AZIR index. This historical event further strengthens AZIR's role as a market reference rate and broadens its practical application. The use of the AZIR index as a reliable reference rate for bond issuance will provide an important foundation for the future introduction of more complex financial instruments.

Chart 37. Dynamics of the refinancing rate and the AZIR index

Source: CBA



Observations indicate that the influence of the Central Bank's refinancing rate on other market interest rates has strengthened over time. Thus, in July and December 2025, the interest rate corridor parameters were cut by 0.5 pp, and the AZIR indicator quickly reacted to the change. The weighted average level of the AZIR index declined by 0.95 pp in December 2025 compared to December 2024, which weighed on the government securities market. All yield curve segments declined at end-December 2025 year-over-year. Yields on securities with maturities of 3 months, 1 year, and 4 years decreased by 1.61, 1.80, and 2.84 pp, respectively.

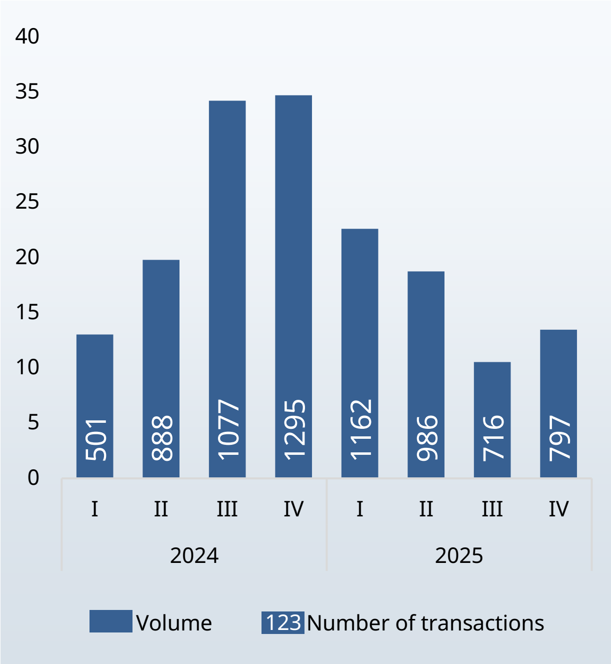
Chart 38. Yield curve, in %

Source: CBA

Changes in the refinancing rate also had a certain impact on deposit and lending rates. Interest rates on new manat-denominated deposits and newly issued loans have dropped since the second half of 2025.

Over the reporting year, the interbank unsecured market continued to be active. AZN65.4B worth 3,661 transactions were concluded in the Bloomberg trading system in 2025. 95% of them were 1–3-day transactions.

Chart 39. Volume of transactions in the interbank money, in billion manats
Source: CBA, BFB

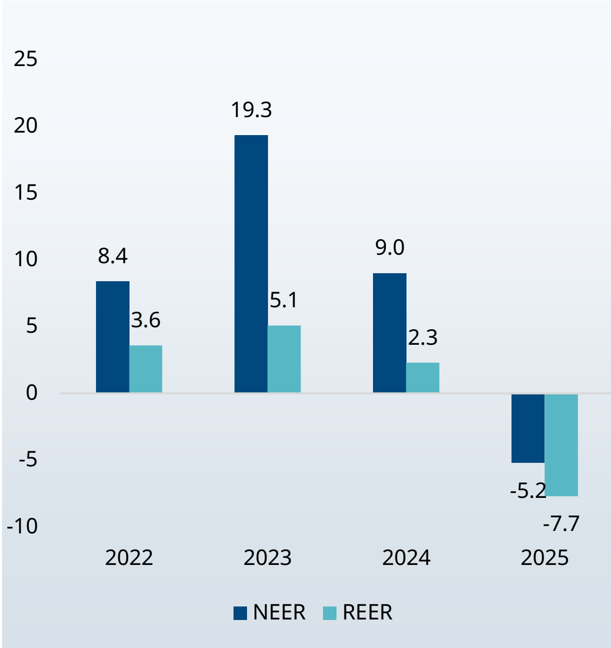


3.1.3 Bilateral and multilateral exchange rates

During the period the official USD/AZN exchange rate was based on the average exchange rate of interbank transactions (both auction and over the counter transactions conducted on the Bloomberg trading system). 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 0.3% and 0.1%, respectively.

Chart 40. Effective exchange rate indices (year-over-year)
Source: CBA



In 2025, non-oil trade-weighted NEER of the manat depreciated by 5.2% and the REER depreciated by 7.7% year-over-year. 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 5.2% in Azerbaijan, weighted average inflation across trade partner countries stood at 7.5% in December 2025.

