



CENTRAL BANK  
OF THE REPUBLIC OF AZERBAIJAN

# MONETARY POLICY REVIEW

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MAY 2026

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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 investment
<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>OPEC</b>	Organization for Economic Cooperation and Development
<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>WTO</b>	World Trade Organization
<b>Y.o.y.</b>	Year-over-year

## EXECUTIVE SUMMARY

*In Q1 2026, 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 2026”.*

*During the reporting period, Azerbaijan’s external sector indicators remained favorable despite a complex global economic environment, and its strategic foreign exchange reserves continued to significantly exceed internationally accepted adequacy norms.*

*In Q1 2026, annual inflation remained within the pre-announced target band ( $4\pm 2\%$ ). Updated forecasts indicate that inflation is expected to stay within the target range by the end of 2026 and throughout 2027.*

*Monetary policy decisions were guided by macroeconomic forecasts and shifts in the balance of risks stemming from demand and supply-side factors of inflation. Monetary policy tools were implemented with due consideration of interbank money market developments and liquidity position of the banking system.*

## 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%
2 April 2026	5.50%	6.50%	7.50%
6 May 2026	5.50%	6.50%	7.50%

# 1

## **GLOBAL ECONOMIC TRENDS**

## 1.1 GLOBAL ECONOMIC ACTIVITY AND INFLATION

*In Q1 2026, the global economic environment was shaped by increasing geopolitical tensions, rising commodity prices, ongoing tariff policies, and high uncertainty. Under these conditions, inflationary pressures intensified and economic activity weakened.*

### 1.1.1 Global economic activity indicators

Despite uncertainties and various shocks in Q1 2026, the global economy maintained its growth trajectory. However, trade shocks and the deepening conflict in the Middle East negatively impacted the global economy's sustainability.

From January to March, the U.S. GDP grew by 2.0% (up from 0.5% in the fourth quarter of 2025). The main sources of this growth were the recovery of government spending, increased capital investments in artificial intelligence-related sectors, and higher exports and consumer spending. However, a sharp increase in imports due to anticipated tariffs negatively impacted GDP.

During this period, the euro area's gross domestic product (GDP) grew by 0.1% quarter-over-quarter (0.2% in Q4 2025) and by 0.8% year-over-year. However, there were sharp differences across countries. Germany recorded a 0.3% growth due to infrastructure and defense spending, while France's economy weakened. According to analysts, the figures from the first quarter do not yet fully reflect the impact of the war in the Middle East on energy and supply chains. These negative effects are expected to become more apparent in the coming months. US tariff policies and increased competition from China continue to limit export potential.

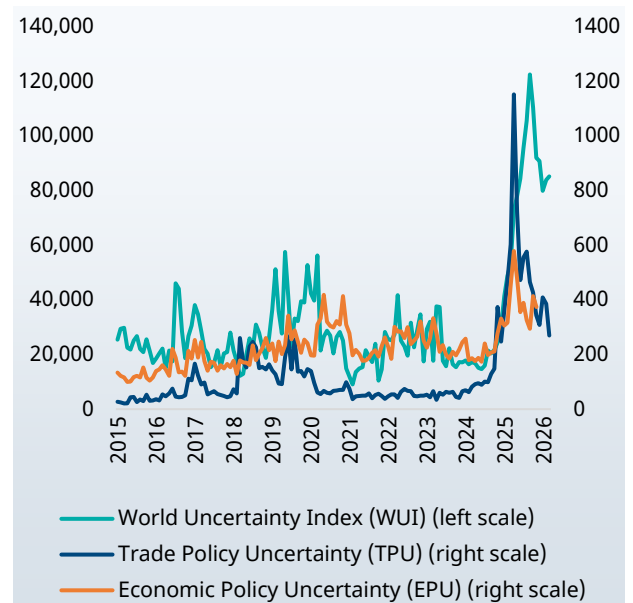
China's economy grew by 5% year-over-year in the first quarter of 2026, surpassing the forecasted growth of 4.8%. The driving factors behind this growth were increased industrial production, expansion

in the service sector, and sustained growth in exports.

Meanwhile, domestic demand, particularly retail sales, showed weak growth. Industrial production increased by 6.1%, and there was an increase in activity in high-tech and equipment manufacturing. The service sector was one of the main drivers of economic activity, growing by 5.2%. Foreign trade has grown considerably, with a 15% increase in the total volume of imports and exports. However, structural imbalances within the economy persist, particularly the issue of "high supply and relatively weak demand". The complexity of the global economic environment, coupled with an increase in geopolitical risks, could potentially put pressure on the growth rate in the coming periods.

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

Source: IMF



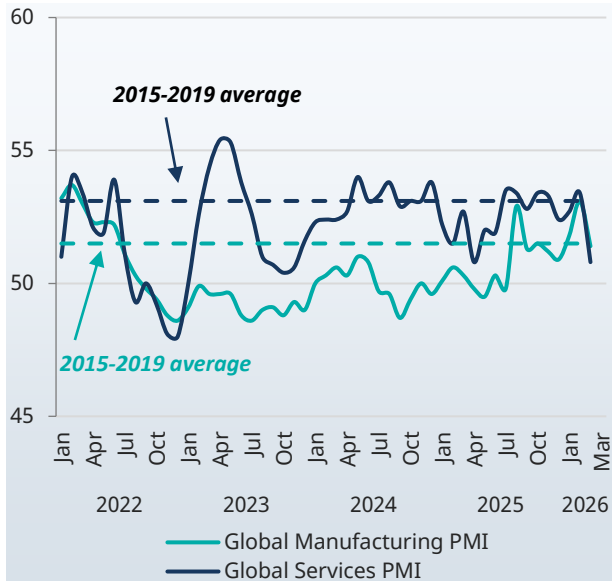
<sup>1</sup> Uncertainty indices are based on news and media sources and measure the attention of the media to news related to global uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

Although the level of uncertainty is relatively low compared to the 2025 peak, it remains high in a historical context. Although the World Uncertainty Index (WUI) has weakened compared to last year, it has shown renewed growth over the last two months of the quarter. In this context, the index reached a higher level in the first quarter of 2026 compared to the same period last year. The Trade Uncertainty Index (TPU) saw a substantial rise in January, followed by a decline in subsequent periods. Geopolitical processes in the Middle East do not exclude the possibility that uncertainty will remain elevated in the coming periods.

The Global Composite Purchasing Managers' Index (PMI) fell to 51.0 in March, its lowest level in 11 months, from the previous month. Nevertheless, the index increased year-over-year and remained above the neutral threshold of 50.0, suggesting ongoing growth in economic activity.

**Chart 2. Purchasing Managers' Index (for manufacturing and service sectors)**

Source: S&P Global



The manufacturing PMI was higher in the first quarter of 2026 than in the same period last year. However, the index decreased by 1.7 pp compared to February due to the impact of the US-Iran conflict that

began in March. The decrease was evident in all three components (consumer, intermediate, and investment goods) constituting the manufacturing PMI.

In March 2026, the services PMI was 50.8, the lowest level since April of the previous year. However, the average for the first quarter of 2026 was 0.2 pp higher than in the same period of 2025. Compared to February, a decrease was recorded in three components of the services PMI in March: consumer, business, and financial services.

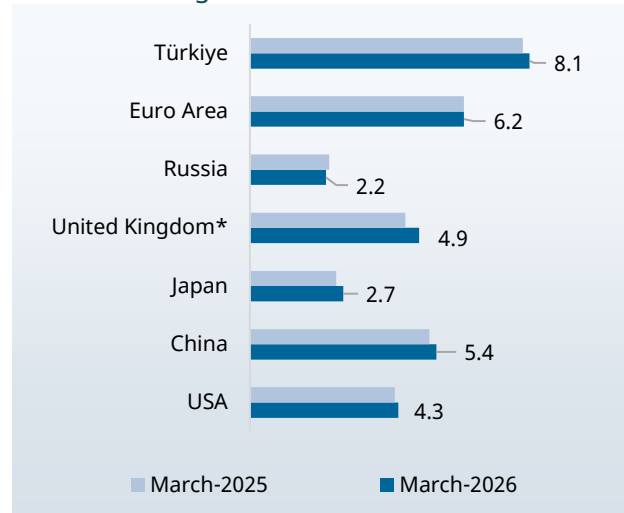
According to March data, the country-specific production PMI indicators showed a direct decline in production volumes in 12 out of 33 countries for which data is available. Greece, Thailand, and India recorded the best results, while Romania, Kazakhstan, and Turkey recorded the weakest results.

**1.1.2. Global unemployment**

During the reporting period, unemployment trends varied across countries. In the first quarter of 2026, unemployment decreased in Russia, remained stable in the euro area, and increased in Türkiye, the United States, China, the United Kingdom, and Japan year-over-year.

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

Source: Trading Economics



\* Refers to February 2026

According to the ILO’s 2026 “Employment and Social Trends” report, the global unemployment rate is expected to remain at 4.9% this year, covering approximately 186 million people. However, the report emphasizes that the stability of this indicator should not be interpreted as a complete improvement in the labor market conditions. Official unemployment figures do not fully reflect the situation. The global jobs gap, which provides a broader measure of labor underutilization, is projected to reach 408 million people. Additionally, the improvement of job quality has stalled, and inequalities continue to deepen.

Similar signs of weakness in labor markets are evident in the OECD’s March 2026 Economic Outlook report. Job creation has declined in several advanced economies, including Canada, the United Kingdom, and the United States. This indicates a weakening in labor demand. Against this backdrop, slower global trade, continued uncertainty over trade policy, geopolitical tensions in the Middle East, and the rapid adoption of artificial intelligence pose additional risks to labor markets and limit the potential for job creation. These trends are putting upward pressure on unemployment.

**1.1.3. Global inflation**

Global inflation remained broadly stable in Q1 2026. However, inflationary pressures intensified due to heightened geopolitical tensions, supply chain disruptions, and rising commodity prices. Under these conditions, inflation dynamics diverged across regions, with inflation accelerating in some economies and remaining relatively subdued in others.

In March, annual inflation in the United States rose to 3.3%. In the Eurozone, inflation reached 2.6%, which is a significant increase from 1.9% in February and the highest level since July 2024. Meanwhile, headline inflation exceeded the European

Central Bank’s target. Core inflation, which excludes energy and food prices, fell from 2.4% to 2.3%. This suggests that the overall price increase was primarily driven by the energy shock caused by geopolitical tensions in the Middle East.

