



**CENTRAL BANK**  
OF THE REPUBLIC OF AZERBAIJAN

# **MONETARY POLICY REVIEW**

November  
**2025**

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## ACRONYMS

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

## EXECUTIVE SUMMARY

*Over 9 months of 2025, the CBA focused its activities on price stability, its primary mandate. The inflation target was  $4\pm 2\%$  in line with the “Statement of the Central Bank of the Republic of Azerbaijan on main directions of the monetary policy for 2025.”*

*Throughout the reporting period, the national economy continued to expand amid evolving conditions in the global economy and financial markets. Azerbaijan’s external sector indicators remained favorable, while strategic foreign exchange reserves continued to significantly exceed internationally accepted sufficiency norms.*

*Annual inflation followed the projected trajectory. In September 2025, annual inflation was within the target range. Although cost-push factors showed signs of revival, inflation is expected to remain within the target band through the end of the year and into 2026.*

*During this period, monetary policy decisions were guided by macroeconomic forecasts and shifts in the balance of risks stemming from supply and demand factors of inflation. Monetary policy tools were employed in response to interbank money market developments and the liquidity position of the banking system. To achieve its policy objectives, the CBA utilized open market operations, standing facilities, and reserve requirements. Reforms to enhance the operational framework of monetary policy have been continued.*

## RECENT MONETARY POLICY DECISIONS

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



**1**

**GLOBAL ECONOMIC  
TRENDS**

## 1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

Over the course of 2025 the global economic environment was highly variable. However, despite ongoing uncertainties, the world economy gradually adjusted to the new conditions. The uncertainties largely stemmed from protectionist trends and geopolitical tensions. Although global growth continues, it remained below the historical pre-pandemic average.

### 1.1.1 Global economic activity indicators

During the reporting period, global economy demonstrated resilience in the face of trade shocks. Although effective tariff rates in the United States have declined from their April peak, they range between 10–20 percent for most countries. Overall, tariffs are still considerably higher than their 2024 levels. In the absence of stable and transparent agreements among trading partners, uncertainty in trade policy remains elevated. Now attention has shifted from tariffs to their impact on prices, investment, and consumption.

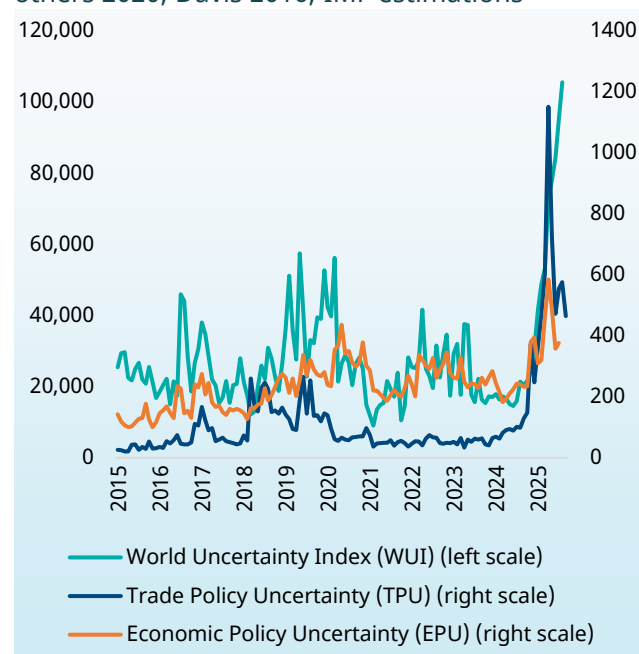
In the euro area annual economic growth stood at 1.3% in Q3, 0.2 percentage points lower than in the previous quarter. Quarterly economic growth was 0.2%. The highest annual economic growth was in Ireland (12.3%) and Spain (2.8%), while the highest quarterly growth was in Sweden (1.1%) and Portugal (0.8%).

In Q3 2025, the Chinese economy grew by 4.8% year-over-year, lower than 5.2% in the previous quarter, the lowest growth rate since Q3 2024. A strong start to the year was followed by a slowed pace of economic growth, reflecting trade tensions with the United States, the ongoing real estate crisis, and weak consumer demand. Despite consumer subsidies, retail sales posted the weakest annual growth in the last 12 months,

while industrial production reached its highest level in the last three months. Quarterly economic growth stood at 1.1%. Despite relatively strong growth, risks and external economic pressures persist, and the foundation of the recovery remains fragile.

#### Chart 1. Global uncertainty indices<sup>1</sup>

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



Global economic uncertainty indicators remained elevated. Although the Economic Policy Uncertainty Index (EPU) and the Trade Policy Uncertainty Index (TPU) have declined recently, they remain above their 2024 levels. The World Uncertainty Index (WUI) continued

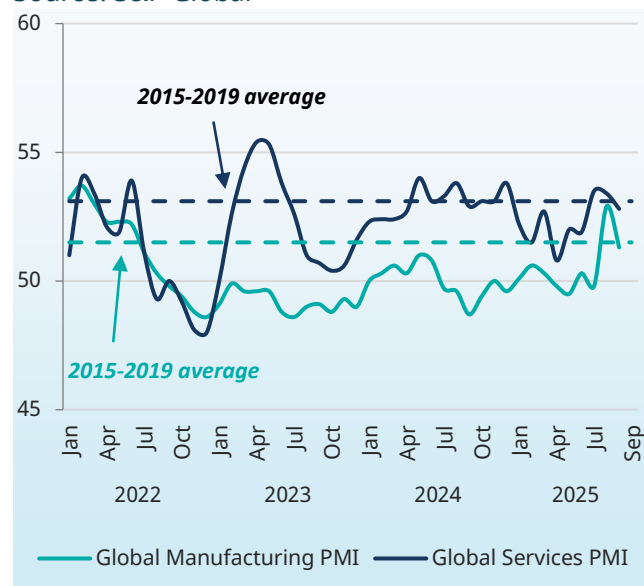
<sup>1</sup> Uncertainty indices are based on news and media sources and measure the attention of the media to news related to global uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

to rise in 2025, to highs of the recent decade, driven by high global geopolitical tensions and the introduction of new U.S. trade tariffs.

The PMI indicated a slight moderation in growth in production and services. The Global Composite PMI was 52.4 in September, 0.5 pp higher year-over-year, but 0.5 pp lower compared to August.

**Chart 2. Purchasing Managers' Index (production and services)**

Source: S&P Global



The PMI in production was 51.3 on average in Q3 2025, 1.4 pp higher than the average indicator of the previous quarter. Whereas in September the PMI in production grew compared to H1 2025, it was 1.6 pp lower than in August. In the euro area, the index points to the 7th consecutive month of expansion in production, with the main contribution from the Netherlands and Germany, which reached 16- and 42-month highs, respectively. In Asia, the largest increase was in India. Growth in the United States was weaker compared with the previous month. Amid the U.S. tariffs announced in April, global exporters sought to preempt the new duties, leading to higher U.S.

purchases of raw materials (and imports) in Q2, which in turn boosted production growth in Q3. In the coming months, a slight drop in these effects is expected to weigh on production, and weaker exports from Europe and Asia to the United States.

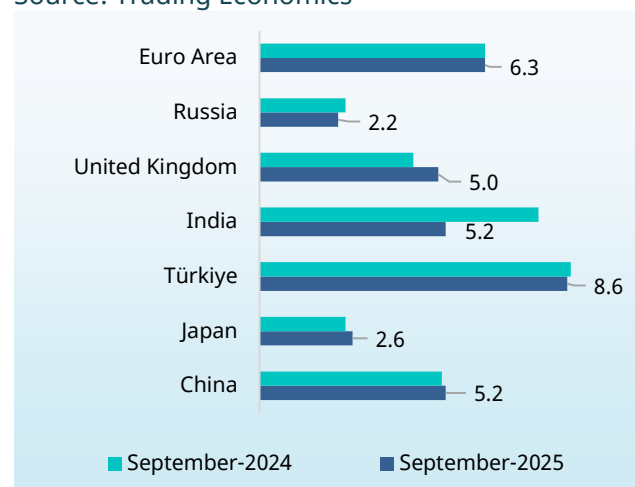
Country-level composite PMI results confirm overall expansion in economic activity, though growth moderated relative to the previous month. Among the 15 countries for which composite PMI data are available, production expanded in 10, but in most of these economies the indicators fell below August levels, which points to a slowdown in the economic expansion and, in some cases, an intensification of contractionary trends.

### 1.1.2 Global unemployment

Over the period the unemployment rate varied across countries. Unemployment decreased in Türkiye, India, and Russia, remained stable in the euro area, and increased in the UK, Japan and China year-over-year.

**Chart 3. Unemployment rate, in %**

Source: Trading Economics



The ILO's global employment growth forecast for 2025 was revised down to 1.5% from 1.7%, due to GDP growth slowdown

resulting from persistent geopolitical uncertainties and trade tensions.

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

### 1.1.3 Global inflation

Over the reporting period, global inflation varied across countries.

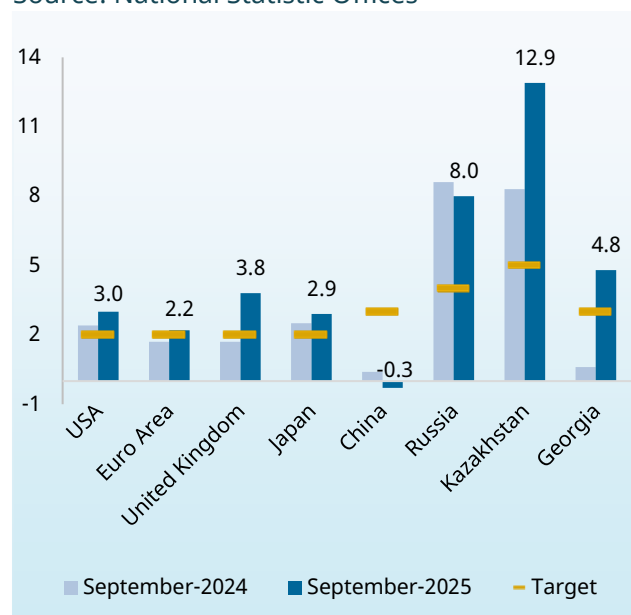
In September 2025, annual inflation in the United States stood at 3%. In the euro area, the eased pace of price hike in H1 2025 was followed by a renewed upward trend in recent months. Inflation fell from 2.5% to 2.0% in H1 2025 and increased to 2.2% in September. Core inflation also increased over the same period. While food and services inflation declined by 0.1%, the slower rate of decline in energy prices contributed to a slight increase in overall inflation.

In China, annual inflation stood at -0.3% in September, due to 4.4% plunge in food prices. Annual core inflation increased to 1%, the highs of recent 19 months.

In Russia, annual inflation stood at 8% in September 2025, the lowest number of recent 17 months. However, this indicator is still considerably higher than the Bank of Russia's 4% target. The main price fall in inflation was in food prices, the growth rate decreased to 9.5% from 9.8%. In September, core inflation also decreased to 7.7% from 8%. Monthly consumer prices increased 0.3% in September after 0.4% decrease in August.

**Chart 4. Annual inflation, in %**

Source: National Statistic Offices



In September 2025, annual inflation in Türkiye increased to 33.29%, up by 0.34 pp from August, the first interruption in the downward trend of the past 15 months. The monthly CPI increased by 3.23% in September, driven by food, housing and utilities, education, and transport costs. Annual price hikes were 36.06% for food and non-alcoholic beverages, 51.36% for housing and utilities, 66.10% for education, and 25.30% for transport.

In Kazakhstan, annual inflation rose to 12.9% in September 2025, to the highest rate since August 2023, driven by higher prices in food, transport, healthcare, and services. Monthly inflation reached 1.1%, attributable to continued price pressures.

In Georgia, annual inflation in September 2025 stood at 4.8%, up from 4.6% in August, the highest level since March 2023. Monthly inflation was 0.5% (0.3% in August), while annual core inflation stood at 2.4%.

## 1.2 GLOBAL COMMODITY PRICES

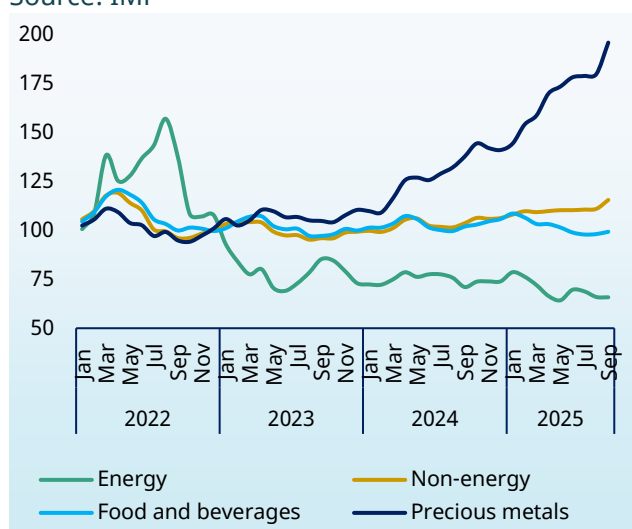
*In 2025, commodity prices were shaped by an uncertain business environment driven by geopolitical risks and changes in trade tariffs. By the end of the reporting period, prices of several energy and food commodities declined compared with the beginning of the year, while prices of precious metals increased markedly over the same period.*

### 1.2.1 Dynamics of global commodity prices

According to the IMF, in September 2025 the global commodity price index slightly increased by 0.12% compared to the end of the previous 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 decreased compared with the end of the previous year, due to the drop in crude oil prices and natural gas prices in Europe.

The IMF's non-energy price index increased by 8.7% over the first nine months of the year compared with 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 39%, driven by geopolitical uncertainties and U.S. tariff policy. 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 a policy rate cut in the United States further supported the rise in precious metal prices.

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

Source: Drewry World Container Index (WCI)<sup>2</sup>



The drop in international transportation costs also exerted a downward effect on global commodity prices. The WCI has been prone to falling since early 2025. The transportation cost per 40ft container decreased from \$3800 at the end of 2024 to \$1760 in September 2025, dragging down overall prices.