3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

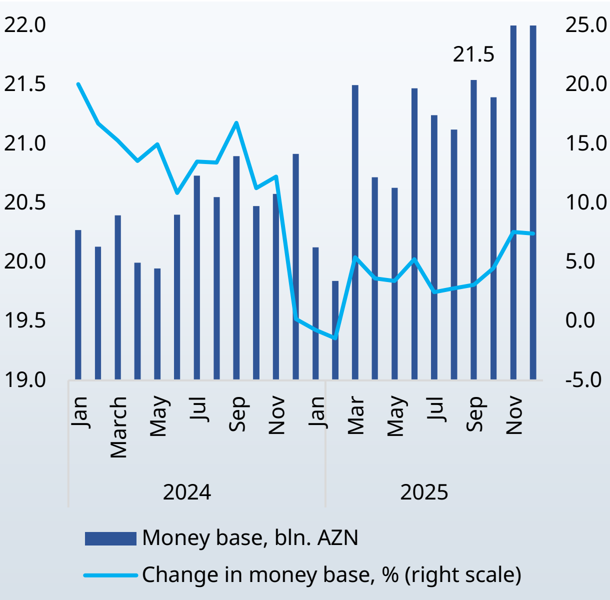
In 2025 money supply continued to grow. The size of deposit and loan portfolios expanded and the level of dollarization of deposits decreased.

3.2.1 Base money and money supply

In 2025, the base money in manat increased by 7.4% to AZN22.5B, driven by the CBA's open market operations and changes in government account balances. Cash in circulation[8], a structural element of base money in manat increased by 12.1%, while the balance of correspondent accounts in manat decreased by 16.3%.

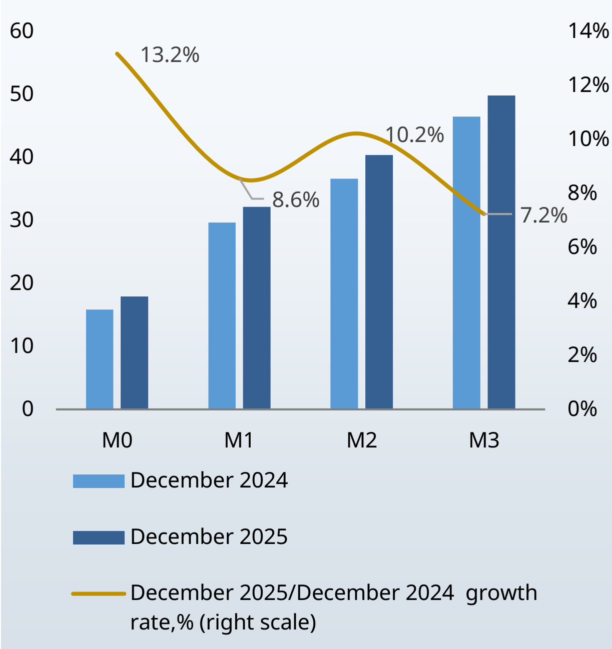
In 2025, the money multiplier in manat (broad money supply in manat/base money in manat) increased by 2.6% to 1.8.

Chart 41. Amount of base money (left scale) and its year-over-year change
Source: CBA



In 2025, broad money supply (M3) increased by 7.2% to AZN49.9B. Broad money supply in manat (M2) increased by 10.2% to AZN40.4B.

Chart 42. Money aggregates, in billion manats
Source: CBA

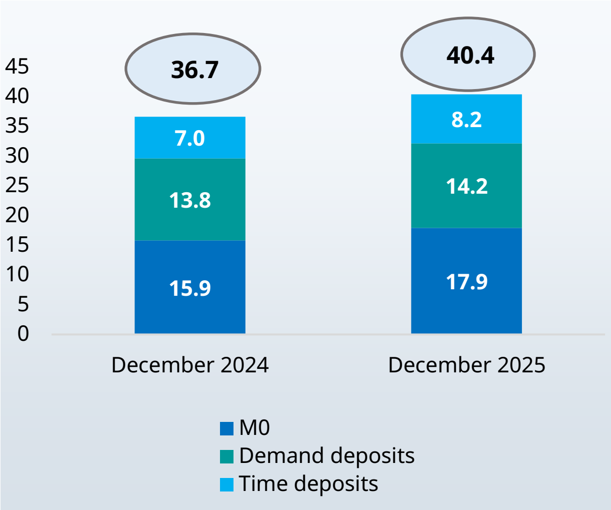


In 2025 all structural elements of the M2 money aggregate posted growth. Cash money supply (M0) increased by 13.2%, demand savings and deposits increased by 3.2%, and term savings and deposits increased by 10.2% year-over-year.

The share of demand deposits in M2 decreased by 2.4 pp to 35.2%, while the share of term deposits increased by 1.2 pp to 20.3%.