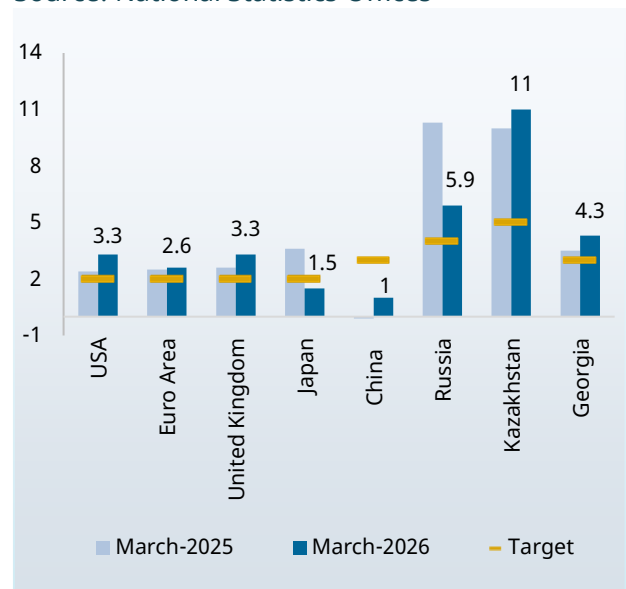
Inflation in China remained low in the first quarter of 2026, dropping to 1% in March. A slowdown in food price growth and weak domestic demand kept inflation subdued. The impact of rising global commodity prices on domestic prices has so far remained limited.

In March 2026, annual inflation in Japan fell to 1.5%, the lowest level in recent years. This decline can be attributed to continued weak domestic demand, government subsidies, and slower price increases across certain expenditure categories.

In Russia, annual inflation was 5.9% in March 2026, which was slightly above the forecast. Against the backdrop of long-term tight monetary policy, the downward trend in inflation slowed slightly. The main reasons for this are the VAT increase effective January 2026 and the indexation of regulated prices and tariffs. Gasoline prices increased by 2.3% amid rising energy prices.

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

Source: National Statistics Offices



Inflation continued to decline in Türkiye. In March 2026, annual inflation decreased to 30.9%, down by 7.2 pp year-over-year. The slowdown in the rate of price increases for food and services contributed to the decline in overall inflation. Meanwhile, prices continued to rise in transportation and some service sectors.

In recent months, annual inflation in Kazakhstan has been on a downward trend, reaching 11% in March 2026, continuing the downward trend observed in recent months. This was primarily due to slower price increases for food products, housing, and utilities. The weakening of core inflation indicates a relative easing of price pressures.

In Georgia, annual inflation fell to 4.3%, the lowest it had been in three months. Although food and non-alcoholic beverages remained the main source of inflation, price increases in this category slowed, dropping from 9.5% to 7.5%. Meanwhile, rising prices for transportation, as well as for alcoholic beverages and tobacco, exerted upward pressure on inflation.

## 1.2 GLOBAL COMMODITY PRICES

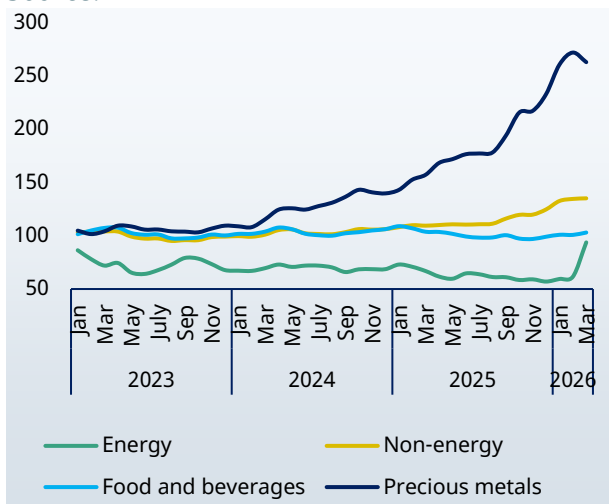
In Q1 2026, prices in the commodity markets were shaped against the backdrop of escalating geopolitical conflict. During the reporting period, a significant increase in energy prices and its transmission to other prices were observed.

### 1.2.1 General trends of global commodity prices

According to IMF data, the world commodity price index rose 28.1% in Q1 2026. This increase is primarily due to a significant rise in energy prices. Several non-energy products also saw price increases during the reporting period.

**Chart 5. Dynamics of global commodity price indices (2022 December=100)**

Source: IMF

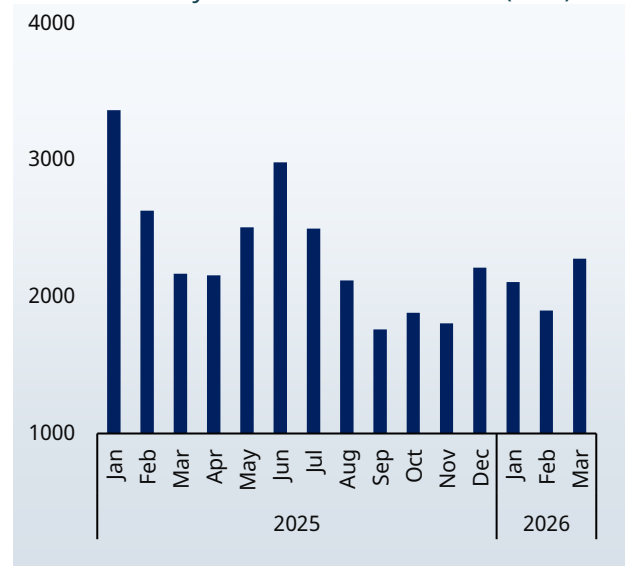


Rising geopolitical tensions have disrupted the supply and logistics chain, driving up energy prices.

The IMF's non-energy price index increased by 8.3% in Q1 2026. The change in the non-energy price index was primarily driven by rising food and metal prices. Against the backdrop of geopolitical uncertainties, the IMF's precious metals index increased by 12.9% during the reporting period.

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

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



One of the factors contributing to the escalating prices in 2026 was the surge in transportation expenses. Thus, the average cost to transport a 40-foot container by sea increased from \$2,213 at the end of 2025 to \$2,279 by the end of March 2026.

### 1.2.2 Dynamics of global energy prices

Against the backdrop of intensifying geopolitical conflicts, a sharp increase in world energy prices was observed in the first quarter of 2026. According to IMF data, the energy price index rose 64.4% in March compared to the end of last year. The average spot price of Brent crude oil was \$103 per barrel in March, \$32 higher than in February.

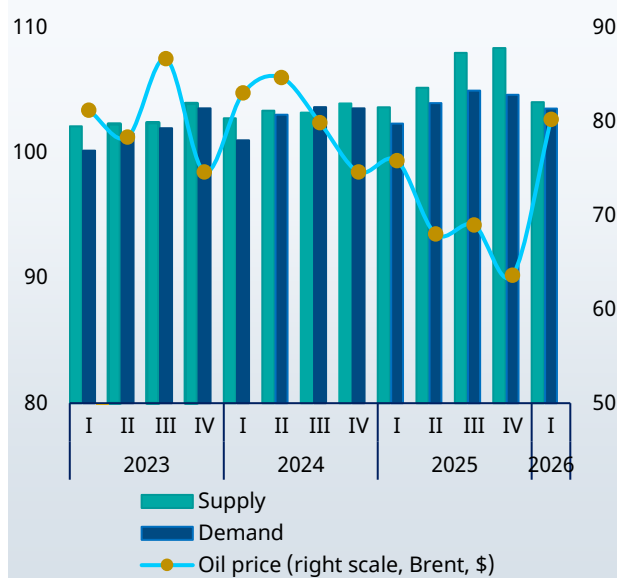
<sup>2</sup> The World Container Index measures the average price of container shipments and indicates the overall level of trade costs by sea.

The closure of the Strait of Hormuz, a key oil transit point through which approximately 20% of the world's oil supply passes, is one of the main reasons for the price increase. The closure has sharply reduced oil supplies to global markets, causing cascading effects in the oil supply.

Before the outbreak of military conflict in the Middle East, the global oil supply significantly exceeded demand. This led to a continuous decline in oil prices. This trend was expected to continue for the next two years as production growth from OPEC+ and non-OPEC+ countries exceeded global oil demand growth. However, the conflict in the Middle East quickly altered market dynamics, forcing producers in the region to significantly reduce oil production.

**Chart 7. Supply and demand in the world oil market, in million barrels (daily)**

Source: The U.S. EIA

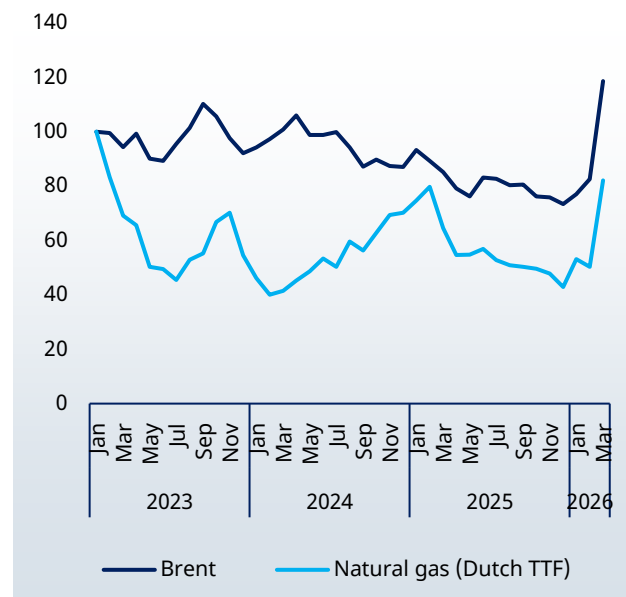


Deepening of the conflict in the Middle East has impacted natural gas prices as well. In March 2026, natural gas prices rose rapidly as a result of the closure of the Strait of Hormuz and the suspension of exports from one of the world's largest LNG plants in Qatar. The European energy market is particularly sensitive to potential

disruptions in natural gas supplies. Therefore, the price of natural gas in TTF futures contracts, which is the main benchmark for the European natural gas market, has increased significantly.

**Chart 8. Monthly price index of Brent oil and natural gas (January 2023=100)**

Source: Bloomberg



At the same time, the occupancy level of gas storage in Europe has dropped.