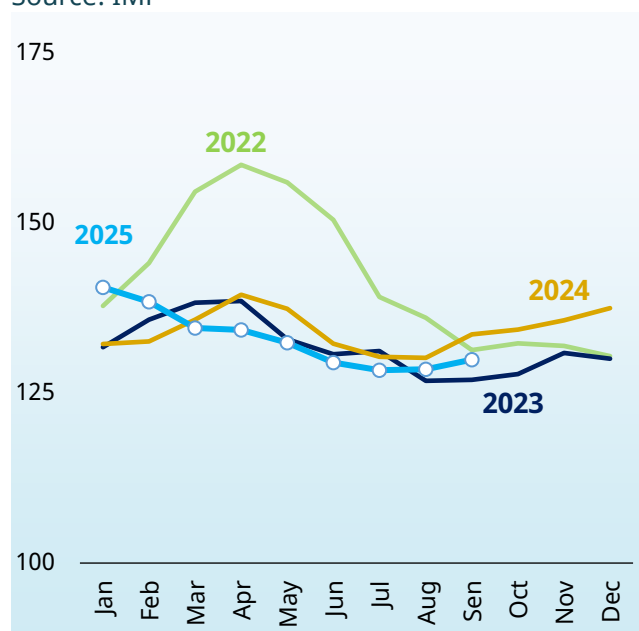
<sup>2</sup> The World Container Index measures the average price of container shipments and indicates the overall level of trade costs by sea.

### 1.2.2 Dynamics of global food prices

In 2025, global food prices generally declined. The agricultural price index released by the IMF in September 2025 was 5.5% lower compared with the beginning of the year. The agricultural price index includes the indices for food, beverages, and agricultural raw materials. Favorable weather conditions in some regions and improvements in irrigation systems supported productivity growth, which in turn contributed to the decrease in prices. Energy costs also play an important role in food production and transportation. According to the World Bank, falling energy prices during 2025 led to lower processing 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 vegetable oil price index increased by 3.6% over the nine-month period. While palm and soybean oil quotations declined, sunflower and rapeseed oil quotations rose. The main reason for this increase was the slowdown in supply in the

Black Sea region and Europe. The dairy price index rose by 4.5%, while the sugar price index fell by 16.7%. Sugar prices fell due to higher-than-expected sugar production in Brazil. Favorable crop prospects in India and Thailand following abundant monsoon rains put additional downward pressure on prices. The cereal price index has decreased by 5.7% since the early year. Global wheat prices fell for the third consecutive month in September, driven by high productivity in major producer countries in Europe and North America, as well as in Russia, along with weak international demand. The meat price index increased by 6.9% over nine months. In the United States, limited domestic supply and strong demand pushed beef prices to record highs.

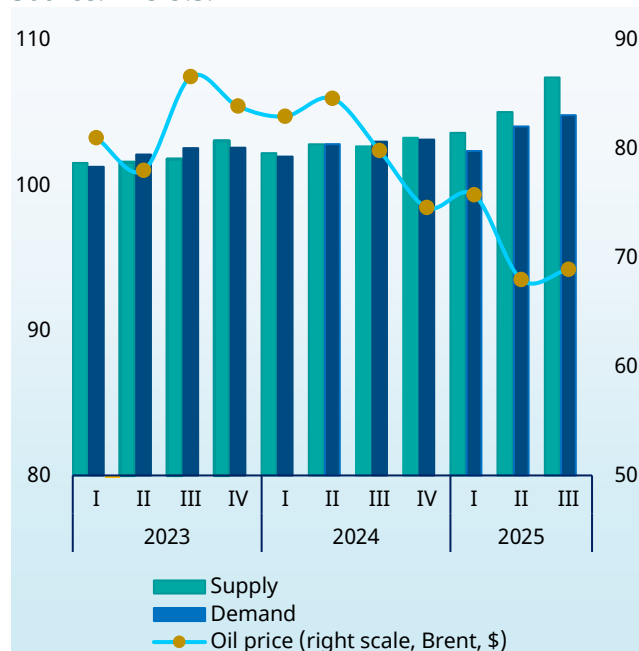
### 1.2.3 Dynamics of global energy prices

In 2025, global energy prices were volatile amid geopolitical tensions. The World Bank reports that, in September the price index on energy decreased by 9.2% compared with the end of the previous year. Rising global supply in crude oil markets and slight increase in global demand contributed to price slides.

The oil price index decreased by 11% over 9 months of 2025. The tariffs introduced by the United States and other countries led to the drop in global demand expectations. Although the restriction of supplies from Russia created a price hike risk, the faster increase in supply by OPEC+ exerted downward pressure. According to the U.S. Energy Information Administration, amid slow demand growth and a rapid increase in crude oil supply, the average price of Brent crude oil stood at \$71/b in the first nine months of 2025.

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

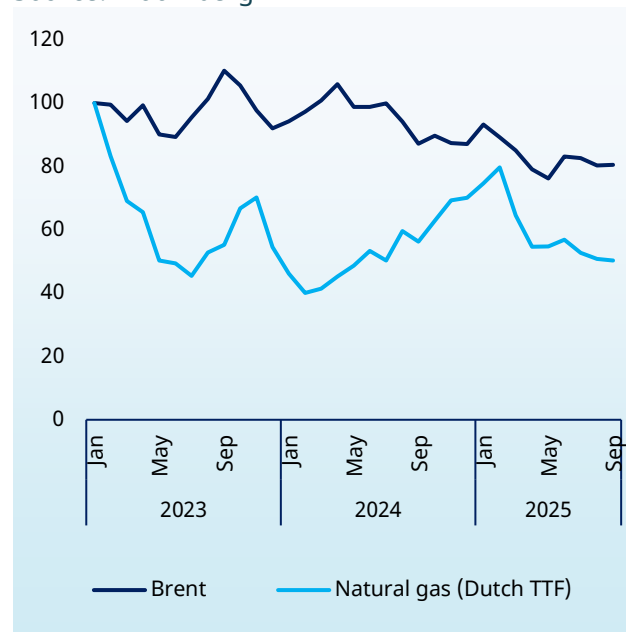
Source: The U.S. EIA



In 2025, natural gas prices fell due to the impact of tariffs and abundant supply. In Europe, the price of Dutch TTF-branded natural gas has been falling since April. In June, natural gas prices temporarily increased against the backdrop of the Israel–Iran conflict. Prices then declined again due to business uncertainty triggered by tariffs and weak demand in Asia. Additionally, changes to regulations regarding gas storage targets in the European Union contributed to this decline. In Asia, liquefied natural gas prices followed the downward trend in European prices.

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

Source: Bloomberg



Thus, during the first nine months of 2025, prices in energy markets were under pressure due to geopolitical risks, changes in the supply–demand balance, and in supply chain uncertainties.

## 1.3 GLOBAL FINANCIAL SYSTEM TRENDS

In the first nine months of 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. Global financial stability risks remain elevated due to volatility in sovereign bond markets and a number of structural vulnerabilities.

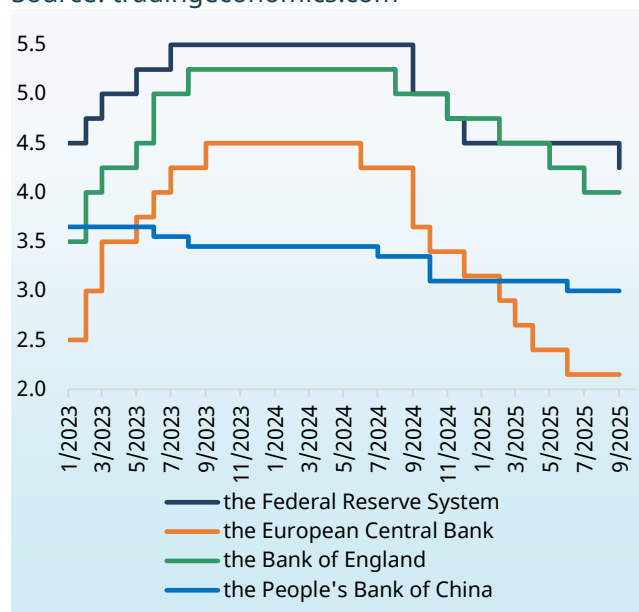
### 1.3.1 Monetary policy decisions of the central banks

In 2025, most central banks gradually eased the monetary policy, 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 0.25 pp down to 4.00–4.25%. This decision was driven by a slowdown in economic growth, a deceleration in job creation in the labor market, and rising employment-related risks.

**Chart 10. Key policy rates of major central banks**

Source: tradingeconomics.com

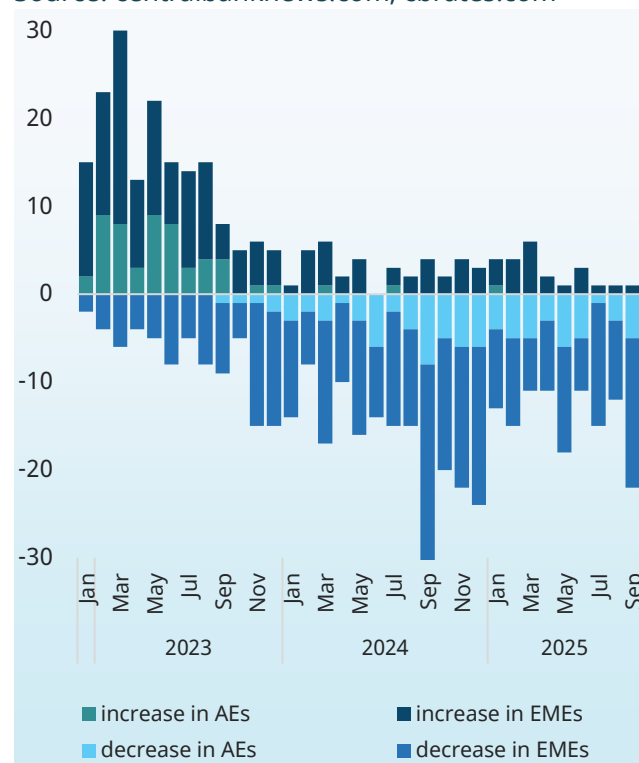


Since the beginning of 2025, the ECB lowered its policy rate from 3.15% to 2.15% to

support economic growth, taking into account the gradual convergence of inflation toward the target and the weakening of price pressures. Over the year, the Bank of England also reduced its policy rate from 4.75% to 4.00% due to the gradual easing of domestic price and wage pressures, as well as weak economic growth. The People's Bank of China cut its policy rate by 10 basis points to 3% to ease deflationary pressures and stimulate economic growth.

**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 4 pp to 17%, amid weakening inflationary pressures, a slowdown in domestic demand growth, and a return of the economy to a balanced growth pace.

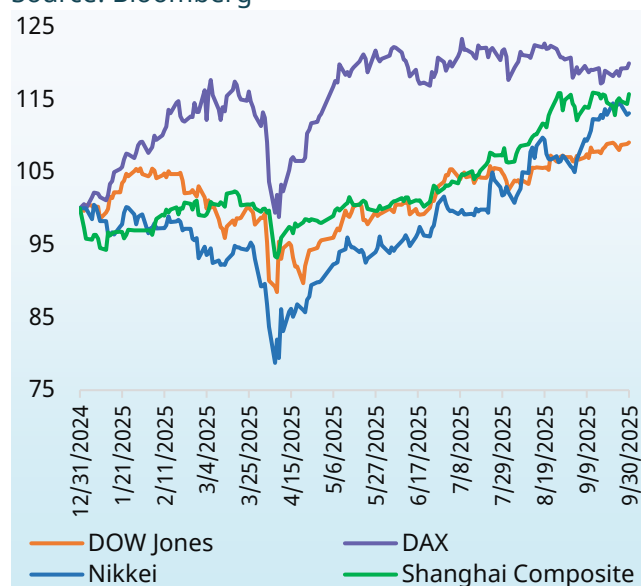
In the upcoming periods, central banks are expected to act more cautiously in their monetary policy decisions. Although inflation decreased compared to previous periods in most countries, it still remains above the target. Additionally, geopolitical and geoeconomic tensions, volatility in energy prices, and existing risks to macroeconomic stability will directly influence the direction and scale of future policy measures.

### 1.3.2 Financial market trends

In 2025, international financial markets were highly volatile. Trade tensions and rising geopolitical risks caused financial asset prices to plunge significantly at the beginning of the second quarter.

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

Source: Bloomberg



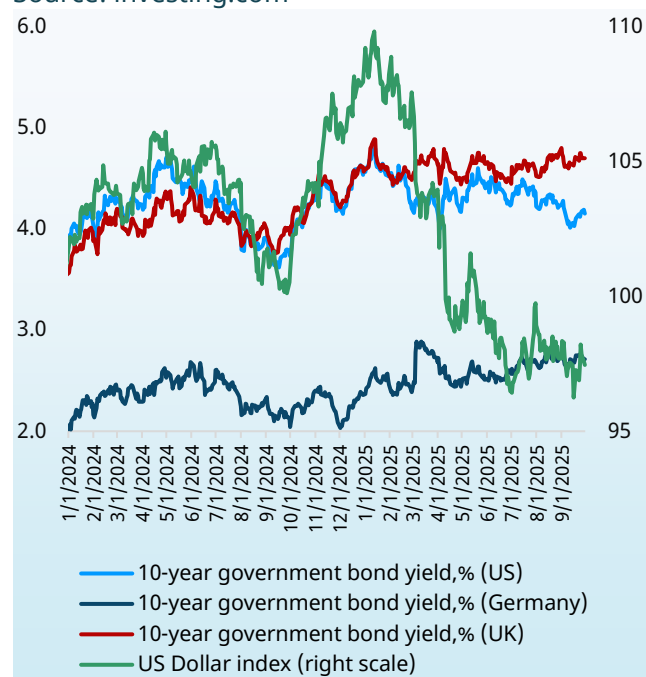
However, the delay in trade tariffs and the partial reduction of tariff rates reduced

market uncertainty, partially restored investor confidence, and led to renewed gains in equity markets. Compared to the end of last year, by the end of September 2025, major indices increased as follows: Dow Jones by 9%, Nikkei by 13%, FTSE Eurotop by 8%, MSCI World by 15%, DAX by 20%, Shanghai Composite by 16%, and RTSI by 15%.