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

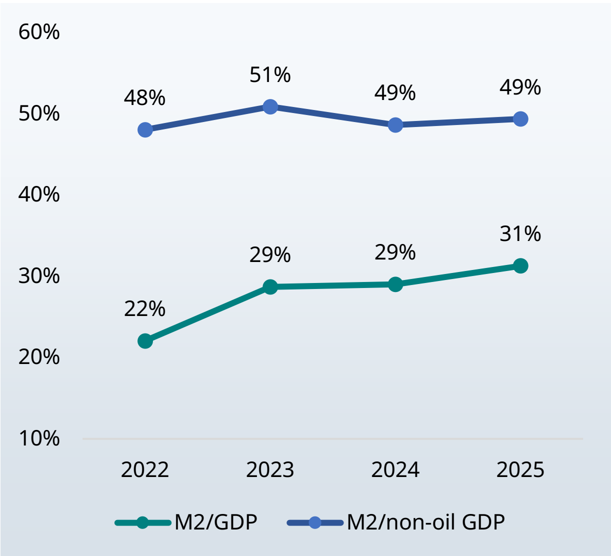
Chart 43. Composition of broad money supply in manat, in billion manats
Source: CBA



The share of cash (M0) in broad money supply in manat (M2) stood at 44.4% at the end of 2025.

The share of foreign currency denominated savings and deposits in total savings and deposits decreased by 2.5 pp to 29.7%. The share of foreign currency denominated savings and deposits in M3 money aggregate decreased by 2.2 pp to 18.9%.

Chart 44. M2-to-GDP ratio (monetization ratio)
Source: CBA



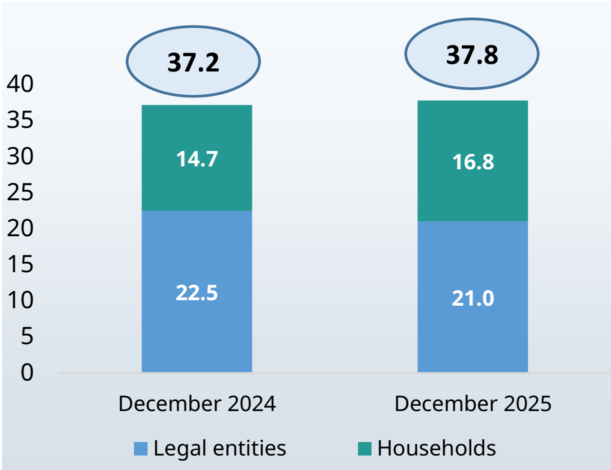
The broad money supply to GDP ratio increased from 29% to 31.3%, and ton on-oil-and-gas GDP shifted from 48.7% to 49.4%.

3.2.2 Deposit market

In 2025, the deposit portfolio (excluding the financial sector) increased by 1.6% y.o.y. to AZN37.8B. Term deposits increased by 10.1% to AZN16B as of end-December, while current deposits decreased by 3.8% to AZN21.8B.

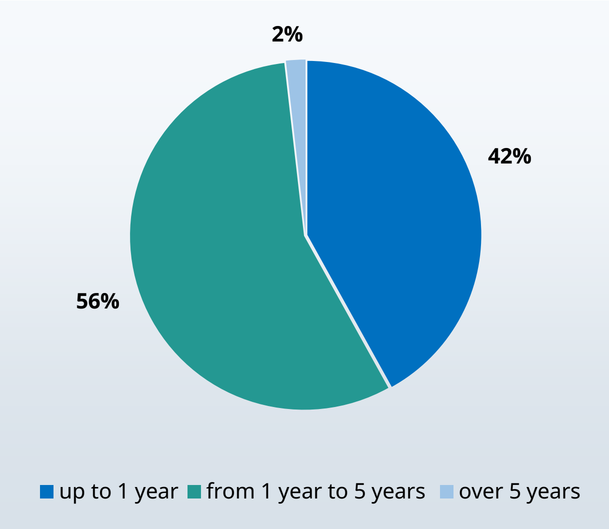
Total deposits of legal entities decreased by 6.7% to AZN21B. The share of current deposits in total deposits of legal entities decreased by 0.7 pp to 73%, while the share of term deposits increased by 0.7 pp to 27%.

Chart 45. Deposits, in billion manats
Source: CBA



Total deposits of individuals increased by 14.4% to AZN16.8B. Deposits with up to one-year maturity dominated in total term deposits portfolio (50.2%).