### 1.2.3 Dynamics of global food prices

Global food prices generally rose in Q1 2026. Agriculture price index released by the IMF increased by 4.2% during the first three months of the year. This index summarizes the price indices of food, beverages, and agricultural raw materials. Due to the increase in energy prices during the reporting period, the manufacturing and transportation costs of food products increased, which had an upward impact on overall prices.

**Chart 9. The Agriculture Price Index (2016=100)**

Source: IMF



According to the FAO, the cereal price index increased by 2.9% in the first quarter. Increases were observed for all major cereals except rice. Wheat prices increased due to reduced plantings in Australia due to drought concerns and anticipated high fertilizer costs. Vegetable oil prices rose 10.8% in the first quarter of 2026. Palm oil prices reached their highest level since mid-2022. This increase is primarily due to a sharp rise in energy prices. Lower-than-expected production forecasts in Malaysia also contributed to the increase.

The meat price index rose 2.4% in the first quarter. Beef prices rose due to high demand and limited export opportunities. Meanwhile, ovine and poultry meat prices decreased due to ample supply. The dairy price index decreased by 5.7% in March compared to the end of last year. However, the index increased on a monthly basis in March, which was the first increase since July 2025. This increase was primarily driven by higher prices for skimmed milk powder and butter. The sugar price index increased by 1.8% in the first quarter. Threats to trade flows resulted from the escalation of the

conflict in the Middle East have created additional upward pressure on sugar prices.

Overall, the FAO food price index was 3.2% higher in March compared to the end of 2025.

## 1.3 GLOBAL FINANCIAL SYSTEM TRENDS

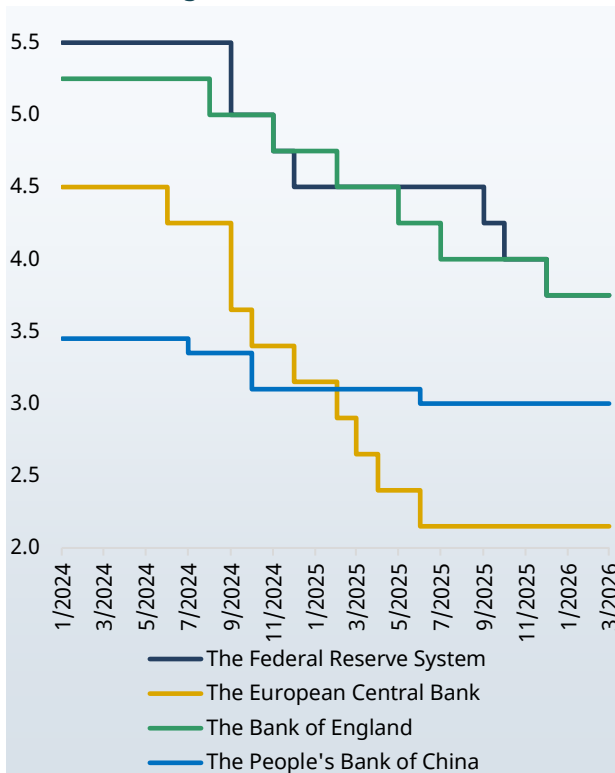
In Q1 2026, increased geopolitical tensions intensified uncertainty and volatility in international financial markets. Amid rising inflationary pressures, monetary easing was paused. Accommodative financial conditions gradually shifted toward tightening.

### 1.3.1 Monetary policy decisions of central banks

In Q1 2026, the process of monetary policy easing around the world paused. Although inflation weakened compared to previous periods, rising geopolitical tensions amid the conflict in the Middle East, coupled with a sharp increase in energy prices, strengthened inflation risks and increased uncertainty surrounding economic growth prospects. In this environment, most leading central banks have adopted a cautious, wait-and-see stance.

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

Source: tradingeconomics.com

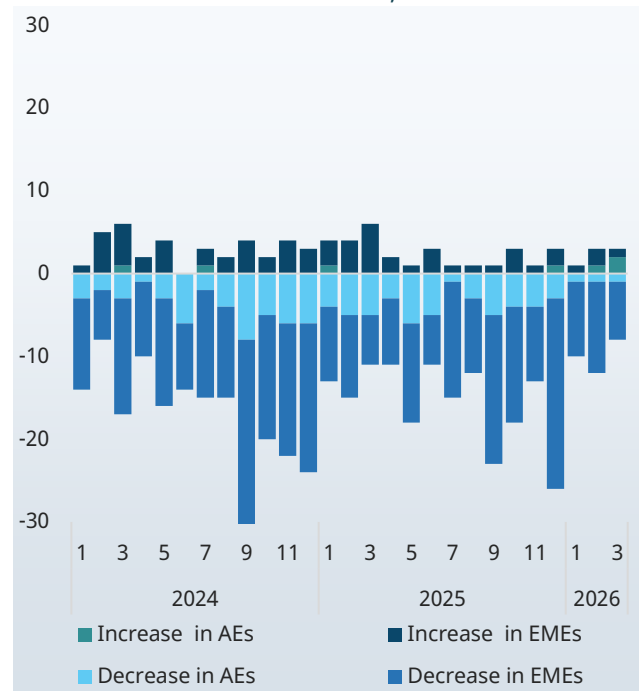


Due to ongoing price pressures, inflation remaining above target, and uncertainty surrounding developments in

the Middle East, central banks in major economies have kept policy rates largely unchanged. These rates remain at 3.50%-3.75% for the Federal Reserve, 2.15% for the European Central Bank, and 3.75% for the Bank of England.

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

Source: centralbanknews.com, cbrates.com



The objectives of interest rate decisions in monetary policy varied across countries. During the reporting period, the People's Bank of China maintained its accommodative monetary policy by keeping its policy rate at 3%, aiming to stimulate economic growth and mitigate deflationary pressures. Meanwhile, the Bank of Japan maintained its policy rate at 0.75% amid inflation forming at a level close to the target, and its monetary policy remained generally accommodative.

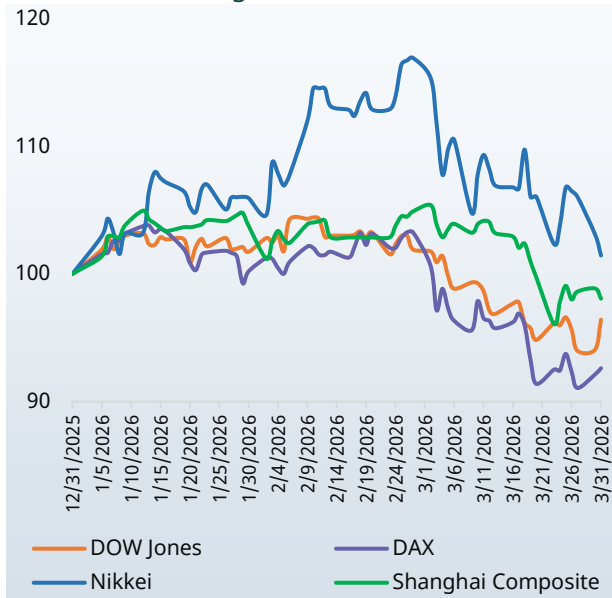
On the other hand, the Central Bank of Russia has lowered its policy rate to 15%. This decision was made in light of the economy's approaching a balanced growth trajectory and the moderation in price increases. Nevertheless, monetary policy remains tight.

**1.3.2 Financial market trends**

In Q1 2026, high volatility and uncertainty were observed in international financial markets. Increased geopolitical tensions in the Middle East and energy supply disruptions led to a decrease in financial asset prices.

**Chart 12. Dynamics in stock exchanges (31 December 2025=100)**

Source: Bloomberg

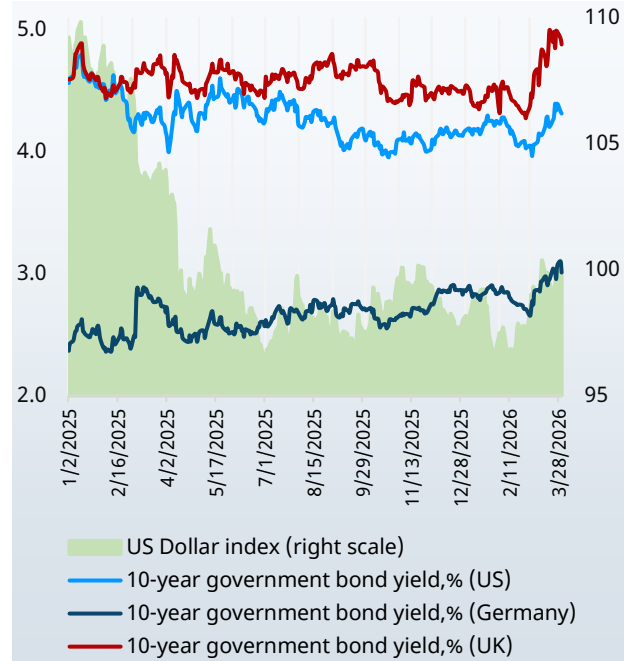


During the first quarter of 2026, the Dow Jones Index fell by 4%, the FTSE Eurotop by 2%, the MSCI World by 4%, the DAX by 7%, the Shanghai Composite by 2%, and the RTSI by 3%. Meanwhile, the Nikkei Index recorded a modest increase of 1%.

The U.S. dollar index increased during the quarter and fluctuated around the 100 level by the end of the period. Nevertheless, the dollar index remains weak compared to its strong position at the beginning of last year.

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

Source: investing.com

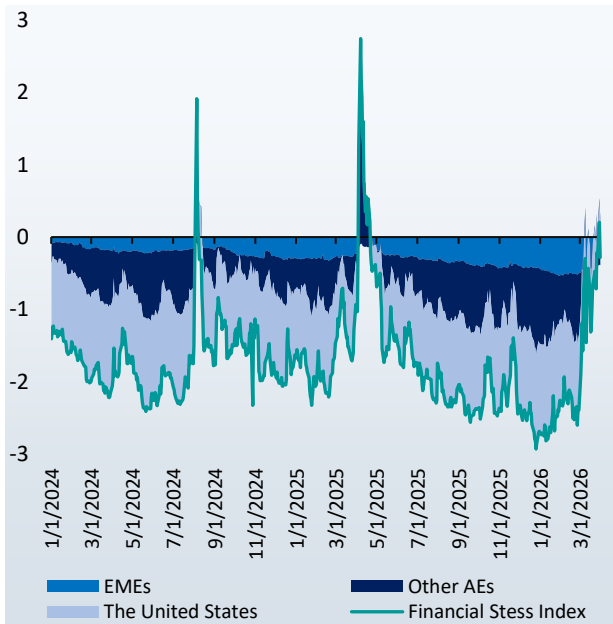


As geopolitical tensions rose and inflationary pressures mounted, 10-year government bond yields increased notably in the US, Germany, and the United Kingdom toward the end of the quarter.