Throughout the year, the U.S. bond market was volatile. The yield on 10-year government bonds rose slightly by the end of Q1, but then fell to 4.2% by the end of September (4.8% in January).

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

Source: investing.com



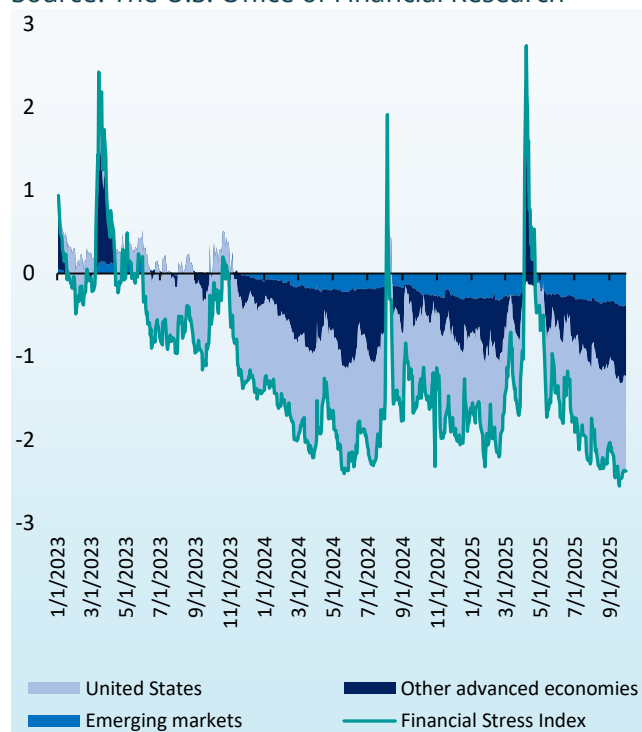
The U.S. dollar index fell by 10% from the beginning of 2025 to the end of September, one of the most dramatic plunges of recent decades. The simultaneous decline in the dollar index and bond yields is attributable to a slowdown in economic growth, as well as expectations regarding the future pace of inflation and interest rates. In addition, rising government debt and trade policy

uncertainties weighed on investor behavior, weakening demand for the dollar, and contributing to high volatility in the bond market.

According to the U.S. Office of Financial Research, the Global Financial Stress Index entered positive zone in April but returned to negative territory in the following months. The high volatility of the index throughout 2025 is associated with the dynamics in equity, credit, currency, and commodity markets.

**Chart 14. Global Financial Stress Index<sup>3</sup>**

Source: The U.S. Office of Financial Research

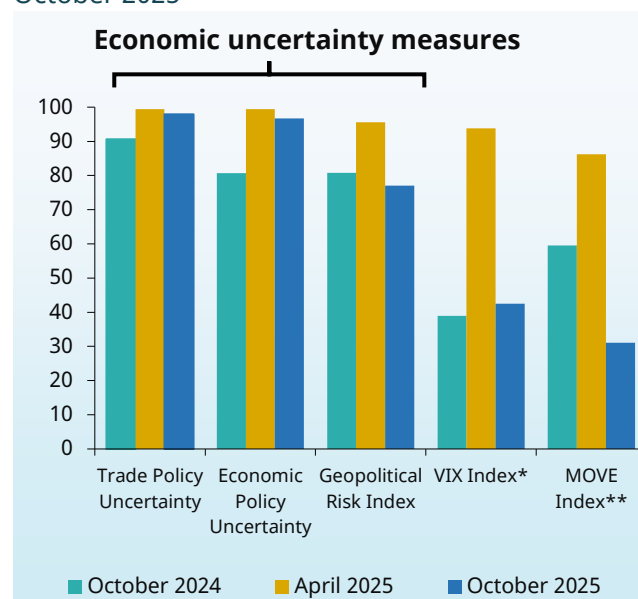


According to the IMF's October 2025 Global Financial Stability Report, financial stability risks remain high, due to high valuation of risky assets, increasing pressures in sovereign bond markets, and the expanding role of non-bank financial institutions in the financial system as key contributing factors. The report also notes that, despite high

liquidity, the global foreign exchange market remains vulnerable to uncertainties. Shocks could increase financing costs, widen buy/sell spreads, and further amplify exchange rate volatility. The increase in sovereign bond issuance in local currency and strong domestic demand have supported the resilience of EMEs. However, high indebtedness, excessive reliance on a limited investor base, and inadequate policy frameworks could pose financial stability risks in EMEs.

**Chart 15. Economic uncertainty and financial volatility**

Source: IMF, Global Financial Stability Report, October 2025



\* The VIX Index (Chicago Board Options Exchange Volatility Index) measures the expected volatility in the U.S. stock options market.

\*\* The MOVE Index (Merrill Lynch Option Volatility Estimate) measures the expected volatility in the U.S. Treasury options market.

<sup>3</sup> 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

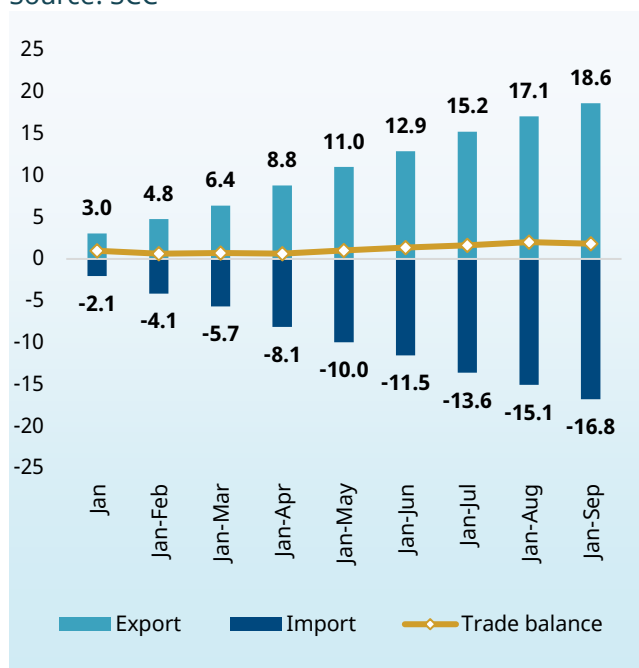
In January-September 2025, foreign trade balance, one of the primary components of the balance of payments, was in surplus. Non-oil and gas exports increased year-over-year. The national economy continued to provide a favorable environment for foreign investments. Foreign exchange reserves continued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

### 2.1.1 Foreign trade turnover

According to the SCC, in January-September 2025, foreign trade turnover amounted to \$35.4B – export \$18.6B (52.6%) and import \$16.8B (47.4%). Foreign trade surplus stood at \$1.8B.

**Chart 16. Foreign trade balance in 9 months, in billion U.S. dollars**

Source: SCC



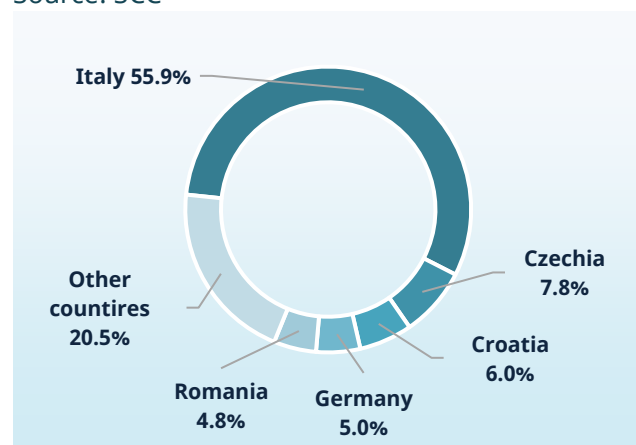
The EU accounted for 42.3%, the CIS for 15.5%, and other countries for 42.2% of total foreign trade turnover during the reporting period. Italy, Türkiye, Russia, China, Germany, the United States, the UK, Czechia, Greece, and Georgia accounted for over half of trade turnover.

Main partners in export included Italy (45.9%), Türkiye (13.9%), Russia (4.8%), Czechia (3.8%) and Greece (3.4%) in January-September 2025. The share of other countries was 28.2%.

The total value of oil and gas exports amounted to \$16B, comprising \$9.3B from crude oil and other manufactured oil products, and \$6.7B from natural gas.

**Chart 17. Countries to which crude oil was exported in 9 months 2025, in %**

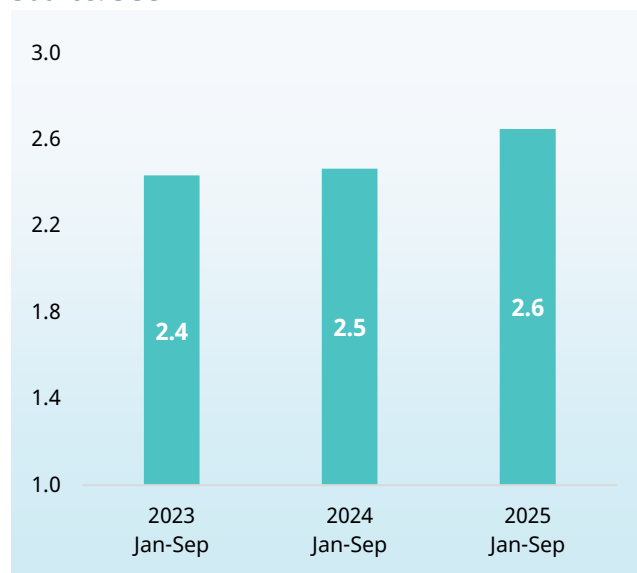
Source: SCC



Non-oil-gas export y.o.y. increased by 7.5% to \$2.6B. The main contributors to the growth of non-oil-gas exports were sugar, fruits and vegetables, cement, chemical products, cotton yarn, tea, aluminum and related products, ferrous metals, and oils.

**Chart 18. Non-oil-gas exports, in billion U.S. dollars**

Source: SCC



Commodity imports amounted to \$16.8B – the public sector accounted for 30.6%, the private sector for 59.8%, and individuals for 9.6% of total commodity import. Import of machinery and equipment (15.8%), vehicles (12.9%) and food products (11.2%) prevailed in total imports.

China accounted for 19.9%, Russia for 16.6%, Türkiye for 10.5%, the United States for 5.7%, the UK for 4.3%, Germany for 3.8%, Kazakhstan for 3%, Iran for 2.7%, Italy for 2.2%, Australia for 2.2% and other countries for 29.1% of total imported products.

### 2.1.2 Foreign investments

Capital inflows from foreign enterprises and organizations continued in January-September 2025. According to the SSC, total investments from external financial sources amounted to AZN3B (y.o.y up by 38%) (22.9% of total investments).

Investor funds from the UK, the UAE, Türkiye, Russia, the United States, Switzerland, Japan, Iran, Hungary, France, and India accounted for 97.4% 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.

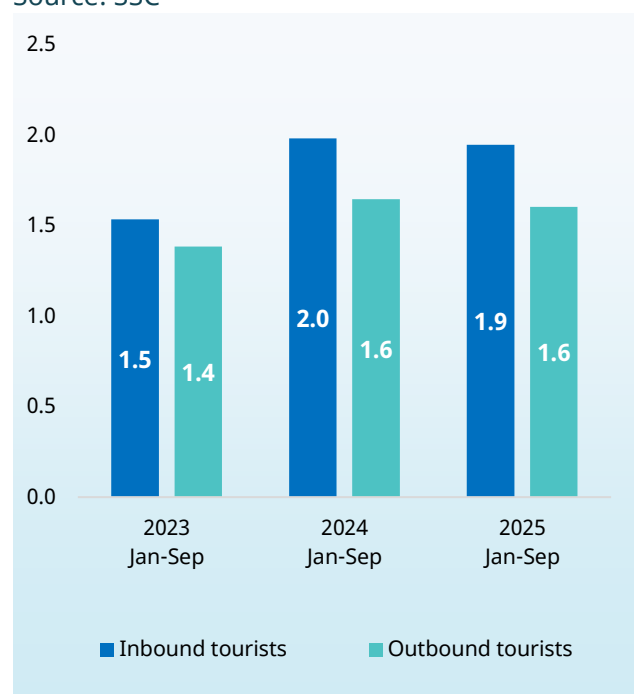
### 2.1.3 Tourism services

Total 1.9 million tourists visited Azerbaijan from 183 countries in January-September 2025 (y.o.y. down by 1.8%). Russia accounted for 24.8%, Türkiye for 17.1%, India for 6.8 %, Iran for 7.9%, Saudi Arabia for 4.5%, Georgia for 4.2%, Kazakhstan for 4%, 3.2%, Pakistan for 3.4%, China for 2.6%, Uzbekistan for 2.3% and other countries for 22.4% of the total number of tourists.

The people travelling abroad for tourism numbered 1.6 million persons (y.o.y down by 2.6%). Those travelling abroad for tourism visited Türkiye (42.2%), Russia (14.6%), Georgia (10.8%), Iran (8.9%) and other countries (23.5%).

**Chart 19. Number of people traveling to the country and going abroad for tourism, in million**

Source: SSC



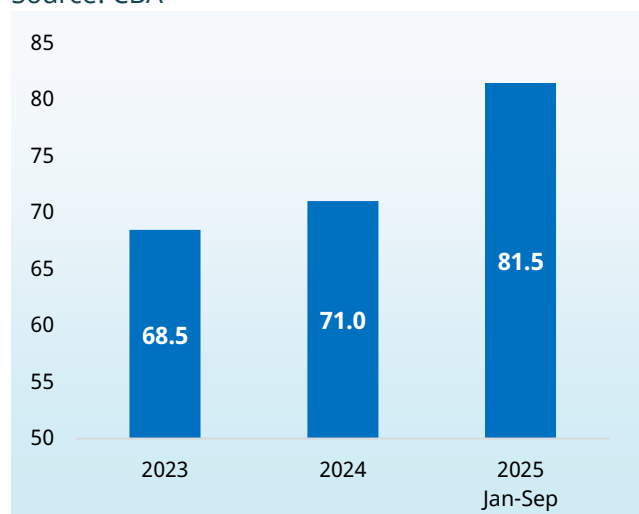
### 2.1.4 Foreign exchange reserves

Strategic foreign exchange reserves increased by 14.7% in January-September 2025 to \$81.5B as of the end of the period. As of end-September, CBA's foreign exchange reserves amounted to \$11.3B.