Chart 46. Structure of term deposits of individuals in 2025, in %
Source: CBA

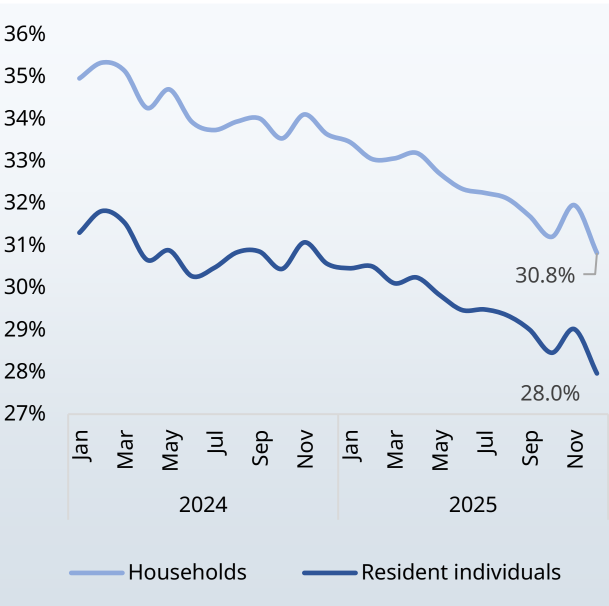


Manat deposits increased by 5% (AZN1.2B) to AZN24.5B, while foreign currency denominated deposits decreased by 4% (AZN549M) to AZN13.3B.

Dollarization of individuals' savings decreased by 2.8 pp to 30.8% throughout the year. Dollarization of households' savings (excluding savings of non-resident individuals) decreased by 2.6 pp to 28%.

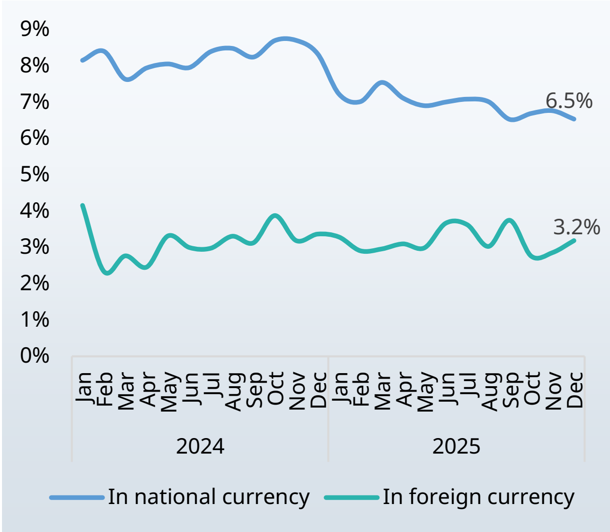
The share of foreign currency in deposits of legal entities decreased by 0.9 pp to 38.5% year-over-year.

Chart 47. Dollarization of deposits, in %
Source: CBA



In 2025, particularly in the second half of the year, average interest rates on newly attracted manat-denominated deposits (including legal entities and individuals) exhibited a downward trend.

Chart 48. Average weighted interest rates on newly attracted deposits
Source: CBA



Interest rates on newly attracted deposits in manat decreased by 1.8 pp, while those on foreign currency deposits decreased by 0.2 pp.

3.2.3 Credit market

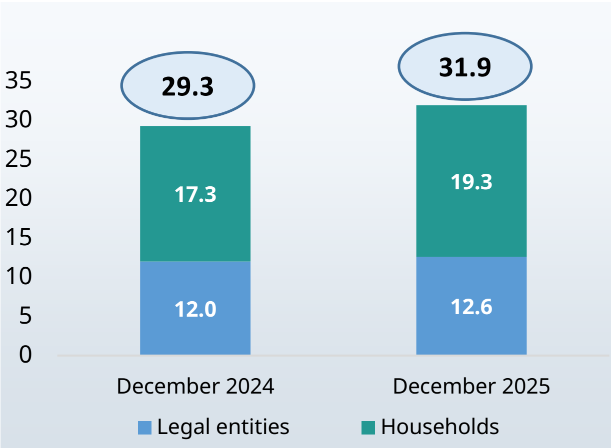
Credit to the economy continued to grow in 2025. The loan portfolio (banks and nonbanks) increased by 9.1% to AZN31.9B. Long-term loans dominated and stood at 81.9% as of the end of the year. Longterm loans increased by 7.3% to AZN26.2B. Short-term loans have increased by 17.7% since the early year to AZN5.8B.

Business loans increased by 8.9% to AZN16.1B. The highest growth in business loans was in transport (30.5%), construction (25.4%), agriculture (16.8%) and information and communication (23.4%).

Dollarization of loans continued to decline during the reporting period. Manat denominated loans increased by 11.4%, while foreign currency denominated loans decreased by 3.6%. The share of foreign currency denominated loans in total loans decreased by 1.8 pp from early year to 13.6%.