According to the U.S. Office of Financial Research, the Global Financial Stress Index showed an upward trend in the first quarter of 2026. It moved from negative into positive territory in March and stabilized at levels close to zero by the end of the quarter. The increase in the index was primarily driven by volatility and factors related to the stock market amid geopolitical tensions.

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

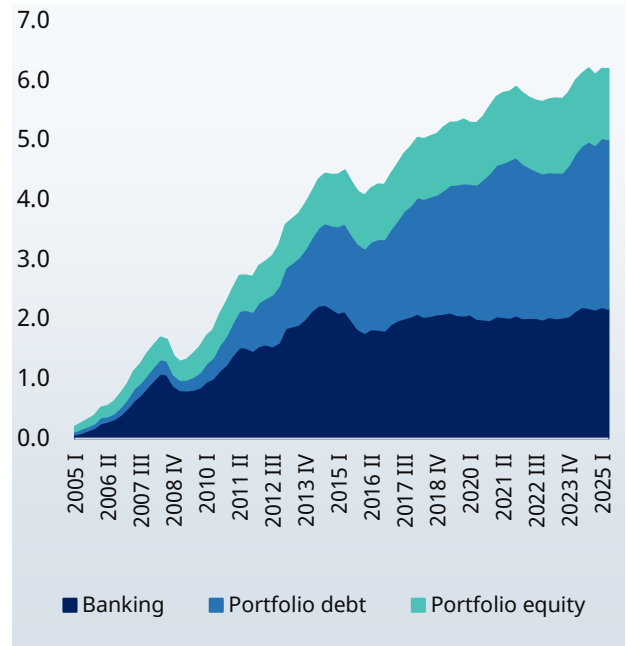
Source: The U.S. Office of Financial Research



According to the IMF's April 2026 Global Financial Stability Report, financial markets are functioning generally well, but financial conditions have gradually shifted from accommodative to tighter levels. The report notes that, since the 2008 global financial crisis, portfolio inflows to EMEs have increased significantly. However, these investments are highly sensitive to changes in global risk conditions, which increases macro-financial risks. This sensitivity is further exacerbated in countries with weak institutional frameworks, limited reserves, and high public debt. Financial conditions tighten sharply in economies financed by non-resident non-bank financial institutions during periods of stress. Therefore, it is crucial for these countries to build strong institutions, maintain adequate reserve buffers, and implement effective risk management frameworks.

**Chart 15. Cumulative nonresident portfolio and banking flows in EMEs (USD trillion)**

Source: IMF, Global Financial Stability Report, April 2026



<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

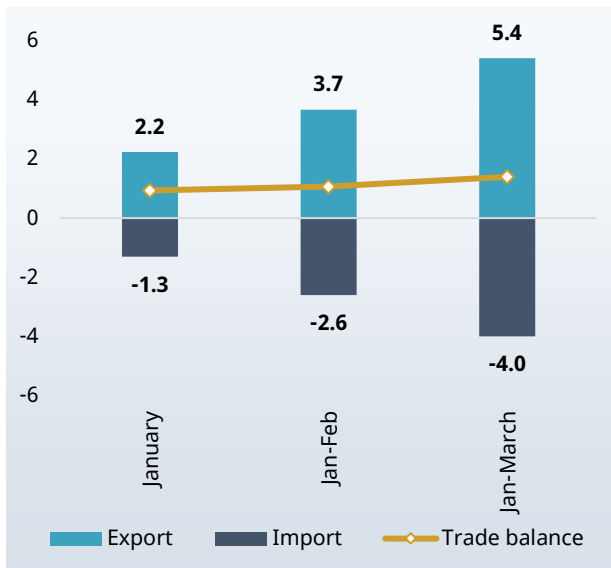
In Q1 2026, the foreign trade balance, one of the primary components of the balance of payments, was in surplus. Non-oil and gas exports increased year-over-year. The national economy continued to provide a favorable environment for foreign investments. Foreign exchange reserves continued to exceed the internationally accepted sufficiency norms.

### 2.1.1 Foreign trade turnover

According to the SCC, the country's foreign trade turnover from January to March of 2026 amounted to \$9.4B. Of this total, exports amounted to \$5.4B (57.4%), while imports amounted to \$4B (42.6%). Foreign trade surplus stood at \$1.4B.

**Chart 16. Foreign trade balance in Q1 2026, in billion U.S. dollars**

Source: SCC



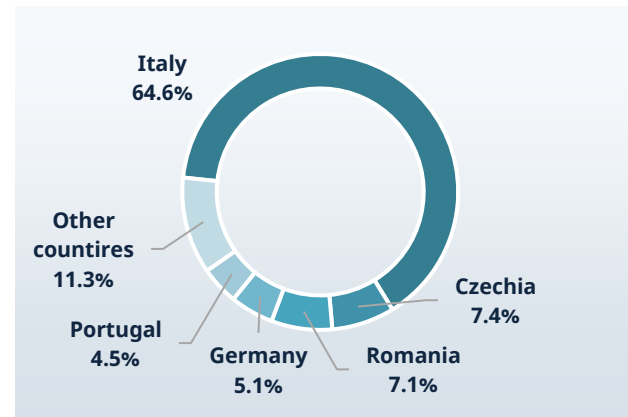
In the reporting period, the EU accounted for 43.6%, the CIS for 12.8%, and other countries for 43.6% of total foreign trade turnover. Italy, Türkiye, China, Russia, the United States, Germany, Georgia, the Czech Republic, Romania, and Bulgaria accounted for over half of trade turnover.

Main partners in export included Italy (46.1%), Türkiye (14.6%), Georgia (4.4%), Russia (4.1%), and the Czech Republic (3.4%). The share of other countries was 27.4%.

In the reporting period, the total value of oil and gas exports amounted to \$4.5B, comprising \$2.7B from crude oil and other manufactured oil products, and \$1.9B from natural gas.

**Chart 17. Crude oil exports by country in Q1 2026, in %**

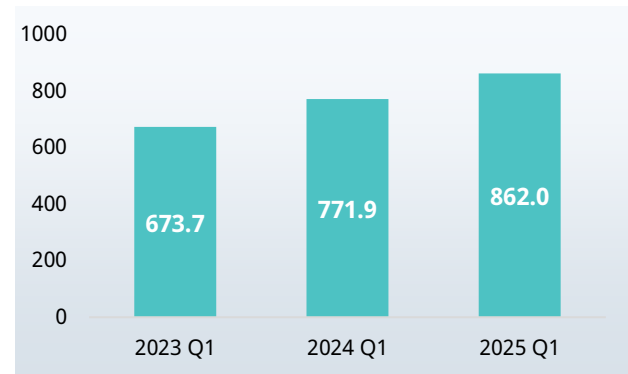
Source: SCC



Non-oil-gas exports y.o.y. increased by 11.7% to \$0.9B. The main contributors to the growth of non-oil-gas exports were sugar, cotton products, oils, fruits and vegetables and their processed products, aluminum and related products, tea, alcoholic and non-alcoholic beverages.

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

Source: SCC



The main export destinations for products from the non-oil and gas sectors were Russia (24.6%), Türkiye (16.2%), Georgia (14%), Switzerland (12%), and Ukraine (5%). Other countries accounted for 28.2%.

During the reporting period, commodity imports amounted to \$4B – the public sector accounted for 7.2%, legal entities for 83.9%, and individuals for 8.9% of total commodity import. Import of machinery and equipment (24.2%), vehicles (15.2%) and food products (16.6%) prevailed in total imports.

China accounted for 26.8%, Russia for 13.1%, Türkiye for 13.1%, the United States for 6.8%, Iran for 4.2%, Germany for 3.8%, Italy for 2.9%, Belarus for 2.4%, Ukraine for 1.7%, Japan for 1.5%, and other countries for 23.7% of total imported products.

### 2.1.2 Foreign investments

Capital inflows from foreign enterprises and organizations continued in Q1 2026. According to the SSC, total investments from external financial sources amounted to AZN1.1B (y.o.y. by 17%) (27.8% of total investments).

Investor funds from the UK, Türkiye, Russia, the United States, Switzerland, the UAE, Japan, the Islamic Republic of Iran, Hungary, France and India accounted for 97.7% of total foreign investment. 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

The conflict in the Middle East has affected tourism. From January to March of 2026, 484.4 thousand tourists from 172 countries visited Azerbaijan (y.o.y. down by 4.7%). Russia accounted for 25.9%, Türkiye for 21.7%, Iran for 8.9%, Georgia for 5.3%, Kazakhstan for 4.1%, India for 3.6%, 3% each

from Pakistan and Uzbekistan, Saudi Arabia for 2.5%, China for 2.1%, and other countries for 19.9% of the total number of tourists.

**Chart 19. Number of inbound and outbound tourists, in thousands of persons**

Source: SSC



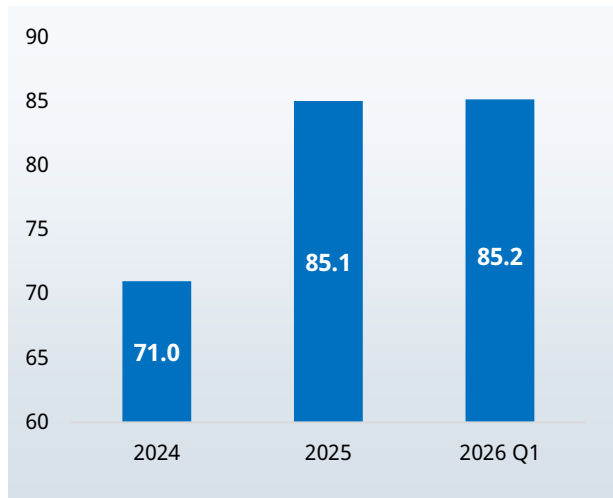
The number of residents travelling abroad for tourism purposes amounted to 452.6 thousand (y.o.y. down by 3.5%). Those travelling abroad for tourism visited Türkiye (40.2%), Russia (15.6%), Georgia (10.2%), Iran (9.3%) and other countries (24.7%).