Strategic foreign exchange reserves continued to exceed internationally accepted sufficiency norms. As of the end of September 2025, strategic reserves were sufficient for 37-month import of goods and services (considering the import of goods and services for H1 2025) and surpassed broad money supply in manat (M2) by 3.7 times (M2 money aggregate as of 01.10.2025).

**Chart 20. Strategic reserves, in billion U.S. dollars**

Source: CBA



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

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

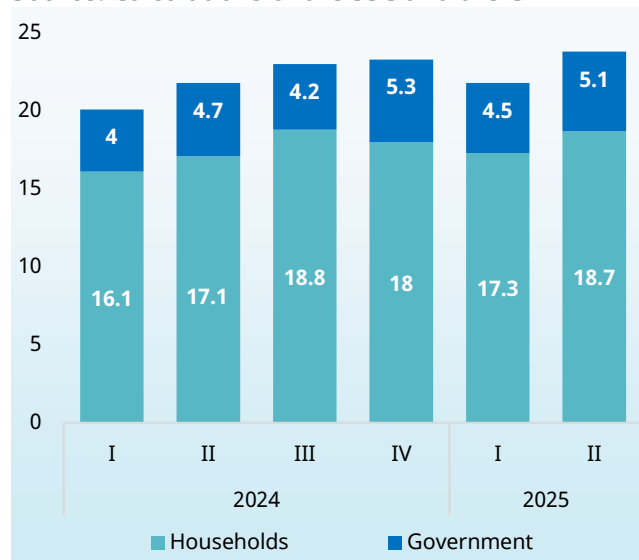
### 2.2.1 Final consumption expenditures

Aggregate demand was driven by the growth of domestic consumption over 9 months of 2025.

In H1 2025, households' final consumption expenditures stood at 58% (y.o.y. up by 2.7 pp), and final consumption expenditures of public institutions stood at 15.4% (y.o.y. up by 1 pp). Households' final consumption expenditures increased by 8.6%, and those of public institutions increased by 10.7% in nominal terms year-over-year<sup>4</sup>.

**Chart 21. Quarterly dynamics of consumption and its components, in billion AZN**

Source: Calculations of the SSC and the CBA

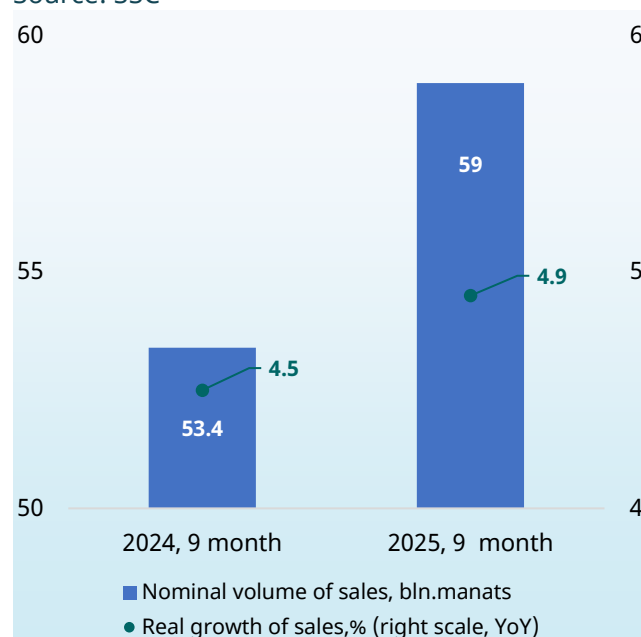


The value of goods sold, and services supplied to the population y.o.y. increased by 4.9% to AZN59B. Total value on non-state property y.o.y. increased by 4.8% to AZN56.6B,

AZN25B (44.2% of the total value) was generated in the field of private entrepreneurship. Retail trade turnover accounted for 78.7%, paid services 17.9%, and public catering turnover 3.4% of total value in the consumer market.

**Chart 22. Dynamics of total value of goods sold and services supplied in the consumer market, in billion AZN**

Source: SSC



Retail trade turnover increased by 3.7% y.o.y. in real terms, including 1.3% on food, beverages, and tobacco products and 6.8% on non-food products. A country resident spent on average AZN57.7 more year-over-year.

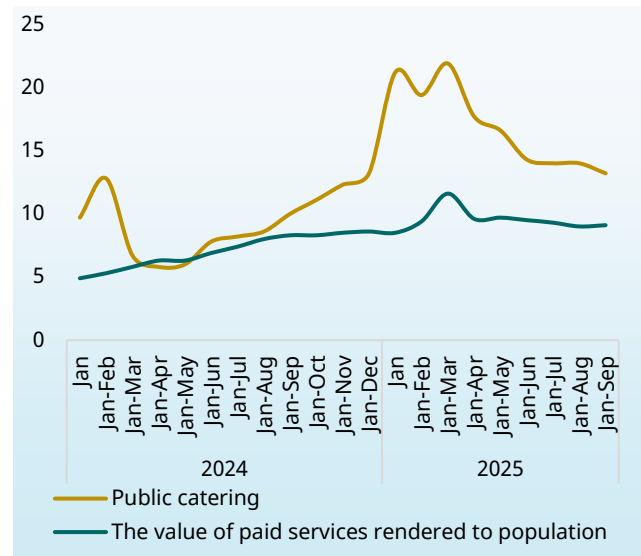
The increase in public catering and paid services to the population indicates active consumer demand. Public catering turnover

<sup>4</sup> The SSC's 'Use of GDP' table was used in the calculation. The percentage ratio of the first half of 2025 to the first half of 2024 was calculated and applied for each component.

y.o.y. increased by 13.2% in real terms, while services provided to the population grew by 9.1%. Non-state ownership increased by 13.3% in the breakdown of the total value in public catering turnover.

**Chart 23. Real growth of public catering and paid services, year-over-year, in %**

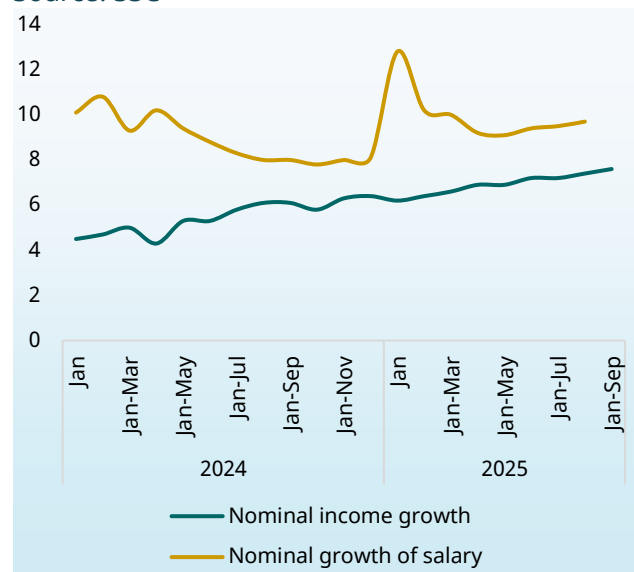
Source: SSC



Consumer demand was driven by the growth of income of the population in nominal terms. According to the SSC, nominal income of the population y.o.y. increased by 7.6% to AZN66.2B. Disposable income of the population increased by 7.6% to AZN58.2B. In January-August 2025, the average monthly nominal salary of hired labor increased by 9.7% to AZN1093.8.

**Chart 24. Growth dynamics of nominal incomes and salaries of the population, year-over-year, in %**

Source: SSC



One of the main factors driving the increase in consumer demand was the growth of consumer loans. According to the CBA, in September 2025 consumer loans increased by 11.8% year-over-year, and by 7.4% compared with the early year.

### 2.2.2 Government spending

Government spending was one of the funding sources of domestic demand. Total expenditures amounted to AZN24.7B and current expenses amounted to AZN15.04B. Current expenses accounted for 61% of total expenditures. Social protection and social security expenditures were executed at AZN3.35B (y.o.y up by 8.9%).<sup>5</sup>

### 2.2.3 Investment expenses

Total investment to the economy amounted to AZN13.1B, including AZN3.7B to the oil-and-gas sector and AZN9.4B to the non-oil and gas sector (y.o.y. up by 7%). AZN1.2B of

<sup>5</sup> Source: Maliyye.gov.az

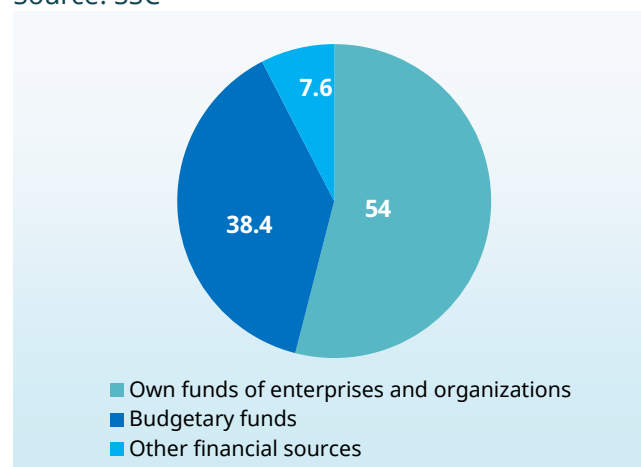
the investment placed in the non-oil-and-gas sector were used in the non-oil-and-gas industry sector.

51.6% of investments were made by public and 48.4% by non-public investors. 78.8% of total investment was spent on construction and installation works. 77.1% of total investments stemmed from internal sources.

Industry (40.9%) and construction (24.5%) account for the main share in the structure of investments. Investments to tourism and public catering increased by 15.2 % year-over-year.

**Chart 25. The structure of total investments in fixed capital over 9 months, in %**

Source: SSC



## 2.3 AGGREGATE SUPPLY AND LABOR MARKET

The national economy continued to grow over nine months of 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.

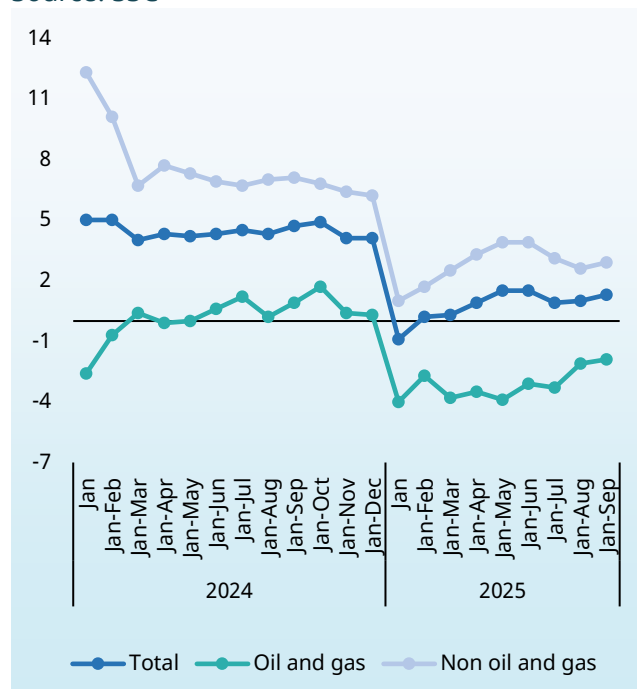
### 2.3.1 Economic growth

According to the SSC, in January–September 2025, GDP increased y.o.y. by 1.3% in real terms to nominal AZN95.2B. Per capita GDP stood at AZN9300.3. Non-oil-and-gas GDP made 70.1% in the nominal GDP structure.

Oil-gas value added decreased by 1.9% to nominal AZN28.5B. Crude oil production y.o.y. decreased by 4.6%, while gas extraction increased by 2.8%.

**Chart 26. Economic growth, year-over-year, in %**

Source: SSC



In January–September 2025, non-oil-gas value added y.o.y. increased by 2.9% in real terms to nominal AZN66.7B. Production in the non-oil and gas industry increased by 4.8%.

Agriculture grew by 0.1%. Livestock products increased by 1.1%, and plant products decreased by 0.7%.

Growth continued in services, transport and warehousing grew by 2.1%, freight and passenger transport increased by 2.5% and 5.4% respectively. The volume of cargo transported by vehicles owned by the non-public sector increased by 3%. Freight transportation by road, with the largest share in cargo transportation, y.o.y. increased by 6.2%. The value added in the information and communication sector y.o.y. grew by 6.7%, while the tourism and public catering increased by 9.3%.

The CBA's RSM findings confirm that economic activity is continuing. Even though the BCI varied across sectors over 9 months of 2025, it remained in the positive zone.

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

Source: SSC

Sectors	2024 (January-September)	2025 (January-September)
Industry	1.3	-1.0
Construction	18.2	5.0
Agriculture, forestry, and fishery	0.7	0.1
Trade, repair of vehicles	3.6	3.2
Transport and warehousing	16.0	2.1
Tourism and public catering	10.6	9.3
Information and communication	12.3	6.7
Other	3.2	1.3
Net taxes on products and import	8.6	2.8

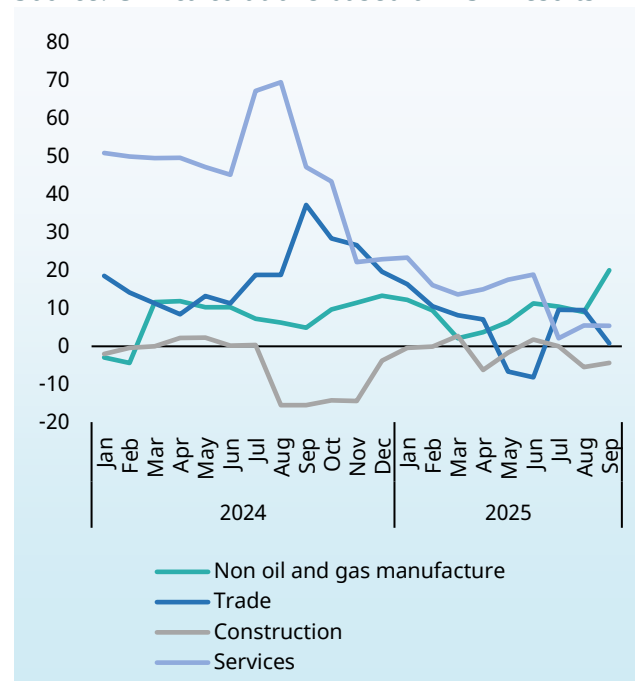
The BCI for non-oil industrial enterprises increased during nine months year-over-year. The BCI mainly rose in the food products and beverages, textile, machinery, and equipment sectors.