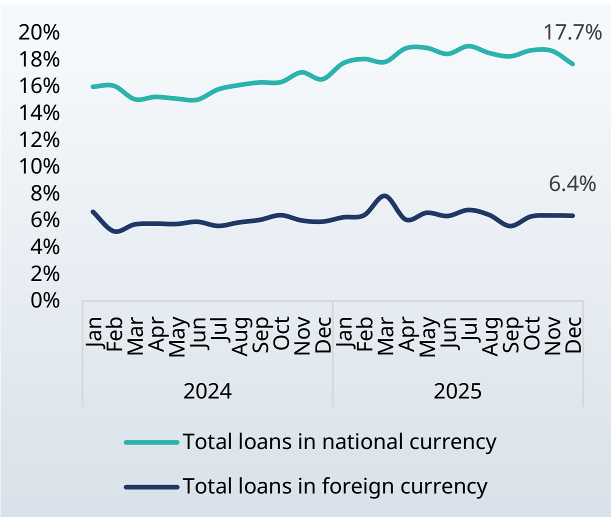
Loans to households increased by 11.9% (AZN2B) to AZN19.3B, while loans to legal entities increased by 5.1% (AZN610M) to AZN12.6B.

Chart 49. Size of loans, in billion manats
Source: CBA



In December 2025, average weighted interest rates on newly issued loans in manat stood at 17.7%, those in foreign currency stood at 6.4%. Average interest rates on loans issued over recent months have declined.

Chart 50. Average interest rates on newly issued loans (banking sector)
Source: CBA



In 2025, the share of manat denominated deposits and term deposits in the deposit market increased, while lending to the main sectors of the economy expanded in the credit market.

4

ECONOMIC OUTLOOK

4.1 GLOBAL ECONOMIC FORECASTS AND RISKS

Updated projections for 2026 suggest that global economic activity will expand at a pace broadly in line with that in 2025, remaining below its pre-pandemic historical average. Global inflation projections have remained largely unchanged compared with the previous reporting period and continue to signal a gradual moderation in price pressures. Technological advancements and the private sector flexibility offset pressure from trade policy developments, thereby underpinning the sustainable growth of the global economy.

4.1.1 Global economic growth and inflation forecasts

According to the IMF January 2026 WEO, global economic growth is projected to stand at 3.3% in 2026 and at 3.2% in 2027. Overall, the growth projection for 2026 (3.3%) is unchanged from the rate in 2025 yet remains below the historical average of 3.7% of the period covering 2000–2019. The forecast for 2026 was revised up by 0.2 pp, while the projection for 2027 remains unchanged. The resilience of global economic growth stems from a combination of factors, including an easing of trade tensions, robust fiscal and monetary support, favorable financial conditions, the flexible adjustment of the private sector, and, in particular, further improvements in policy frameworks in EMEs.

According to the new projections, economic growth in AEs group is expected to stand at 1.8% in 2026 and at 1.7% in 2027. Whereas the forecast for the current year was revised up by 0.2 pp compared to the October projection, it was left unchanged for 2027.

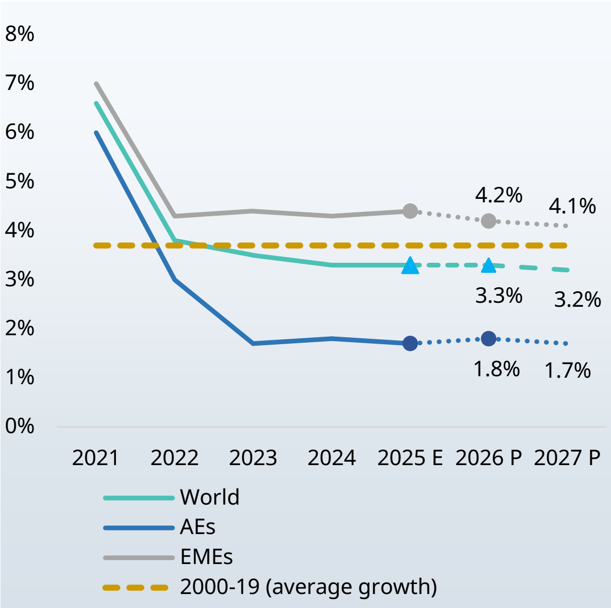
Economic growth in the United States is projected to stand at 2.4% in 2026 and at 2% in 2027. This represents an upward revision of 0.3 pp for 2026 and a downward revision of 0.1 pp for 2027 vs the previous projection round. Lower interest rates and an accommodative fiscal stance, together with the gradual waning of the impact of trade barriers, are expected to be the main factors supporting growth in the current year. The introduction of tax incentives for corporate investment is expected to support the continuation of a stable growth momentum in 2027.