### 2.1.4 Foreign exchange reserves

By the end of March 2026, strategic foreign exchange reserves increased by \$117.4M or 0.1% compared to the beginning of the year and reached \$85.2B. CBA's foreign exchange reserves increased by 1.2% or \$141.9M to \$11.7B by the March-end.

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

Source: CBA



Strategic foreign exchange reserves continued to exceed internationally accepted sufficiency norms in the reporting period. As of the end of Q1 2026, strategic reserves were sufficient for 37-month import of goods and services (considering the import of goods and services for 2025) and surpassed broad money supply in manat (M2) by 3.6 times (M2 money aggregate as of April 1, 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 Q1 2026, the growth of aggregate demand supported economic activity. The aggregate demand expansion was driven by consumer demand. 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 Q1 2026.

In 2025, households' final consumption expenditures stood at 59.4% (y.o.y. up by 3.4 pp) of nominal GDP, while public institutions accounted for 15.5% (y.o.y. up by 1.3 pp). During 2025, households' final consumption expenditures increased by 8.3%, and those of public institutions increased by 11.2% in nominal terms<sup>4</sup>.

**Chart 21. Consumption and its sources, in billion AZN**

Source: SSC

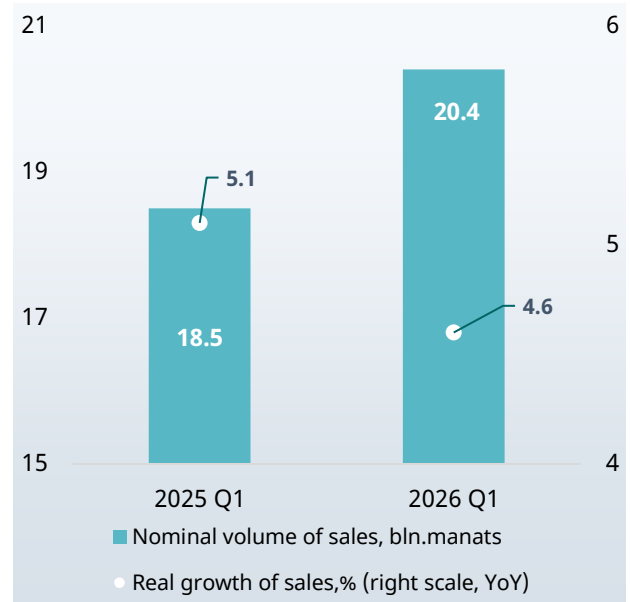


In Q1 2026, the value of goods sold, and services supplied to the population y.o.y. increased by 4.6% to AZN20.4B. In the consumer market, 78.1% of the total value was accounted for by retail trade turnover,

18.8% by paid services, and 3.1% by public catering turnover.

**Chart 22. Dynamics of total value of goods sold 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 6.6% on non-food products. The average monthly retail trade turnover per capita during the period amounted to 517.2 manat, an increase of 41.8 manat y.o.y.

The increase in public catering and paid services to the population indicates active consumer demand. Public catering turnover y.o.y. increased by 5.2% in real terms, while services provided to the population grew by 8.8%. During the period, a resident of the country spent y.o.y. 47.5 manats more than the average monthly income on paid services.

Consumer demand was driven by the growth of income of the population in

<sup>4</sup> Source: The SSC's 'Use of GDP' table and CBA's calculations.

nominal terms. According to the SSC, nominal income of the population y.o.y. increased by 7% to AZN22.3B. Disposable income of the population increased by 7.1% to AZN19.7B. The average monthly nominal salary of hired labor increased by 5.3% to AZN1099.1.

**Chart 23. 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. Consumer loans issued by banks y.o.y increased by 10.3% and 1.5% compared to December of last year<sup>5</sup>.

Government spending was a funding source of aggregate demand in the reporting period. State budget expenditures y.o.y. reached to AZN7.8B. Within this, current expenditure rose by 14.1% to AZN5.8B. In the reporting period, spending on social protection and social security y.o.y. increased by 6% to AZN1.3B<sup>6</sup>.

### 2.2.2 Investment expenses

In Q1 2026, total investment to the economy from all funding sources y.o.y increased by 14.9% amounting to AZN4.05B. AZN2.3B (56.5%) was directed to production.

Investments in the oil and gas sector y.o.y. increased by 44.6%, while in the non-oil and gas sector y.o.y. increased by 2.2%. Of the investment in the non-oil and gas sectors amounted to AZN 2.5B, AZN0.4B was utilized in the non-oil industrial sector.

34.3% of investments were made by public and 65.7% by non-public investors. Investments channeled to the economy from domestic sources accounted for 78.2% of total investments.

Industry (47.7%), transportation and warehouse (22.6%) and construction (19.7%) account for the main share in the structure of investments. Investments in industrial sector increased by 21.2% year-over-year. This increase is mainly due to investment in the mining and processing industries.

<sup>5</sup> Source: CBA

<sup>6</sup> Source: Ministry of Finance

## 2.3 AGGREGATE SUPPLY AND LABOR MARKET

Economic growth in the non-oil and gas sector continued in the first quarter of 2026. Employment indicators also showed positive dynamics, with increases in the labor force and the number of salaried workers.

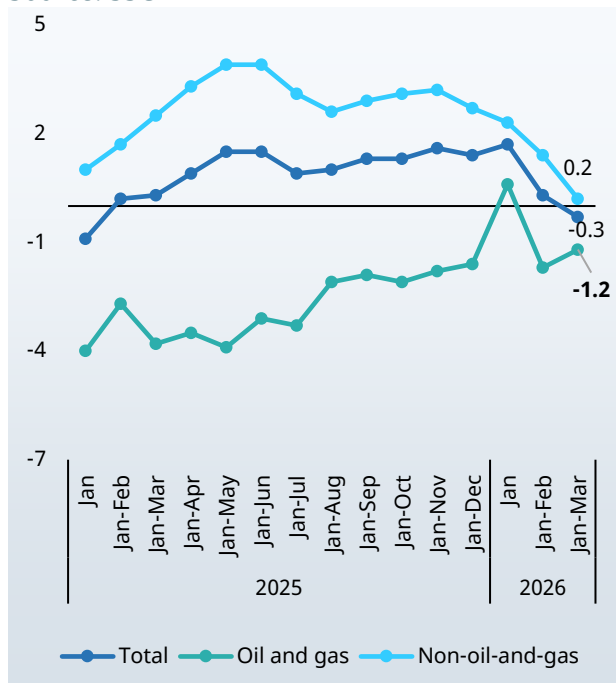
### 2.3.1 Economic growth

According to the SSC, in January-March 2026, GDP decreased y.o.y. by 0.3% in real terms to nominal AZN29.7B. Non-oil and gas GDP made 71.3% in the nominal GDP structure.

Nominal oil and gas GDP decreased by 1.2% to AZN8.5B. Crude oil production y.o.y. decreased by 3.4%, while gas extraction increased by 0.7%.

**Chart 24. Economic growth, year-over-year, in %**

Source: SSC



In January-March 2026, non-oil and gas GDP y.o.y. increased by 0.2% in real terms to AZN21.2B. Production in the non-oil and gas industry increased by 7.2%.

Agriculture grew by 1.1% in the reporting period. Livestock products increased by 0.9%, and plant products increased by 5.5%.

Growth continued in services sector. Transport and warehousing grew by 1.5%, freight and passenger transport increased by 1.2% and 7.7% respectively. Freight transportation by road, with the largest share in cargo transportation, y.o.y. increased by 6.5%. The value added in the information and communication sector y.o.y. grew by 9.2%, while the tourism and public catering increased by 2.9%.

The CBA's RSM findings confirm that economic activity is continuing. The BCI varied across sectors in Q1 2026 and mainly remained in the positive zone in the industry and service sectors.

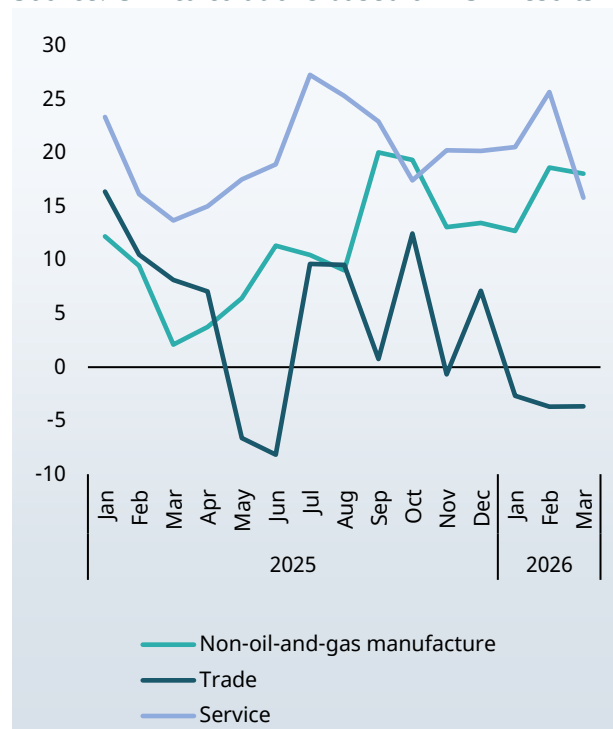
**Table 1. Dynamics of economic growth by sectors of the economy, year-over-year, in %**

Source: SSC

Sectors	2025 Jan-Mar	2026 Jan-Mar
Industry	-2.9	0.2
Construction	3.8	-19.8
Agriculture, forestry, and fishery	1.9	1.2
Trade, repair of vehicles	3.8	3.7
Transport and warehousing	3.1	1.5
Tourism and public catering	12.5	2.9
Information and communication	7.7	9.2
Other	1.9	0.3
Net taxes on products and import	1.7	-0.5

The BCI for non-oil industrial enterprises mainly rose in chemical, textile, machinery and equipment manufacturing, plastic subsectors. In March, the BCI remained in the negative zone in furniture and in the positive zone in electric appliances production.

The BCI was high and positively zoned in hotel management, communication and transportation sub-sectors.