The trade BCI increased in automobile and furniture production and decreased in household goods and electrical household appliances.

The BCI was in a positive zone across most subsectors of the services sector in January-September 2025.

**Chart 27. Business Confidence Index across sectors**

Source: CBA calculations based on RSM results <sup>6</sup>



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 October 2025, commercial organizations registered in the country numbered 205.6 thousand (y.o.y. up by 7.7%).

### 2.3.2 Employment

As of 1 October 2025, total labor force was 5375.8 thousand persons (y.o.y. up by 1.3%), employed population numbered 5096.5 thousand persons (y.o.y. up by 1.5%). As of 1 September 2025, the number of hired employees was 1764.9 thousand persons (y.o.y up by 0.6%) – 855.3 thousand persons were engaged in the public sector, while 909.6 thousand persons were employed in the non-public sector. The oil-and-gas sector employs

<sup>6</sup> 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

31.2 thousand persons, while the non-oil-and-gas sector employs 1733.7 thousand persons.

**Chart 28. Total labor force, in thousand persons**

Source: SSC



As of 1 September 2025, the number of registered unemployed persons was 236.4 thousand persons.

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

## 2.4 INFLATION

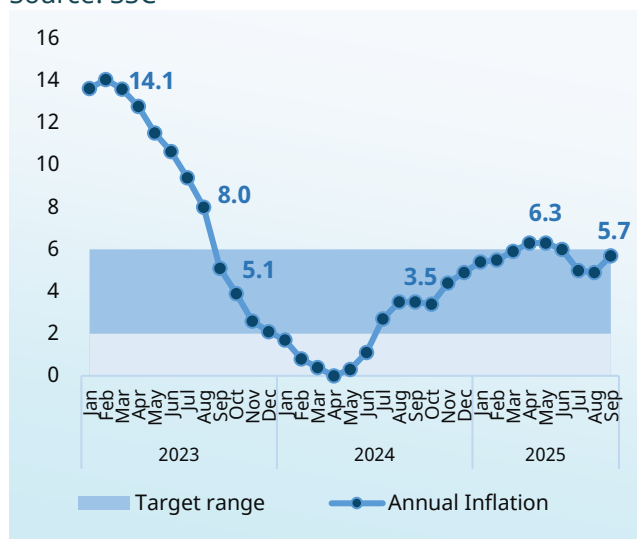
Annual inflation followed the projected trajectory over nine months of 2025. In September 2025, annual inflation was within the target band ( $4\pm 2\%$ ).

### 2.4.1 Consumer price index

In September 2025, the CPI stood at annual 5.7% on total products and services.

**Chart 29. Annual inflation, in %**

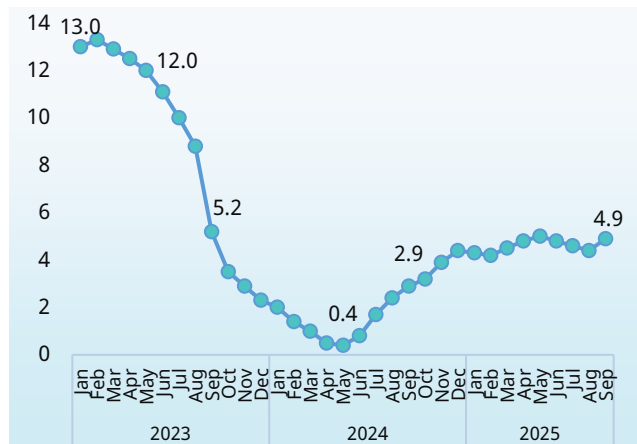
Source: SSC



Annual core inflation calculated by excluding changes in regulated prices and prices for seasonal products and services was 4.9% in September 2025.

**Chart 30. Change of annual core inflation, in %**

Source: SSC



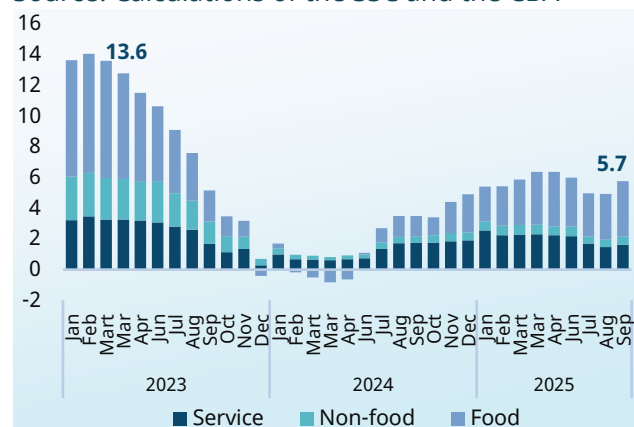
Inflation growth was primarily driven by food products year-over-year. In September, annual inflation on food products, alcoholic beverages and tobacco products stood at 7.9%. The contribution of food to inflation y.o.y. increased from 1.2% to 3.5%. The highest price hike on food products was in vegetables, butter, and vegetable oils. In September 2025, the price hike on these products was 13% and 12.5%, respectively.

Annual non-food prices increased by 2.4%. The highest annual price hike among non-food products was in jewelry (21.2%). The contribution of non-food products increased from 0.5% to 0.6% year-over-year.

The service inflation stood at annual 5.3%. Out of paid services to the population, the highest annual price hike was in central heating (twice), natural gas supply (11.8%), a rent fee paid by a tenant (8.4%), and telephone communication services (4.7%). Contribution of services to inflation decreased from 1.8% to 1.6% year-over-year.

**Chart 31. Contribution of CPI components, in %**

Source: Calculations of the SSC and the CBA



Overall, several developments in the global and domestic environment contributed to upward pressures on inflation. The CBA estimated that, government and household consumption together made 1.55 pp, the APPI 4.28 pp, inflation in trade partner countries 3.12 pp and the NEER 0.11 pp upward, while other factors (inflation expectations, etc.) 3.35 pp downward impact on annual inflation.

### 2.4.2 Producer price index

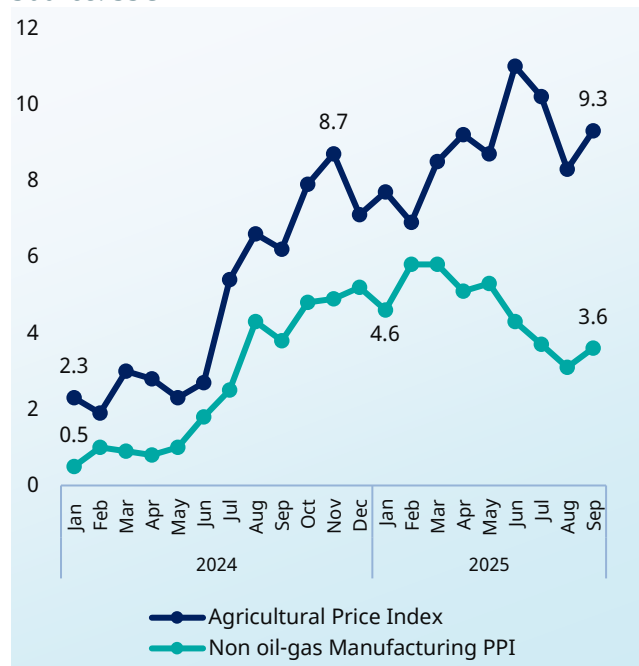
According to the SSC, in September APPI increased by 9.3% annually, prices for plant growing products increased by 8.9%, and prices for livestock products increased by 9.6%.

The PPI in production decreased by annual 4.5% in September 2025. The PPI decreased by 7% on the oil-and-gas products and increased by 3.6% on non-oil and gas products.

The PPI in processing increased by 3.1% year-over-year.

**Chart 32. Annual change in PPI, in %**

Source: SSC



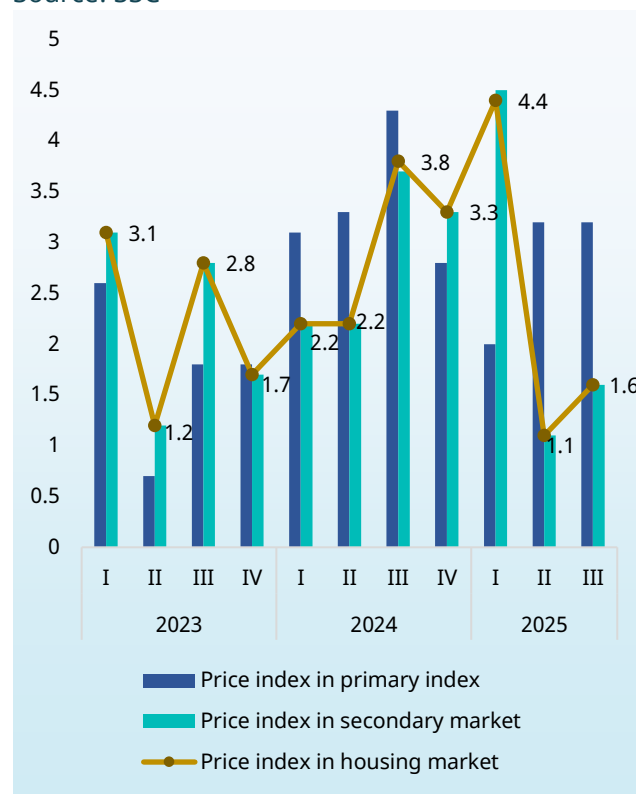
In September 2025, prices y.o.y. increased by 2.0% for transport and warehousing, by 3.2% for freight transportation services, by 0.7% for postal and courier services, by 0.3% for advertising services and by 4.9% for software development-related services.

### 2.4.3 Housing price index

According to the SSC, in Q3 2025, the housing price index increased by 10.8% year-over-year. Prices in the primary housing market rose by 11.7% and in the secondary market by 10.8%.

**Chart 33. Housing price index, quarter-over-quarter, in %**

Source: SSC



The housing price index increased by 12.7% year-over-year, by 12.5% in the primary market and by 12.8% in the secondary market in January-September 2025.

# 3

## **MONETARY AND EXCHANGE RATE POLICY**

## 3.1 MONETARY POLICY TOOLS, MONEY MARKET AND EXCHANGE RATE

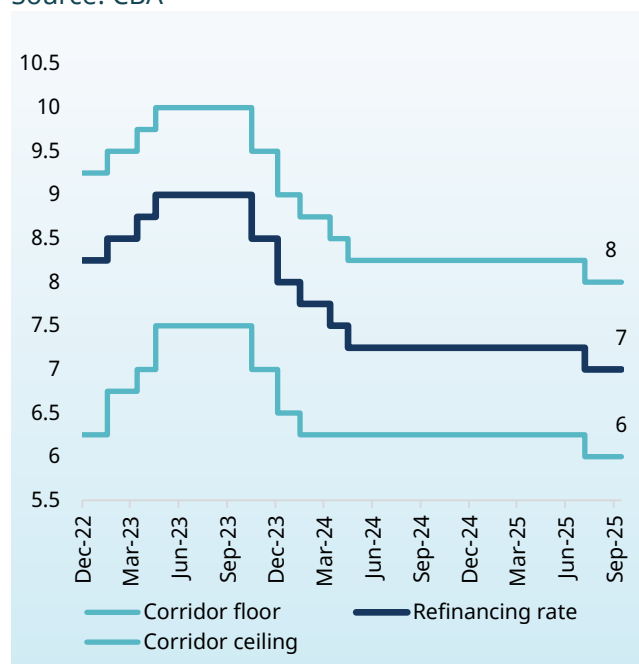
In nine months of 2025, the CBA's monetary policy aimed at maintaining inflation within the target range through the monetary conditions. Throughout the reporting period the Bank continued efforts to improve the operational framework. Monetary policy tools were employed to neutralize the impact of autonomous factors on monetary conditions. The tools were applied taking into account financial market developments and changes in liquidity position of the banking system.

### 3.1.1 Monetary policy tools

Over the past period of 2025, monetary policy decisions were made considering the consistency of the actual inflation with the forecasted trajectory, changes in the balance of inflation risks, 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 has discussed the interest rate corridor parameters seven times over the past period of 2025. In six instances, the parameters were

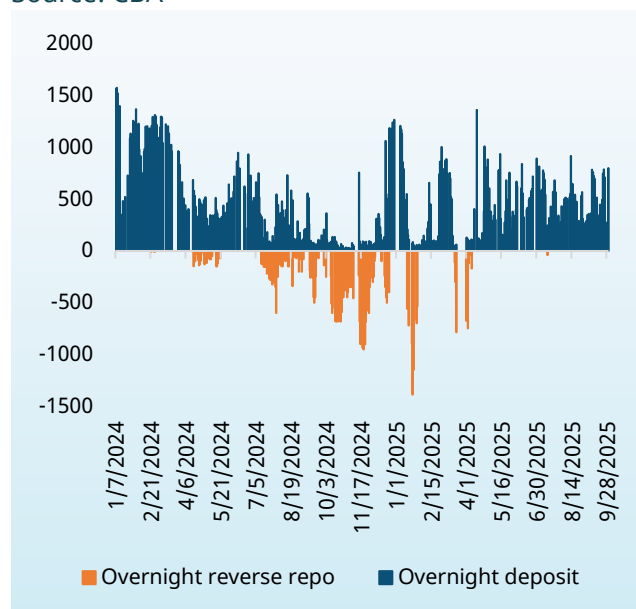
kept unchanged. At one meeting (July 2025) a decision was taken to shift the refinancing rate from 7.25% to 7%, the ceiling of the interest rate corridor from 8.25% to 8%, and the floor of the corridor from 6.25% to 6%. The CBA announced its interest rate decisions to the public in accordance with the pre-announced schedule with relevant analytical commentary.