The euro area economy is predicted to grow by 1.3% in 2026 and by 1.4% in 2027. The forecast for the current year was revised upwards by 0.1 pp, while it was kept unchanged for the following year. The broadly unchanged pace of growth compared with the previous year is attributable to the persistence of unresolved structural constraints.

In Japan economic growth is expected to stand at 0.7% in 2026 and at 0.6% in 2027, up by 0.1 pp for the current year in comparison with the October forecast. Overall, growth projections remain low year-over-year. The slight upward revision to the projection primarily originated from the potential impact of the fiscal stimulus package announced by the new government.

Economic growth forecasts for EMEs are lower than the 4.4% growth in 2025. The growth is forecast to stand at 4.2% in 2026 and at 4.1% in 2027. Forecasts were revised upwards by 0.2 pp for the current year and downwards by 0.1 pp for the following year vs the October forecast.

Chart 51. Global economic growth forecasts
Source: The IMF WEO

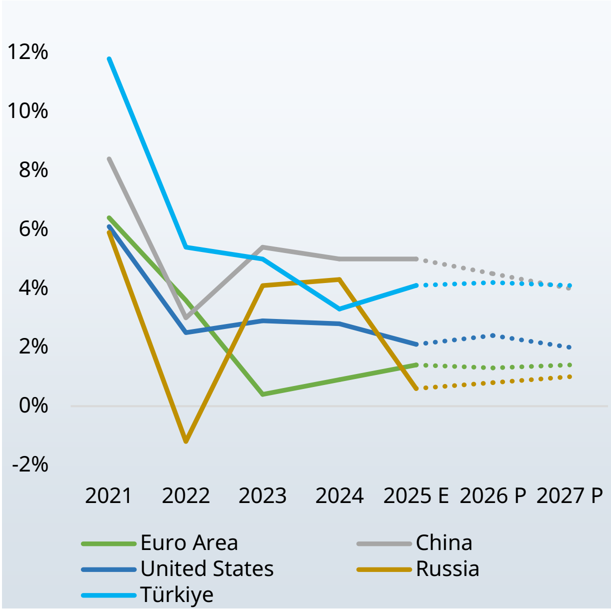


Economic growth in China is expected to stand at 4.5% in 2026 and 4% in 2027. Forecasts were revised upwards by 0.3 pp for 2026 and downwards by 0.2 pp for 2027 vs the October forecast. The upward revision to the 2026 projection is primarily driven by the trade agreement reached with the United States in November and by the expected implementation of incentives over the next two years.

In Russia, following a sharp slowdown in economic growth in 2025, activity is projected to recover moderately over the subsequent two years. Growth is projected to be 0.8% in 2026 and 1% in 2027.

Expectations for Türkiye's economic growth remained broadly stable. Economic growth is projected to reach 4.2% in 2026 and 4.1% in 2027.

Chart 52. Growth projections across certain countries
Source: The IMF WEO

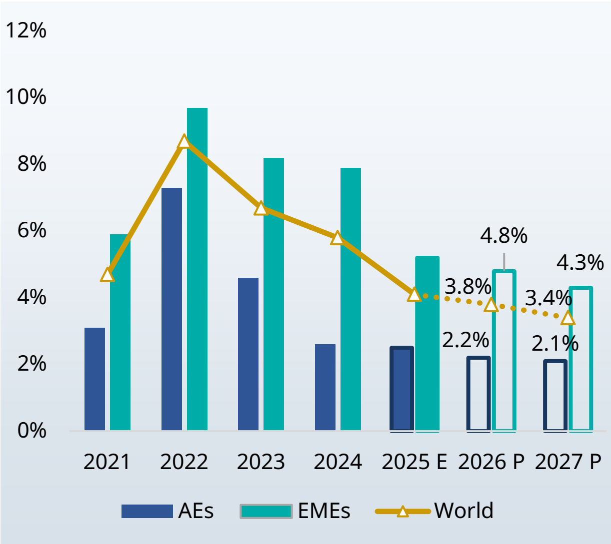


The IMF in its January 2026 WEO left the global inflation trajectory unchanged. Compared with the October report, projections for the pace of inflation are largely unchanged. Expectations regarding general trends, such as weakening demand and lower energy prices, also remain stable. Inflation is expected to continue moderating over the next two years, with global inflation projected at 3.8% in 2026 and 3.4% in 2027.

Inflation expectations varied across countries. In the United States, core inflation is projected to return to the 2% target by 2027. In the UK, inflation is expected to return to target by the end of 2026, as wage growth pressures continue to ease. In Japan, the inflationary environment is projected to be moderate in 2026, with falling food and commodity prices bringing inflation close to target in 2027.