**Chart 25. Business Confidence Index across sectors**Source: CBA calculations based on RSM results <sup>7</sup>

The increase in the number of commercial organizations operating in the economy also confirms that economic growth continues. According to the SSC, as of April 1, 2026, commercial organizations registered in the country numbered 212 thousand (y.o.y. up by 6.8%).

### 2.3.2 Employment

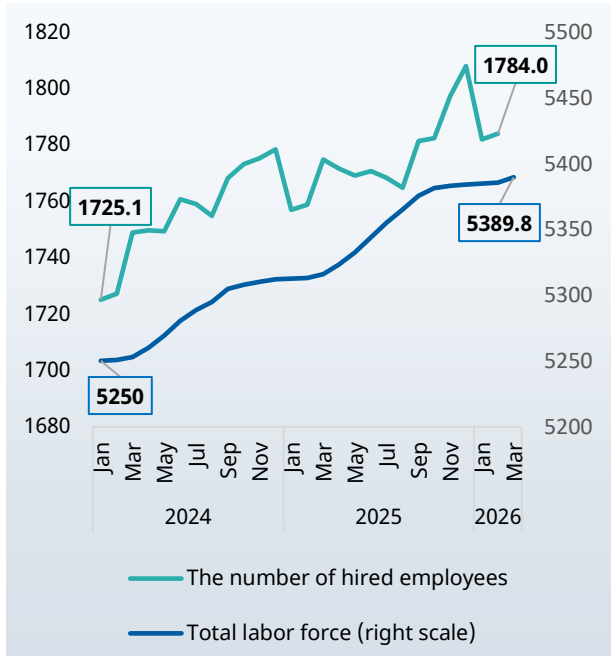
As of April 1, 2026, total labor force was 5,389.8 thousand people (y.o.y. up by 1.4%), employed population numbered 5,108.4 thousand people (y.o.y. up by 1.5%). As of March 1, 2026, the number of hired employees was 1,784.0 thousand persons (y.o.y. up by 3.3%) – 870.6 thousand persons were engaged in the public sector, while 913.4 thousand persons were employed in the non-public sector. The number of those employed in the non-public sector increased by 3.8% year-over-year. The oil and gas sector employs 30.4 thousand, while the

<sup>7</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

non-oil and gas sector employs 1,753.6 thousand people. In terms of structure, the largest share of wage earners falls on the sectors of trade and transport repair (18.5%) and education (18.3%). Other relatively large employment sectors were health and social services (8.6%), construction (6.5%), and public administration (6.1%).

**Chart 26. Total labor force, in thousand persons**

Source: SSC



As of April 1, 2026, the number of registered unemployed people increased by 6.8% to 246.9 people.

According to the PSM survey carried out in March 2026, indicators of employment expectations was high in non-oil and gas manufacturing sectors, including machinery and equipment production, food and beverage industry and metallurgy.

## 2.4 INFLATION

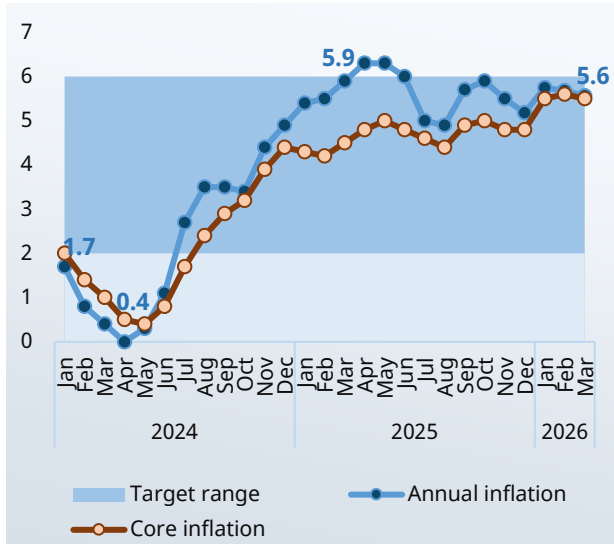
Annual inflation remained within the pre-announced target range in Q1 2026. According to estimates, the increase in the overall price level was mainly due to cost factors.

### 2.4.1 Consumer price index

In March 2026, the CPI stood at annual 5.6% on total products and services.

**Chart 27. Annual inflation, %**

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 5.5% in March 2026.

In March, annual inflation on food products, alcoholic beverages and tobacco products stood at 6.5%. The contribution of food prices to inflation y.o.y. remained unchanged at 2.9%. Food inflation was mainly driven by milk and dairy products and fruits, with annual price increases of 10.5% and 9.7%, respectively.

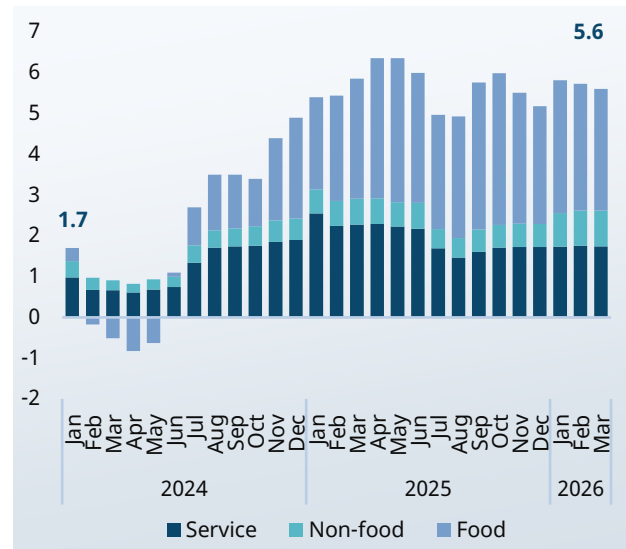
Annual non-food prices increased by 3.7%. The highest annual price hike among non-food products was in jewelry (36.6%). The contribution of non-food products to inflation y.o.y. increased from 0.7 pp to 0.9 pp.

The service inflation stood at annual 5.7% in March 2026. Out of paid services to the population, the highest annual price hike

was in central heating (50%), natural gas supply (5.3%), passenger transport by metro (20.0%) and passenger transport by air (13.6%). In March 2026, contribution of services to inflation decreased from 2.3 pp to 1.7 pp year-over-year.

**Chart 28. Contribution of CPI components, in %**

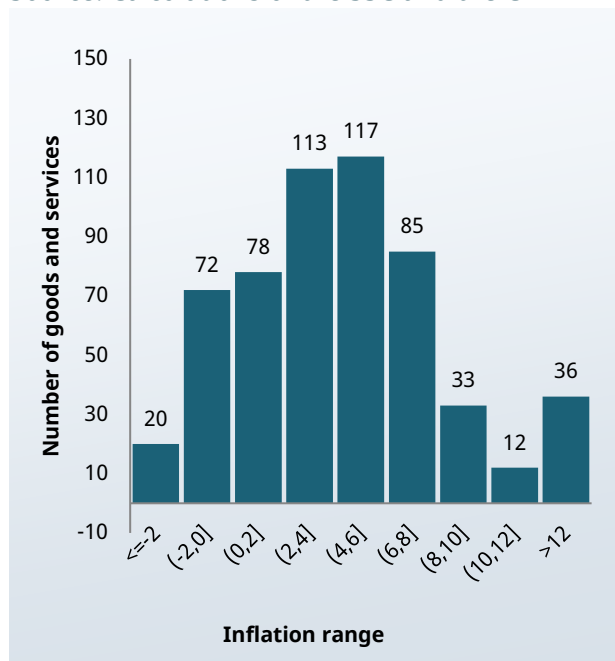
Source: Calculations of the SSC and the CBA



In March 2026, of the 566 goods and services included in the consumer basket, prices of 117 items increased more than 4% annually. For 65% of the items with rising prices, the increase remained below 6%. Prices declined for 7.1% of the goods and services in the basket.

**Chart 29. 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 1.58 pp, the APPI 1.93 pp, inflation in trade partner countries 2.63 pp and the NEER made 1.30 pp upward, while the other factors (inflation expectations etc.) 1.85 pp downward impact on annual inflation.

### 2.4.2 Producer price index

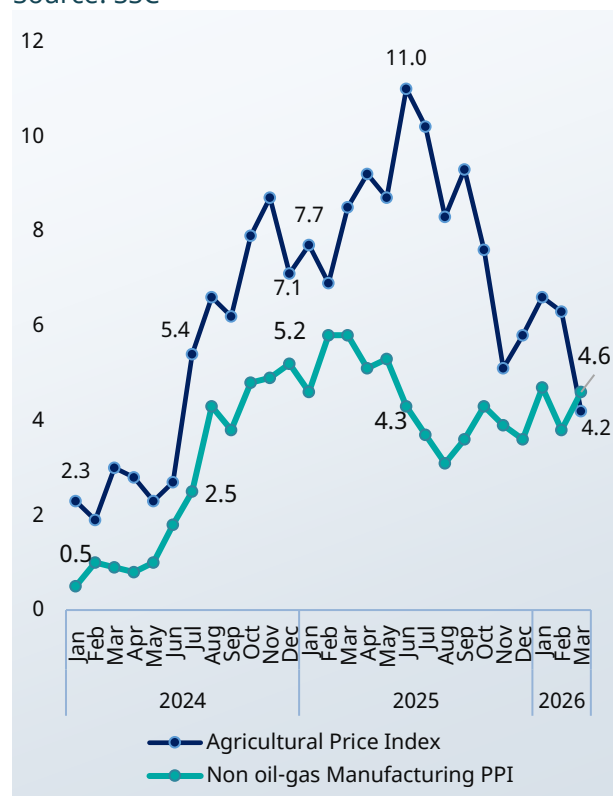
According to the SSC, in March the APPI increased by 4.2%, prices for plant growing products increased by 2.2%, and prices for livestock products increased by 6.0% annually.

In March 2026, the production PPI increased by 20.9% annually. The main reason for the increase was the increase in oil prices on a global scale in the last month. Thus, in March, the industrial products PPI increased by 25.2% on a monthly basis. The PPI increased by 25.9% annually on the oil and gas products and 4.6% annually on non-

oil and gas products. The PPI in processing increased by 4.6% annually.