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

Banks used CBA's both liquidity absorbing and liquidity providing standing facilities. In January-September banks utilized the overnight deposit standing facility on each business days and conducted overnight reverse repo operations on 11% of business days. In this context, as part of the 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 current February.

**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 the current year, the budget surplus and the increase in the treasury single account balance pushed liquidity down in the banking system. Liquidity in the banking sector has increased in consequence of auctions held by the Ministry of Finance to deposit available national currency denominated balances of the treasury account in commercial banks since April 2025. On this backdrop, the CBA 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-September 2025, the CBA held 17 seven-day repo and 2 seven-day reverse repo operations. On 3 June 2025 the Management Board decided to replace seven-day repo operations with seven-day deposit operations from 10 June 2025 with a view to enhancing the effectiveness of liquidity-absorbing operations. 32 deposit auctions

were held by the end-September. Over the reporting period, seven-day tools dominated in the Bank's liquidity absorbing portfolio. Consequently, the seven-day deposit operation has now become the main tool for open market operations.

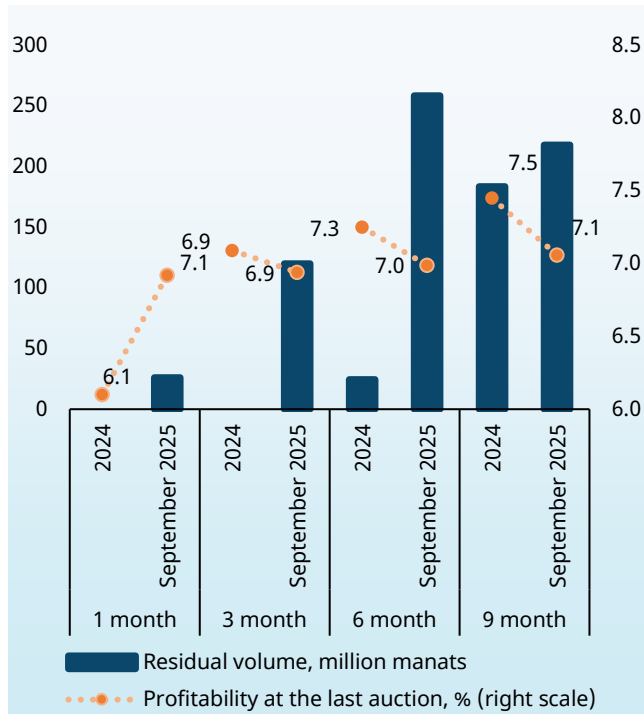
As a result of the measures taken to enhance the operational framework, the AZIR index moved closer to the refinancing rate, and the spread between them was reduced to a minimum. While the average spread between the AZIR index and the refinancing rate stood at 0.18 pp from the beginning of the year through end-June, it declined to an average of 0.04 pp during July-September.

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. Total 118 various duration note auctions were held over the period – 30 auctions were on 28-day, 29 on 84-day, 30 on 168-day and 29 on 252-day notes. Total outstanding volume of notes in circulation fluctuated depending on conditions in the banking system and reached its highs in August 2025 (AZN744.2M). As of end-September, total outstanding amount of funds absorbed through notes made AZN622.4M. Note that, due to the purification of the operational framework, the CBA removed the minimum participation requirement for note auctions in February.

Yield at recent auctions was 6.92% on 28day, 6.94% on 84-day, 6.99% on 168-day, and 7.06% 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 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

Although the benchmark interest rate on 1-day operations (AZIR) in the interbank unsecured money market varied across months, it was within the corridor, close to the refinancing rate. The deviation of the AZIR index from the refinancing rate has improved from quarter to quarter in the current year. The spread between the AZIR and the refinancing rate was 0.4% in March, 0.2% in June, and -0.04% in September. In general, over nine months of 2025 the standard deviation of AZIR from the refinancing rate was 0.32 pp.

Depending on interbank liquidity conditions and the intensity of operations short-term benchmark interest rates in the secured interbank repo market also moved closer to the AZIR rate alongside the unsecured interbank market. In September 2025, the average interest rate on 6–8-day operations in the secured interbank repo market (1W AINAIB) stood at 6.25%.

On 15 May 2025 the CBA developed and approved new, more advanced regulations for the calculation of the AZIR index in close cooperation with experts from the EBRD (European Bank for Reconstruction and Development) considering the analysis of developments in the interbank money market and best practices. These changes, aimed at continuity of the publication of AZIR, facilitate its continued use by money market participants as a reference rate. The new

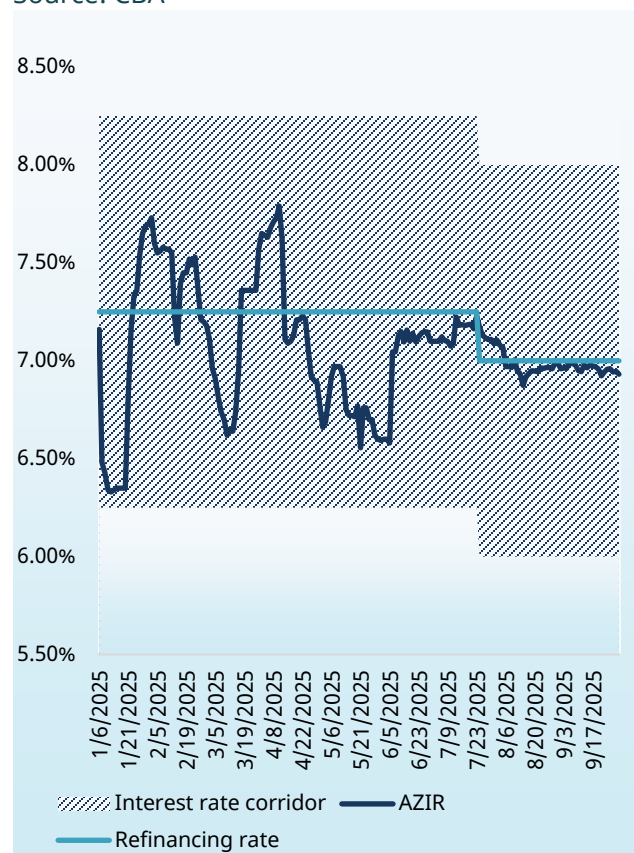
methodology also allows for the calculation and disclosure of compounded term AZIR rates. Under the new methodology, compounded 30-, 90- and 180-day AZIR rates will rest upon daily AZIRs published over the respective period.

In October 2025, the European Bank for Reconstruction and Development (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 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.

Analyses indicate that the influence of the AZIR index on other market interest rates gradually intensify. In July 2025, the 0.25 pp reduction in the interest rate corridor parameters quickly affected short-term money market rates, which was reflected in the AZIR indicator. The average monthly AZIR stood at 7.15% in July, 6.97% in August and 6.96% in September. The decrease in AZIR was gradually transmitted to interest rates on newly attracted deposits and newly extended loans in the national currency. Note that, compared with August, the average interest rate on newly attracted deposits in September fell by 0.5 pp, while the average rate on newly extended manat loans declined by 0.3 pp.

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

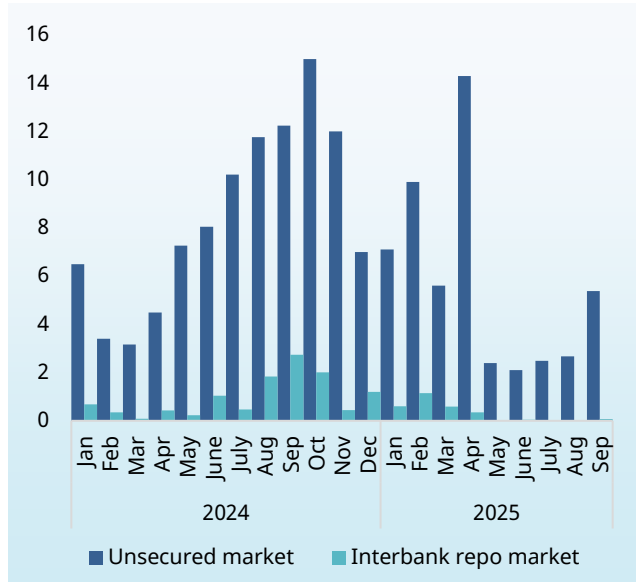
Source: CBA



In general, over the reporting period, the interbank unsecured market continued to be active. AZN51.9B worth 2864 transactions were concluded in the Bloomberg trading system in 9 months of 2025. 95% of them were 1–3-day transactions in terms of volume. Over the period, the number of transactions increased by 16% year-over-year.

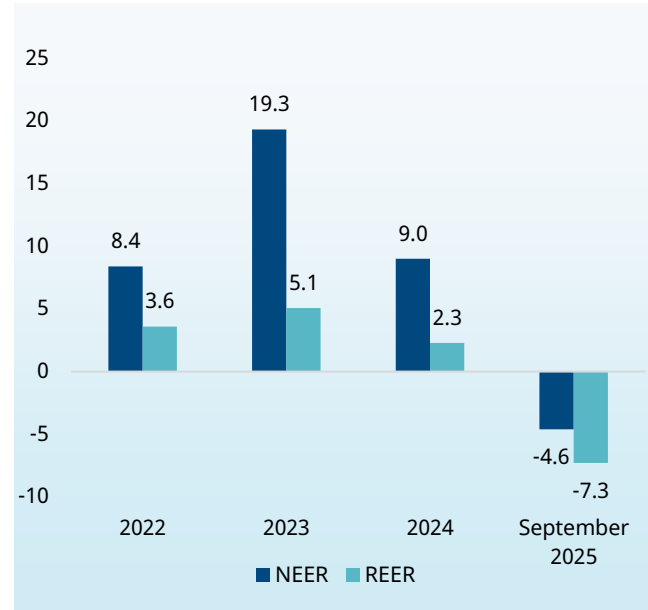
**Chart 38. Volume of transactions in the interbank money, in billion manats**

Source: CBA, IMF



**Chart 39. Effective exchange rate indices (year-over-year)**

Source: CBA



### 3.1.3 Bilateral and multilateral exchange rates

During the period the USD/AZN exchange rate was based on 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 0.29% and 0.11%, respectively.

In September 2025, non-oil trade weighted NEER of the manat depreciated by 4.6% and the REER depreciated by 7.3% compared with December 2024. Inflation in Azerbaijan was lower than the weighted average inflation in trade partners and had a downward effect on the REER. Whereas annual inflation was 5.7% in Azerbaijan in September 2025, average weighted inflation across trade partners countries stood at 8.2%.

## 3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

In January-September 2025, money supply was shaped by the expansionary influence of autonomous factors and the impact of the CBA's monetary operations. The deposit and credit portfolios continued to grow. The level of dollarization decreased during the reporting period.

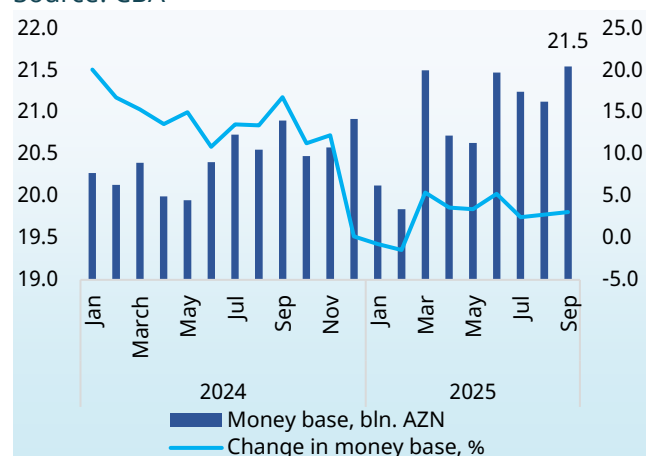
### 3.2.1 Base money and money supply

The base money in manat increased by 3% to AZN21.5B as of the end-period, driven by the CBA's open market operations and changes in government account balances. Cash in circulation<sup>7</sup>, a structural element of base money in manat increased by 6.7%, while the balance of correspondent accounts in manat decreased by 15.7%.

In January-September the average monthly value of money multiplier in manat (broad money supply in manat/base money in manat) was 1.72.

**Chart 40. Amount of base money (left scale) and its year-over-year change**

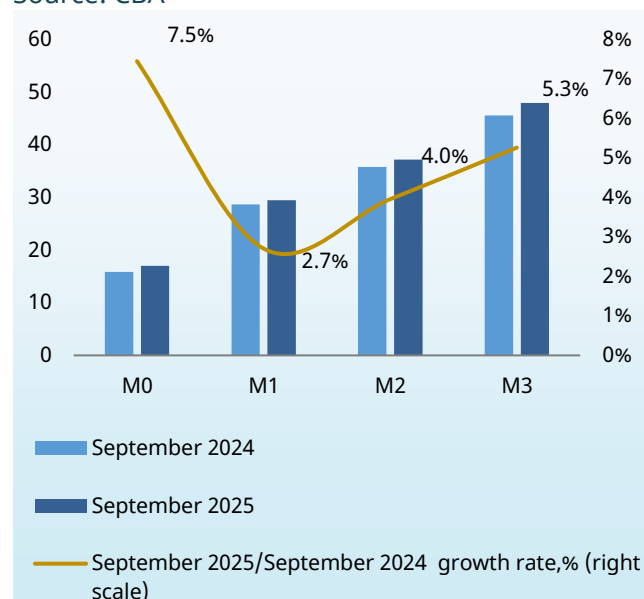
Source: CBA



As of end-September 2025, broad money supply (M2) increased by 1.5% vs the beginning of the year, and by 4% to AZN37.2B year-over-year. Broad money supply (M3) increased by 3.2% to AZN48B as of end-September (y.o.y up by 5.3%).

