Taleh Kazimov: Shoring Up Resilience

Global Finance: How well armored is Azerbaijan's monetary framework against today's global risks?

Taleh Kazimov: Azerbaijan is an open, small economy; in 2025, trade turnover reached 79.8% of GDP. Energy prices work through three channels that do not point the same way. Directly, a U.S.$10 rise in the oil price adds roughly U.S.$1.2 billion to the current account, and a U.S.$50 rise per thousand cubic meters of gas, about US$900 million.

The second channel runs the opposite way; around 80% of our non-energy imports come from energy-importing economies, so a 10% oil-price increase raises trading-partner inflation by roughly 0.67%. Here, the nominal effective exchange rate absorbs much of the pressure. The third channel runs through the valuation of strategic assets. Netting the three, the overall effect remains clearly positive.

The framework rests on three pillars.

Exchange rate stability is the key nominal anchor; where trade is the dominant transmission channel, a stable nominal rate neutralizes much imported inflation and expectations stay anchored within our corridor of 4%, plus or minus 2 percentage points. Second, an interest rate corridor with standing facilities ensures policy decisions transmit predictably. Third is the buffer stock; strategic reserves rose U.S.$700 million this year to U.S.$85.8 billion at end-June, exceeding 125% of GDP and covering close to 400% of broad money.

GF: What are your priorities for modernizing the framework?

Kazimov: The objective is unchanged: price stability. Our baseline projects inflation at 6.1% at end-2026 and 5.8% at end-2027: both inside the band, with upside risks on the supply side. The priority is not a change of objective but strengthening and deepening interest rate transmission while preserving exchange rate stability as the primary anchor, with interbank rates as the auxiliary anchor for domestic inflation.

Since September 2022, we have built an active interbank money market from the ground up. AZIR, the overnight unsecured benchmark, has been our secondary operational target for over a year, with the average spread to the policy rate now about four basis points. Last year, the European Bank for Reconstruction and Development issued floating-rate notes referenced directly to AZIR, which is a stronger endorsement.

We have three priorities: strengthening passthrough to market rates; deepening capital and money markets by expanding instruments referenced to AZIR, including the yield

curve; and upgrading forecasting through data analytics and AI. I would add a fourth, easily overlooked: communication. Credibility remains a central bank's most valuable asset.

GF: How would you evaluate the success of the Financial Sector Development Strategy 2024-2026, the central bank's modernization plan?

Kazimov: We designed the strategy around measurable priorities across every major segment and committed to publishing annual progress reports. That matters as much as the targets, because a strategy whose execution is not measured externally converges on whatever is easiest to accomplish. The execution rate reached 81.8% in 2024 and 85.6% in 2025.

Behind those achievements lies substantive change: reforms aimed at improving transmission through the interest-rate channel, strengthening the stability of the financial sector, modernizing payment infrastructure, fostering digital financial innovations, and introducing a green taxonomy.

GF: Economic diversification away from the energy sector remains a national priority. How is it proceeding?

Kazimov: The six-month data illustrate the composition. The non-oil share remains solid at around 70%. Construction contracted 13% while transport and logistics expanded 8%, information and communication 7.5%, and non-oil industry 4.1%. This is precisely the reallocation we want: activity moving into tradable sectors that earn foreign exchange. During the first six months of the current year, investment in the non-oil sector increased by 5.5%, primarily driven by a 20.8% increase in private-sector investment, which offset a 3.8% decline in public investment.

Monetary policy can support but not deliver diversification. What we can do is provide the conditions: stable prices, a stable exchange rate, a sound banking system, and a market capable of transforming long-term savings into productive investment. Structural reforms on the 2027–2030 economic agenda will determine the pace [of diversification]. Our contribution is to ensure macroeconomic and financial stability.