**Chart 30. Annual change in PPI, in %**

Source: SSC



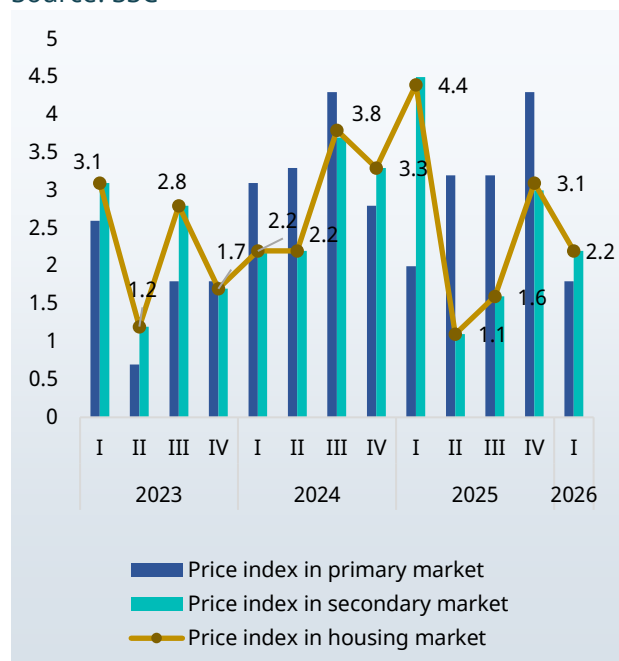
In March 2026, prices y.o.y. increased by 2.6% for transport and warehousing, by 2.3% for freight transportation services, by 0.3% for postal and courier services, by 0.6% for advertising services and by 0.9% for software development-related services.

### 2.4.3 Housing price index

According to the SSC, in Q1 2026, the housing price index increased by 8.1% year-over-year. Prices in the primary housing market rose by 13.1% and in the secondary market by 8.1%.

**Chart 31. Housing price index, quarter-overquarter, in %**

Source: SSC



In March 2026, rents paid by tenants increased by 7.3% annually and 0.3% monthly.

# 3

## **MONETARY AND EXCHANGE RATE POLICY**

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

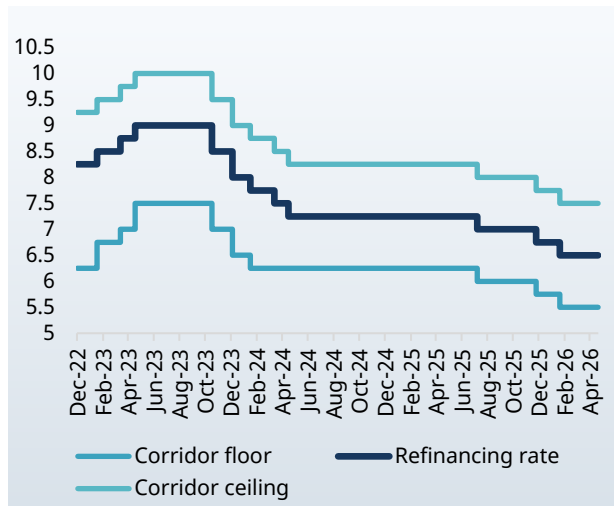
*In the first quarter of 2026, the monetary policy of the CBA was geared towards maintaining inflation within the target range through appropriate monetary conditions. Monetary policy tools were employed in response to financial market developments and changes in the liquidity position of the banking 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 decisions

The CBA's Management Board discussed the interest rate corridor parameters three times during the past period of 2026. In the first monetary policy meeting, the refinancing rate was lowered from 6.75% to 6.5%, the ceiling of the interest rate corridor from 7.75% to 7.5%, and the floor of the corridor from 5.75% to 5.5%. In subsequent meetings, a decision was made to keep all interest rate parameters unchanged. Monetary policy decisions were made considering the consistency of actual inflation with the forecasted trajectory, changes in the risk balance of inflation over the medium term, the potential impact of existing uncertainties in the global economy and geopolitical tensions, as well as the nature of monetary policy transmission.

**Chart 32. Interest rate corridor parameters, in %**

Source: CBA

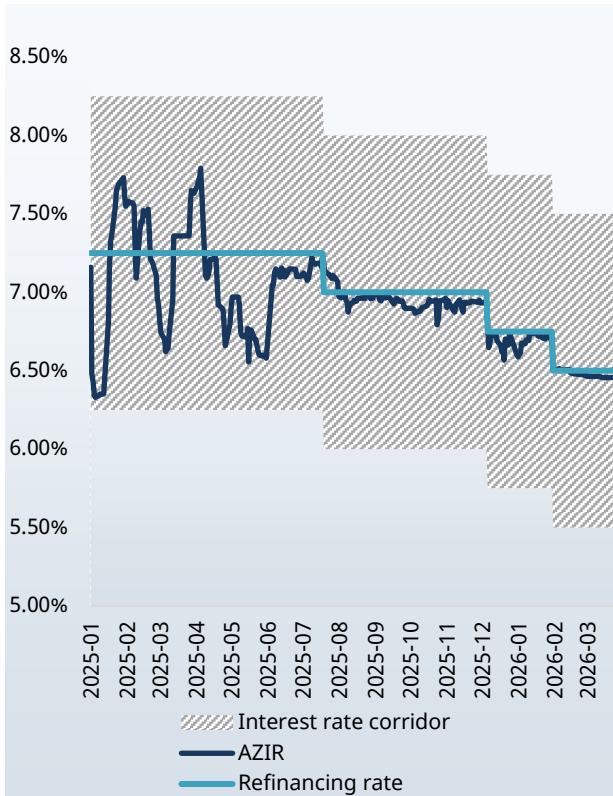


Taking into account the possible effects of the conflict in the region on our country and the activation of external cost factors, the CBA has kept the interest rate corridor parameters stable in the last two meetings. The CBA communicated its interest rate decisions to the public in line with the pre-announced schedule, accompanied by the relevant analytical commentary.

During the reporting period, the reference interest rate formed in the interbank unsecured money market - AZIR moved on a trajectory close to the refinancing rate. The AZIR index fell from 6.7% in January to 6.54% in February and 6.47% in March, in response to the 0.25 pp reduction in the interest rate corridor parameters in February of this year. While the average spread between the AZIR index and the refinancing rate stood at 0.21 pp in 2025, it declined to 0.04 pp during Q1 2026. The decline in the spread suggests a heightened transmission of the refinancing rate to the interest rates established in the interbank market.

**Chart 33. Dynamics of the refinancing rate and the AZIR index**

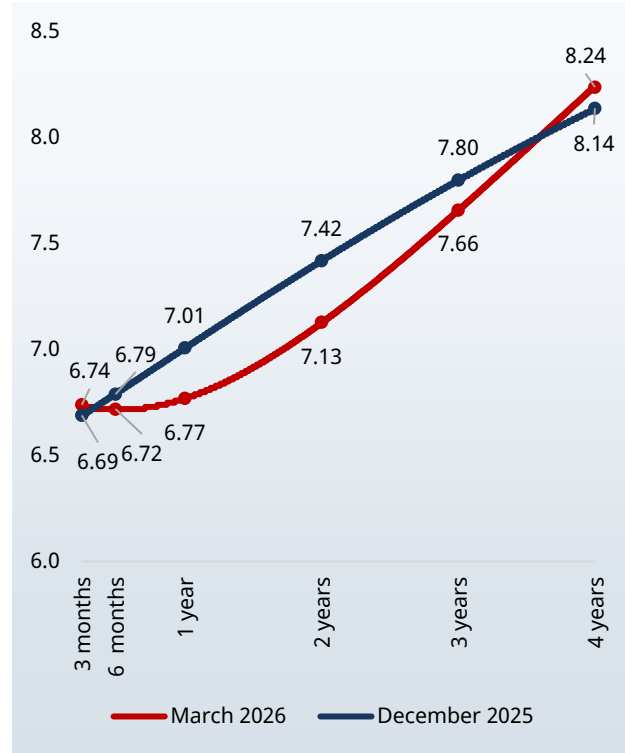
Source: CBA



Changes in the interest rate set by the CBA also impacted the government securities market. Compared to the end of last year, interest rates on the yield curve moved mainly downward in the first quarter of 2026. Yields on securities with maturities of 6 months decreased from 6.79% in December to 6.72% in March, with maturities 1 year decreased from 7.01% to 6.77%, and 3 years decreased from 7.8% to 7.66%. Meanwhile, an increase was recorded in the yield on securities with 3-month and 4-year maturities.

**Chart 34. Yield curve, in %**

Source: CBA



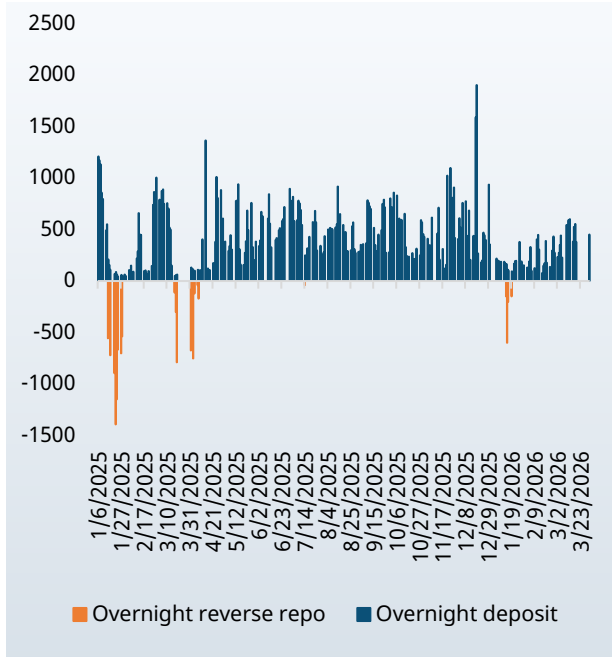
### 3.1.2 Monetary policy tools

During Q1 2026, monetary policy tools were applied, considering the processes occurring in financial markets and the liquidity position of the banking system. Various term monetary operations were used to manage liquidity during this period. Standing facility instruments were used actively, and the quantitative parameters of open market operations were determined based on liquidity forecasts.

In the reporting period, 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. Changes in the liquidity position of the banking sector affected the demand for the Central Bank's standing facilities. Thus, from January to March, 53 overnight deposit operations, averaging 263 million manat, and four overnight reverse repo operations, averaging 275 million manats, were carried out.