**Chart 41. Money aggregates, in billion manats**

Source: CBA



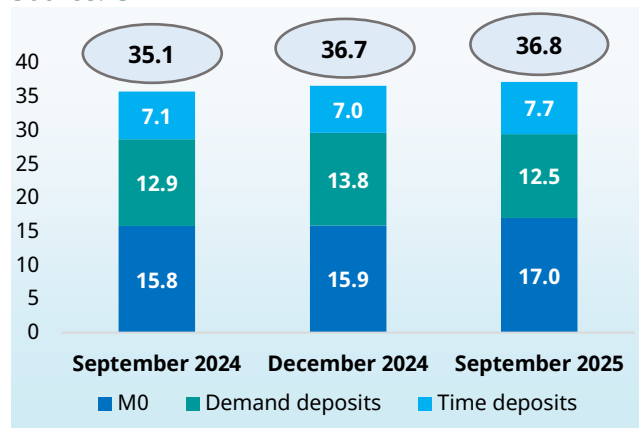
Structural elements of M2 money aggregate changed in different directions. M0 – cash money supply increased by 7.3%, demand savings and deposits decreased by 9.7%, and term savings and deposits increased by 10.2%. M0 increased by 7.5%, demand savings and deposits decreased by 3.1% and term savings and deposits increased by 9% year-over-year at the end-September 2025.

The share of demand deposits in M2 decreased by 4.1 pp to 33.5%, while the share of term deposits in M2 increased by 1.6 pp to 20.8%. Share of demand deposits in M2 decreased by 2.5 pp, while that of term deposits increased by 1 pp year-over-year at the end-September 2025.

<sup>7</sup> Cash money outside the banking system, cash in bank ATMs and cash offices

**Chart 42. 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 45.7% at the end-period.

Foreign currency denominated savings and deposits accounted for 34.9% of total savings and deposits as of end-September. The share of foreign currency denominated savings and deposits in M3 money aggregate stood at 22.5%.

### 3.2.2 Deposit market

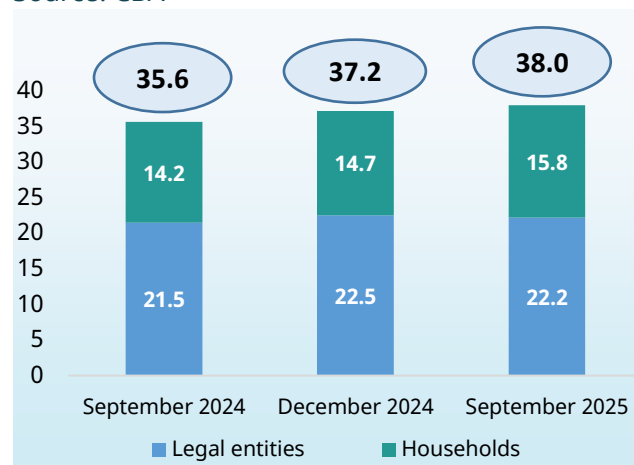
As of the end of September 2025, the deposit portfolio (excluding the financial sector) increased by 2.2% to AZN38B vs the beginning of the year. Term deposits increased by 15.9% to AZN16.8B as of the end-period, while current deposits decreased by 6.6% to AZN21.2B. The deposit portfolio (excluding the financial sector) increased by 6.6%, term deposits increased by 22.1% and current deposits decreased by 3.1% as of the end-September 2025.

Total deposits of legal entities decreased by 1.4% to AZN22.2B as of the end-period. The share of current accounts in total deposits of legal entities decreased by 5.7 pp to 68%, while that of term deposits increased by 5.7 pp to 32%. Total deposits of legal entities increased by 3.4% year-over-year. The

share of current accounts in deposits of legal entities decreased by 6.2 pp, while that of term deposits increased by 6.2 pp year-over-year.

**Chart 43. Deposits, in billion manats**

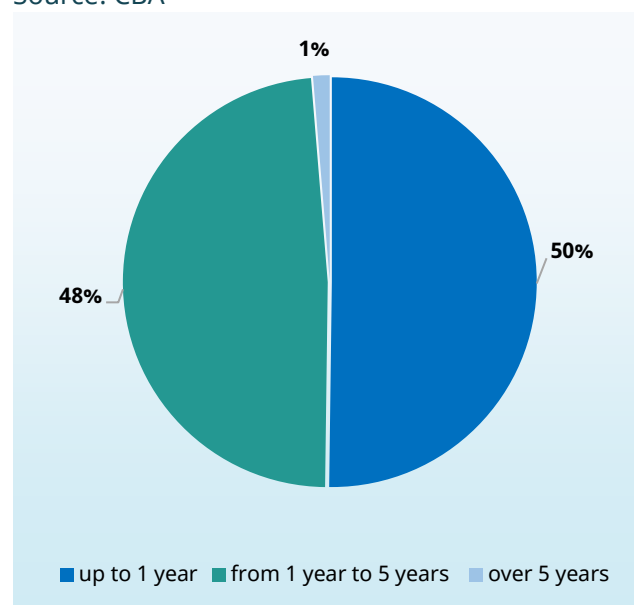
Source: CBA



As of end-September, total savings of individuals increased by 7.7% vs the beginning of the year and increased by 11.5% to AZN15.8B year-over-year. Deposits with up to one-year maturity dominated in total term deposits portfolio (50.2%).

**Chart 44. Structure of term deposits of individuals as of end September 2025, in %**

Source: CBA



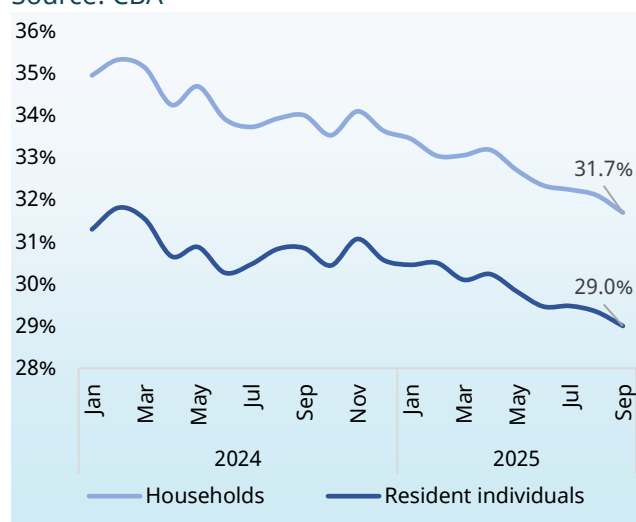
Manat deposits amounted to AZN23.8B and foreign currency deposits amounted to AZN14.2B as of end-September 2025.

Dollarization of individuals savings decreased by 1.9 pp to 31.7% as of end-period. Dollarization of households' savings (excluding savings of non-resident individuals) decreased by 1.6 pp to 29%. Dollarization of individuals savings decreased by 2.3 pp, and by 1.8 pp (excluding the savings of non-resident individuals) year-over-year as of end-September.

The share of foreign currency in deposits of legal entities decreased by 0.3 pp to 41.5% year-over-year.

**Chart 45. Dollarization of deposits, in %**

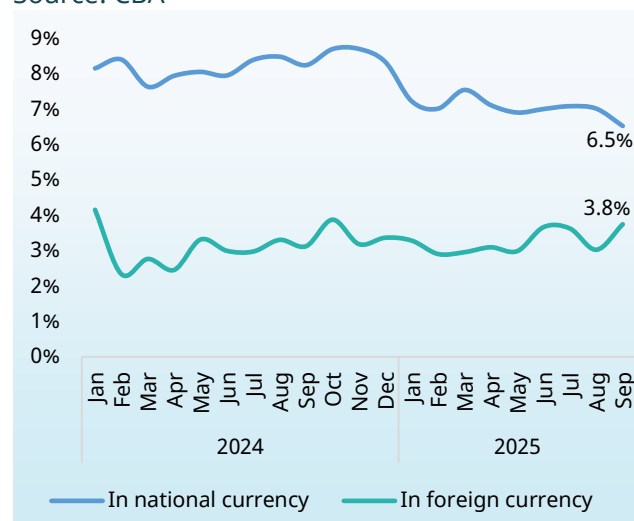
Source: CBA



The dynamics of average weighted interest rates on newly attracted deposits in manat (including legal entities and individuals) declined in 9 months of 2025.

**Chart 46. Average weighted interest rates on newly attracted deposits**

Source: CBA



As of end-September interest rates on newly attracted deposits in manat y.o.y. decreased by 1.8 pp, while those on foreign currency deposits increased by 0.4 pp.

### 3.2.3 Credit market

Credit to the economy continued to grow in January-September 2025. The lending portfolio (banks and nonbanks) increased by 6% to AZN31B. Long-term loans dominated and stood at 82.9% as of the end-period. Long-term loans have increased by 5.6% to AZN25.7B over nine months. Short-term loans have increased by 7.7% to AZN5.3B since early year. The lending portfolio y.o.y. increased by 9.3% year-over-year.

The highest growth in loans to the economy was in transport and communication (12.7%), and households (8.4%) (excluding overdue loans).

Business loans increased by 5.1% to AZN15.5B. The amount of business loans has increased by annual 7.9% in September.

Dollarization of loans continued to decline during the reporting period. Manat denominated loans increased by 8.2%, while

foreign currency denominated loans decreased by 6.1%. The share of foreign currency denominated loans in total loans decreased by 1.8 pp since early year to 13.7%. Loans in manat increased by 13.2%, while loans in foreign currency decreased by 10.2% year-over-year.

**Chart 47. Dollarization of loans to the economy, in %**

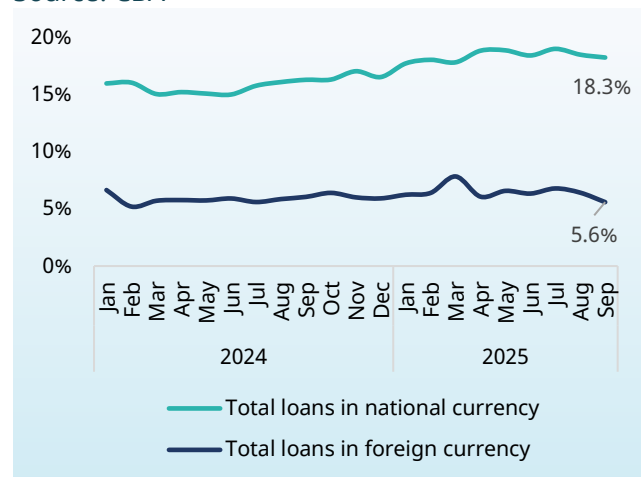
Source: CBA



In September, average weighted interest rates on newly issued loans in manat stood at 18.3%, those in foreign currency stood at 5.6%. Average interest rates on loans issued over recent months have declined.

**Chart 48. Average interest rates on newly issued loans (banking sector)**

Source: CBA



# 4

## ECONOMIC OUTLOOK

## 4.1 GLOBAL ECONOMIC FORECASTS AND RISKS

*Uncertainties arising from geopolitical tensions and the strengthening of protectionist tendencies in global trade weigh in on global economic growth outlook. In this context, updated forecasts show that global economic growth will still remain below its pre-pandemic historical average. Although global inflation is declining, the risk of volatility in world commodity prices remains high.*

### 4.1.1 Global economic growth and inflation forecasts

According to the IMF October 2025 WEO, global economic growth is projected to be 3.2% in 2025 and 3.1% in 2026, which in general remains below both last year's 3.3% growth and the historical average of 3.7% for the period 2000–2019. The forecast for 2025 has been revised up by 0.2 pp compared to the previous projection, while the forecast for 2026 remains unchanged. High tariff increases and countermeasures, the reorganization of supply chains, and trade agreements between the United States and various countries have influenced the projections. Additionally, fragmentation in the international economic environment, aging population, and declining productivity weigh on medium-term growth prospects. In the absence of sustained structural reforms, five-year horizon growth forecasts remain moderate. Overall, the global economy is expected to grow at an average rate of 3.2% during 2027–2030.

The IMF report notes that, to better understand the direction of the global economy, current forecasts need to be compared not only with those of April and July, but also with those of October 2024.

In the AEs group, economic growth forecasts for 2025 and 2026 are expected to be at 1.6%, 0.2 pp lower than the growth in 2024. Although the forecast for the current year has been raised by 0.1 pp compared to July, the forecast for 2026 has been kept unchanged.

Economic growth in the United States is projected to be 2% in 2025 and 2.1% in 2026, 0.1 pp higher compared to the previous forecasts. The slight upward revision is mainly attributed to relatively lower tariff rates, easing financial conditions, and fiscal stimulus. However, these growth expectations are 0.7 pp lower compared to 2024 and 0.1 pp lower compared to the previous October forecast. The main reasons for the lower expectations are policy uncertainties, trade barriers, and weak employment growth.

The euro area economy is projected to grow by 1.2% in 2025 and 1.1% in 2026. The forecast for the current year has been revised up by 0.2 pp, while the forecast for the following year has been revised down by 0.1 pp. Although expectations have improved compared to April and July, they are cumulatively 0.4 pp lower compared to last October's forecast. Strong economic growth in Ireland supports the 2025 expansion. In 2026, the recovery of private consumption in Germany, driven by higher real wages and fiscal easing, only partially offsets existing uncertainties.

Economic growth in Japan is expected to be 1% in 2025 and 0.6% in 2026, 0.4 and 0.1 pp higher, respectively, compared to the July forecast. Despite uncertain effects of tariff policies and weakening external demand, growth is supported by consumption driven by increases in real wages.