Overall, inflation projections for 2026 and 2027 remained unchanged for AEs, while they were revised up by 0.1 pp for EMEs. Accordingly, inflation in AEs is expected to remain at 2.2% in 2026 and 2.1% in 2027, whereas in EMEs it is projected at 4.8% and 4.3%, respectively.

Chart 53. Global inflation forecasts
Source: The IMF WEO



4.1.2 Global risks

According to the IMF's January 2026 report, risks to global economic growth forecasts are tilted to the downside.

If artificial intelligence (AI) does not deliver the expected productivity gains, investment in the sector and stock market valuations could fall sharply. This could, in turn, impact on business dynamism and dampen both private consumption and investment.

Trade policy currently remains in a fragile state. The implementation of new tariff and non-tariff measures could disrupt global supply chains, alter trade patterns, and necessitate the rerouting of trade flows. In particular, the imposition of additional tariff and non-tariff measures on sectors involved in the early stages of production could have a significant negative impact on economic activity and prices.

Rising geopolitical tensions also pose a risk of damage to key transport routes and supply chains. Elevated uncertainty may further weigh on both consumption and investment.

Amid ongoing vulnerabilities in financial markets, fiscal risks are intensifying, and challenge global macro-financial stability. A particular concern is the persistently high public debt levels in several large economies. Emerging fiscal sustainability pressures in these economies could tighten global financial conditions. In low-income EMEs, reduced external financial support may exacerbate fiscal strains.

At the same time, structural reforms and the realization of expected productivity gains from the adoption of AI, together with significant progress in trade negotiations, could help create a more favorable environment for global economic growth.

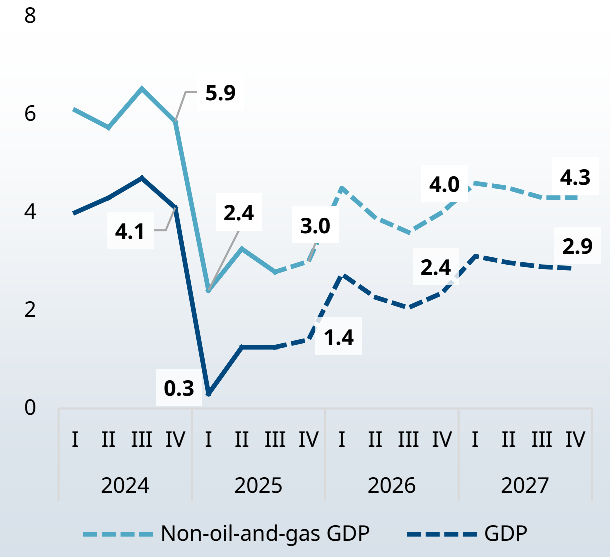
4.2 MACROECONOMIC OUTLOOK FOR AZERBAIJAN

According to CBA's February 2026 forecasts, annual inflation is expected to remain within the target band in the medium term. At the same time, economic growth-related expectations are generally optimistic.

4.2.1 Economic growth forecast

According to CBA's February 2026 forecasts, real economic growth is expected to be 2.4% in terms of total GDP and 4.0% in terms of non-oil and gas GDP in 2026. In 2026 the oil and gas sectors is expected to have a negative impact on overall GDP growth, while the non-oil and gas sector will have a positive effect. This year, the main drivers of growth in the non-oil and gas sector are expected to be households' final consumption expenditures and net exports of goods and services.

Chart 54. Real growth forecast for GDP and non-oil and gas GDP, year-over-year, in %
Source: CBA AzIM[9] model



Economic growth in 2027 is projected at 2.9% for the overall economy and 4.3% for the non-oil-and-gas sector. The oil-and-gas sector is projected to have a dampening effect on overall GDP growth, while the non-oil-and-gas sector will provide an upward contribution. Similar to 2026, the growth of the non-oil-and-gas sector in 2027 is expected to be driven by households' final consumption expenditure, net exports of goods and services, and gross fixed capital formation.

Note that projections for the oil-and-gas sector are based on government's official forecasts. Specifically, the sector is expected to contract in real terms by 2.4% in 2026 and by 1.3% in 2027[10]. The realization of the economic growth forecast for the non-oil-and-gas sector in 2026 and 2027 will mainly depend on the dynamics of both domestic and external aggregate demand.

The realization of the economic growth forecast for the non-oil-and-gas sector in 2025 and 2026 will primarily depend on the dynamics of domestic aggregate demand.