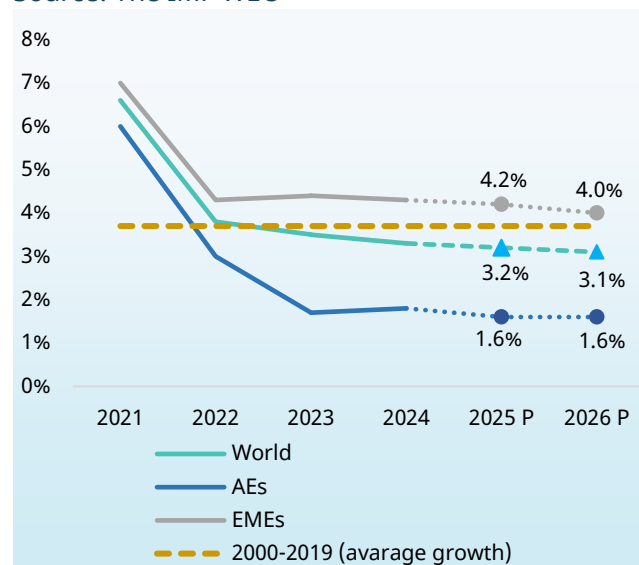
Economic growth in the UK is expected to be 1.3% in 2025–2026, slightly higher for the

current year compared to both the April and July forecasts, but slightly lower for 2026. Although strong activity in H1 2025, the UK-US trade agreement announced in May, and improvements in the external environment support this growth, the projected growth for 2025–2026 remains cumulatively 0.4 pp lower compared to the October 2024 forecast.

Economic growth forecasts for EMEs remain below the 4.3% growth of 2024. Growth is expected to be 4.2% in 2025 and 4% in 2026. Compared to the July report, only the forecast for the current year has been raised by 0.1 pp. However, this is still cumulatively 0.2 pp lower than the growth projected in October 2024, due to more significant downward revisions for low-income EMEs.

**Chart 49. Global economic growth forecasts**

Source: The IMF WEO



No changes have been made to the forecast for the Chinese economy. Stronger-than-expected results in recent quarters and support for domestic consumption from this year's fiscal expansion have offset the uncertainties and impacts triggered by tariffs. Economic growth in 2025 is projected to be 4.8%, 0.3 pp lower compared to the forecast

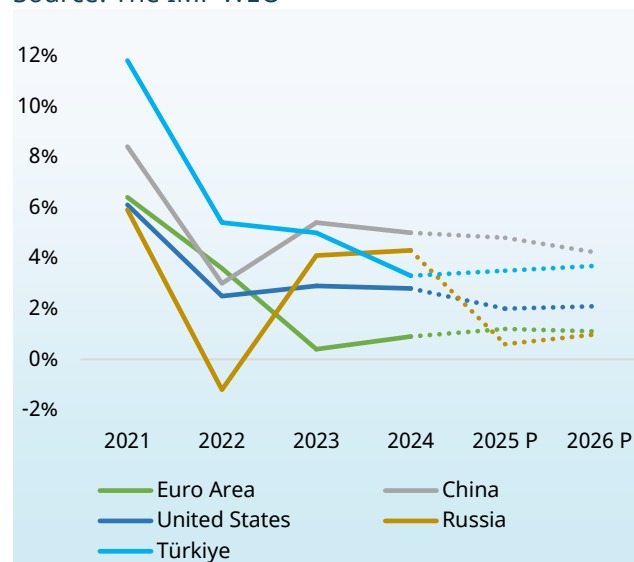
from last October. In the following year, growth is expected to moderate slightly, declining to 4.2%.

Economic growth in Russia is expected to remain weak this year, with a slight increase projected in 2026. The growth forecast for 2025 has been reduced by 0.3 pp to 0.6%, while the 2026 forecast is set at 1%. Expectations for the current year are 0.9 pp lower compared to April, mainly due to the release of data regarding the concentration of fiscal expenditures in the last quarter of 2024.

Türkiye's economic growth forecast has been revised upward based on stronger-than-expected results, with the 2025 forecast increased by 0.5 pp to 3.5% compared to the July report, and the 2026 forecast raised by 0.4 pp to 3.7%.

**Chart 50. Growth projections across certain countries**

Source: The IMF WEO



The IMF October report kept the global inflation forecast for 2025 unchanged at 4.2%, while the 2026 forecast was increased by 0.1 pp to 3.7%. Although the forecasts have changed little compared to the July report, there are differences across countries and regions.

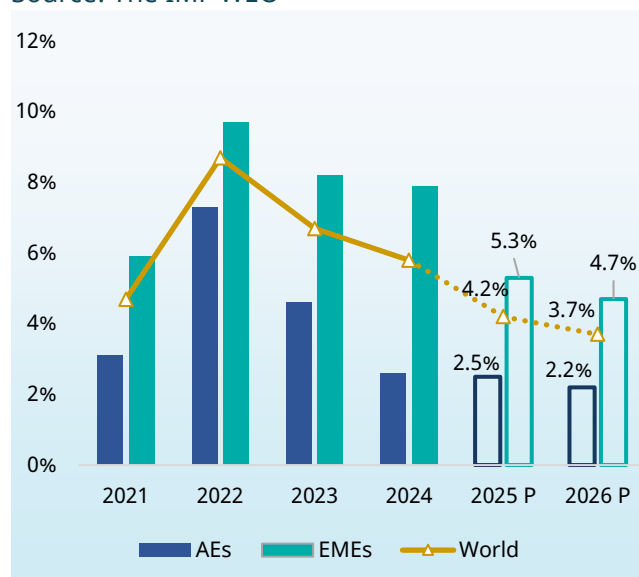
Inflation expectations in several AEs, including the United States and the UK, have shifted upward compared to October 2024 forecast. In the United States, inflation is expected to rise toward the end of 2025 due to the pass-through of tariffs to consumers. Inflation is then projected to return to the U.S. 2% target starting in 2027. In the UK, inflation, which began rising in 2024, is expected to continue increasing in 2025, partly due to changes in regulated prices.

For several other economies, inflation forecasts are lower compared to the October 2024 forecast. This mostly applies to emerging Asian economies, such as China, India, and Thailand.

Generally, the inflation forecast for AEs in 2025 remained unchanged, while for EMEs it was lowered by 0.1 pp, to 2.5% and 5.3%, respectively. In 2026, inflation forecasts were revised upward by 0.1 pp for AEs and 0.2 pp for EMEs.

**Chart 51. Global inflation forecasts**

Source: The IMF WEO



#### 4.1.2 Global risks

The October IMF report notes that, although global economic growth continues

at a steady pace, downside risks to the forecast remain, as in the July forecast.

Rising trade policy uncertainties could weigh on companies' investment decisions and dampen growth prospects. An increase in protectionist measures both through tariffs and non-tariff instruments (export controls on new technologies, etc.) could further disrupt supply chains, eroding the efficiency gains achieved through the liberalization of global trade over the past several decades.

Another risk factor stems from labor market supply shocks. Stricter immigration policies in AEs are tightening labor supply, which could significantly affect investment and hiring decisions in economies experiencing skills shortages or where labor market pressures are typically alleviated by immigration flows from other countries.

Vulnerabilities in the fiscal sector and financial markets, and their interactions, also constitute risks. In AEs, the recent rise in long-term sovereign yields could amplify market reactions to financial vulnerabilities. In countries with high debt levels, rising yields increase debt servicing costs, potentially crowding out other essential expenditures, including capital investment and support to households vulnerable to shocks.

Climate shocks, regional conflicts, and escalating geopolitical tensions could surge commodity prices. Such risks, likely to affect prices for food, energy, and other essential goods, would heighten inflationary pressures, particularly in commodity-importing economies.

Along with these downside risks, certain factors could support growth prospects, including progress in trade policy and tariff reductions, accelerated structural reforms, and productivity gains arising from the development and adoption of AI.

## 4.2 MACROECONOMIC OUTLOOK FOR AZERBAIJAN

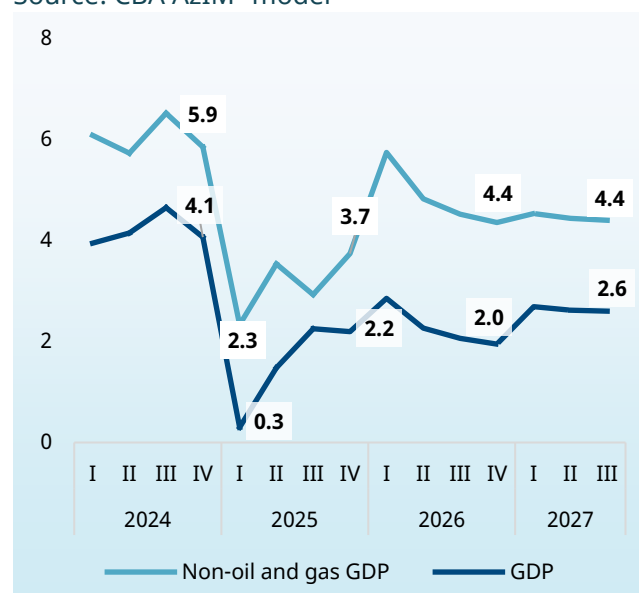
According to CBA's October 2025 forecasts, annual inflation is expected to remain within the target band in the medium term. At the same time, economic growth-related expectations are overall optimistic.

### 4.2.1 Economic growth forecast

Expectations for economic growth remain generally optimistic. According to the CBA's October 2025 forecast, total GDP is expected to stand at 2.2%, and non-oil-and-gas GDP at 3.7% in the current year. Forecasts suggest that in 2025 oil GDP will have a reducing, while non-oil and gas GDP an upward effect on total GDP growth. The positive impact of household consumption on the non-oil and gas sector is expected to subdue slightly.

**Chart 52. Real growth forecast for GDP and non-oil and gas GDP, year-over-year, in %**

Source: CBA AzIM<sup>8</sup> model



In 2026 real economic growth pace is expected to stand at 2.0% and 4.4%, respectively for overall and non-oil and gas

sectors. According to forecasts, in 2026 the oil-and-gas GDP will exert a downward and non-oil and gas GDP an upward effect on total GDP growth. Although the positive impact of household consumption on the non-oil-and-gas sector has slightly weakened, the collection of key funds is expected to continue contributing positively.

The real drop on oil and gas GDP is projected to be -0.2% in 2025 and -2.4% in 2026. Note that, forecasts for the oil and gas sector are based on the official government projections.

The realization of the economic growth forecast for 2025 and 2026 will depend on the dynamics of domestic aggregate demand.

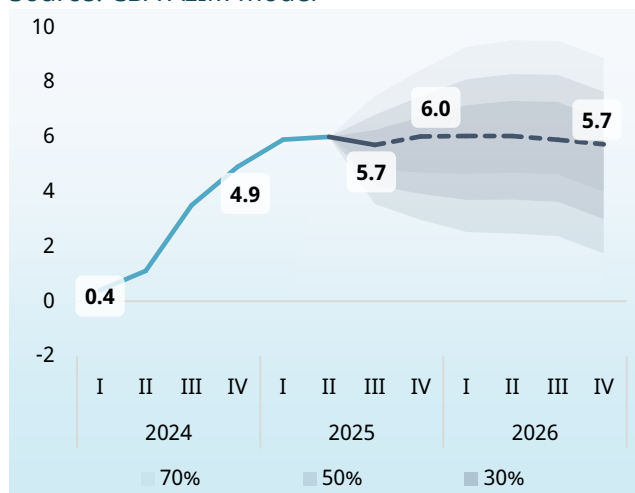
### 4.2.2 Inflation forecast

According to October forecast, in 2025 and 2026 the annual inflation is expected to remain within the target band (4±2%). The CBA in its October forecast predicts that inflation will stand at 6.0% in 2025. Household consumption is expected to have 1.57 pp, APPI 3.64 pp, inflation in trade partners 2.80 pp and increase in passenger transportation 0.14 pp upward effect on the annual inflation forecast for 2025. The downward contribution of government consumption is expected to be -0.44 pp, the NEER -0.34 pp and other factors (expectations) -1.37 pp.

<sup>8</sup> 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 53. Annual inflation forecast, in %**

Source: CBA AzIM model



The forecasts will materialize depending on the change of a number of foreign and domestic factors. Fluctuations in commodity and financial markets amid persistent high geopolitical tension, global fragmentation and tariff wars might have an upward effect on inflation. The possible depreciation of the NEER in addition to the inflation in trade partners are among foreign risk factors on inflation. At the same time, global climate changes may weigh on productivity and global food production. The key risk factor that might push inflation up of domestic factors relates to the activation of domestic cost-push factors.

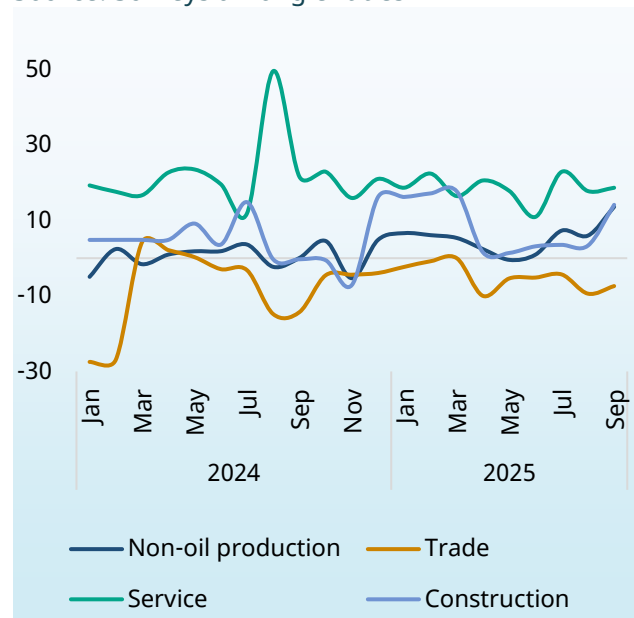
### 4.2.3 Inflation expectations

Inflation expectations varied across sectors. According to findings of the RSM conducted by the CBA, compared to the beginning of the year, the expectations in the trade, services, and construction sectors declined. In the trade sector, price expectations for the next three-month period nearly tripled down compared to January and

continued to remain in negative territory. A slight decline was in services and construction. An increase in expectations was recorded in the non-oil production sector.

**Chart 54. Price expectations for upcoming three months across the real sector<sup>9</sup>**

Source: Surveys among entities



In the non-oil production sector, the price index was 13.61 in September (6.6 early year), in trade -7.38 (-2.3 early year), in construction 14.14 (16.8 early year), and in the services sector 18.66 (18.7 early year).

<sup>9</sup> 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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