4.2.2 Inflation forecast

According to CBA's February forecasts, in 2026 and 2027 annual inflation is expected to remain within the target band (4±2%) at 5.5% and 4%, respectively. Household consumption is expected to have 1.22 pp, APPI 2.48 pp, inflation in trade partners 2.09 pp, direct impact of regulated prices 0.31 pp and other factors 1.12 pp

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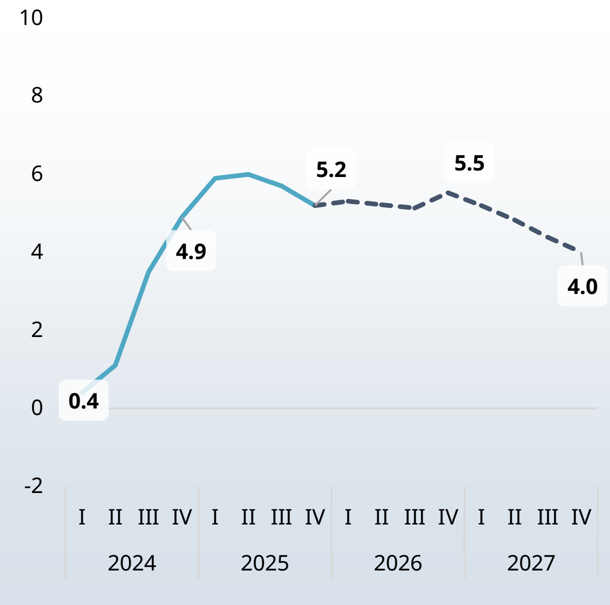
[9] The quarterly forecasting model of the Azerbaijan's economy (AzIM) is theoretically a small open economy New Keynesian model. This model is also referred to as a gap model. It measures trend changes, explains deviations, and describes the monetary policy's transmission mechanism. Variables actively 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.

[10] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6914a8ce9b20c.pdf

upward effect on annual inflation forecast for 2026. The downward contribution of government consumption is expected to be -0.13 pp, the NEER -1.6 pp.

Chart 55. February forecast for annual inflation, in %
Source: CBA AzIM model



According to the assessments, in 2027 household consumption is expected to contribute 1.28 pp to annual inflation, APPI 2.48 pp, inflation in trade partners 1.79 pp, government consumption 0.03 pp, and other factors 0.37 pp, while NEER is expected to exert a diminishing effect of -1.96 pp.

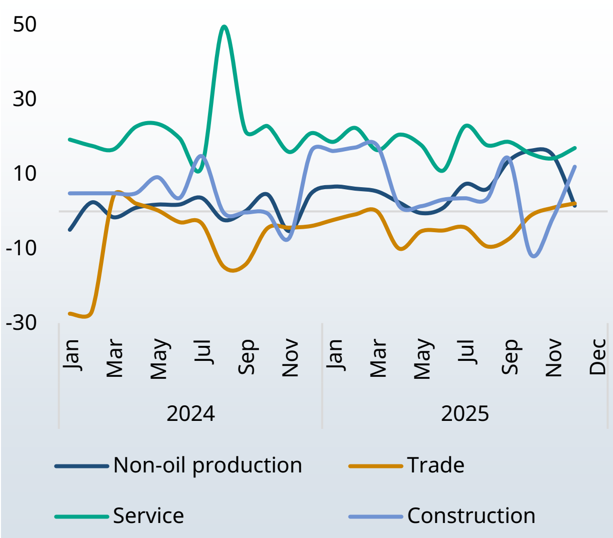
The impact of government budget expenditure growth on inflation is assessed to remain close to neutral in 2026 and 2027.

The realization of forecasts depends on potential changes in a range of internal and external factors. The main external risk is a renewed increase in prices in partner countries. The materialization of this risk could be amplified by sustained geopolitical tensions, global fragmentation, and, volatility in global commodity and financial markets amid trade disputes with tariffs. In addition to inflation level in trade partners, NEER dynamics may also affect domestic prices. Global climate change could impact productivity and global food production. The main domestic risk that could exert upward pressure on inflation is the activation of local cost-push factors on the supply side.

4.2.3 Inflation expectations

In December 2025, inflation expectations varied across sectors. According to CBA's RSM findings, expectations declined in the non-oil-and-gas industry, services, and construction sectors. For the non-oil-and-gas production sector, expected prices over the next 3 months decreased threefold year-over-year. In contrast, expectations in the trade sector increased.

Chart 56. Price expectations for upcoming three months across the real sector[11]
Source: Surveys among entities



In December, the price index in the non-oil-and-gas production sector was 1.53 (y.o.y. 4.87), in trade 2.14 (-3.91), in construction 11.99 (16.22), and in the services sector 17.02 (y.o.y. 21.01).

[11] 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.

CHARTS AND TABLES

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