**Chart 35. Amounts placed by banks with the CBA (overnight deposits) and absorbed from banks through overnight reverse repos under the CBA’s standing facilities, in million manats**

Source: CBA



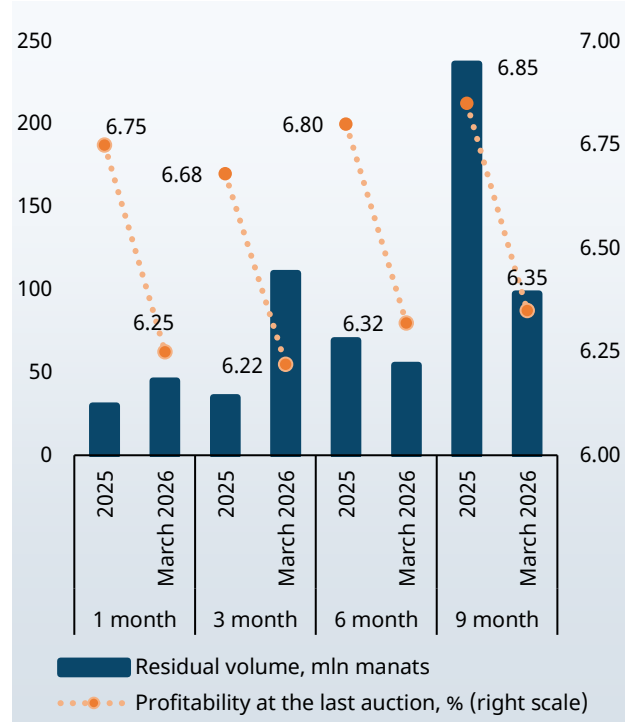
In the reporting period, the CBA mainly relied on 7-day deposit operations to swiftly minimize the impact of autonomous factors on monetary conditions and steer AZIR closer to the policy rate. In January-March 2026, the CBA held 23 deposit auctions. The average transaction volume for those auctions was AZN 1,070.4M.

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. In total, 44 note auctions of various maturities were organized by the Central Bank over the period – 11 auctions were on 28-day, 11 on 84-day, 11 on 168-day and 11 on 252-day notes. As of end-March, total outstanding amount of funds absorbed through notes reached AZN 306.9M. This is AZN 63.9M less than at the end of last year.

Yields at recent auctions were 6.25% on 28-day, 6.22% on 84-day, 6.32% on 168-day, and 6.35% 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 at the CBA exceeded total funds to be maintained as required reserves throughout the reporting period.

In general, the CBA's monetary operations had a positive effect on banks' effective management of liquidity. In upcoming periods, monetary policy tools will be used appropriately considering the liquidity position of the banking system.

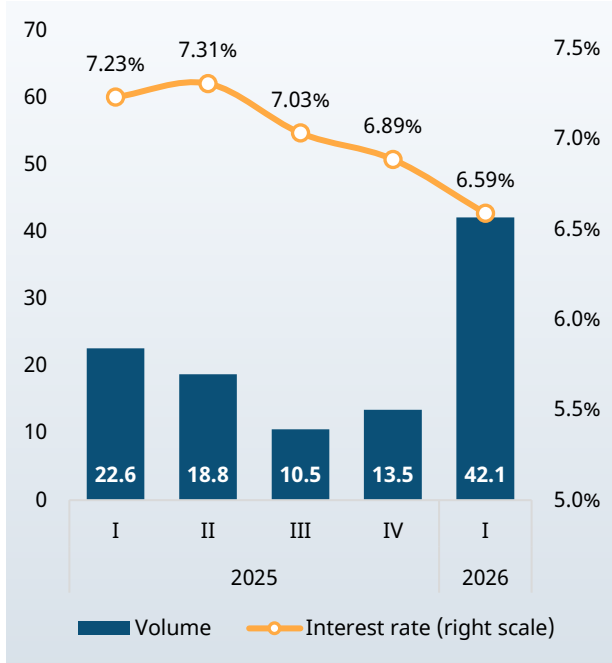
**3.1.3 Money market**

During the reporting period, money market activity was characterized by the high operational activity of market participants. Continued active demand for short-term financial resources increased the intensity of interbank transactions. Both the unsecured segment and the repo market experienced increased transaction volumes.

Over the quarter, the interbank unsecured market continued to be active. In Q1 2026, AZN 42.1B worth 1,041 transactions were concluded in the Bloomberg trading system. This is 3.1 times more than in the previous quarter. 97% of them were 1–3-day transactions.

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

Source: CBA, BFB

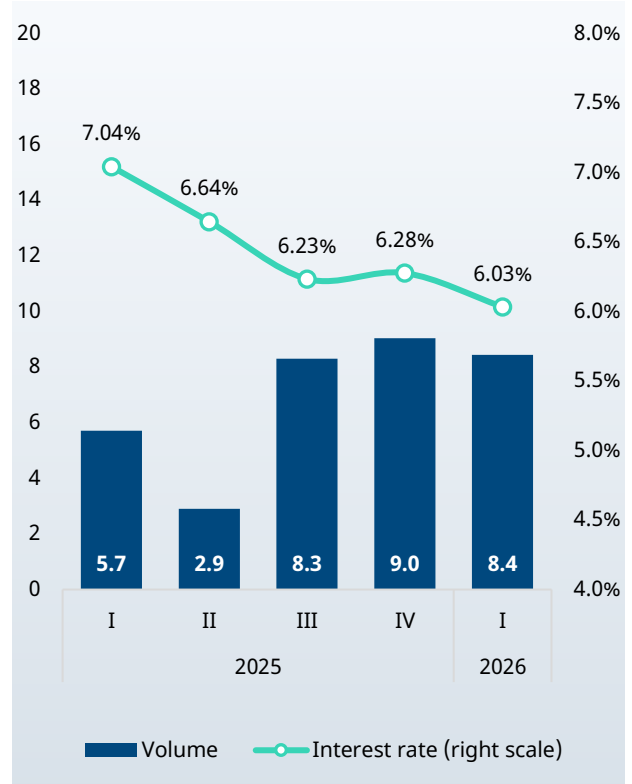


The downward trend in interest rates in the interbank unsecured market continued during the reporting period. Thus, the average interest rate for transactions in the interbank unsecured money market from January to March of 2026 was 6.59%, which is 0.3 pp lower than the previous quarter.

In addition to the unsecured interbank market, operational activity was maintained in the repo market. During the first three months of this year, 1,060 deals with 6-8-day maturities and total volume of AZN 8.4B were made in the repo market. The weighted average repo rate (1W AINA AO) for these transactions stood at 6.03%.

**Chart 38. Transactions in the 6-8-day segment of the repo market, in billion manats**

Source: CBA, BFB

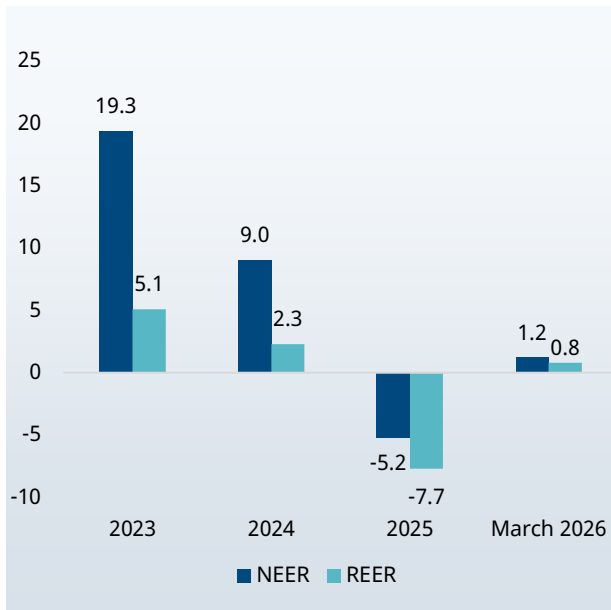


### 3.1.4 Bilateral and multilateral exchange rates

During Q1 2026, 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). In the reporting period, the average daily official USD/AZN exchange rate was AZN 1.7.

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

Source: CBA



Compared to December of last year, the non-oil trade-weighted NEER of the manat appreciated by 1.2% in March 2026, while the REER appreciated by 0.8%. Inflation in Azerbaijan was lower than the weighted average inflation in trading partners and had a downward effect on the REER. Compared to December of last year, Azerbaijan's 3-month inflation rate was 2.7%, while the weighted average inflation rate across trade partner countries was 2.9% in March 2026.

## 3.2 MONEY SUPPLY, DEPOSIT AND CREDIT MARKET

In Q1 2026, money supply continued to grow. The loan portfolio to the economy also continued to grow during the period. The trend of decreasing dollarization of deposits continued.

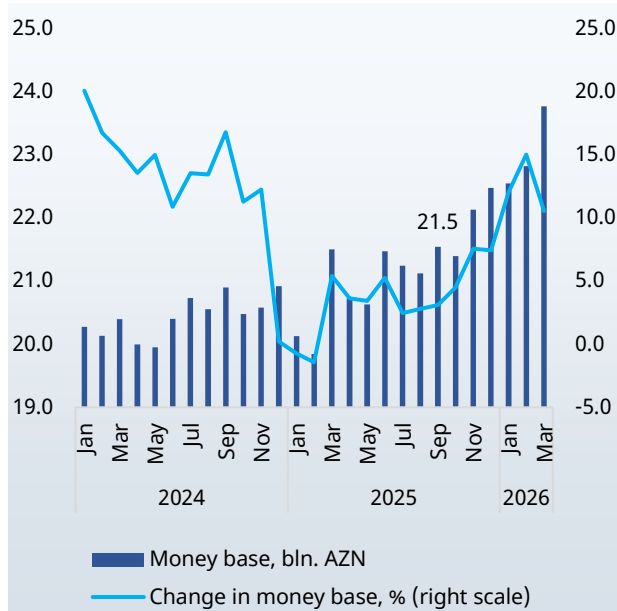
### 3.2.1 Base money and money supply

In Q1 2026, the base money in manat increased by 5.8% to AZN23.8B, driven mainly by the changes in government account balances. Cash in circulation<sup>8</sup>, a structural element of base money in manat increased by 3.3%, while the balance of correspondent accounts in manat increased by 22.4%.

As of the end of Q1 2026, the money multiplier in manat (the ratio of the broad money supply to the base money supply) was 1.7.

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

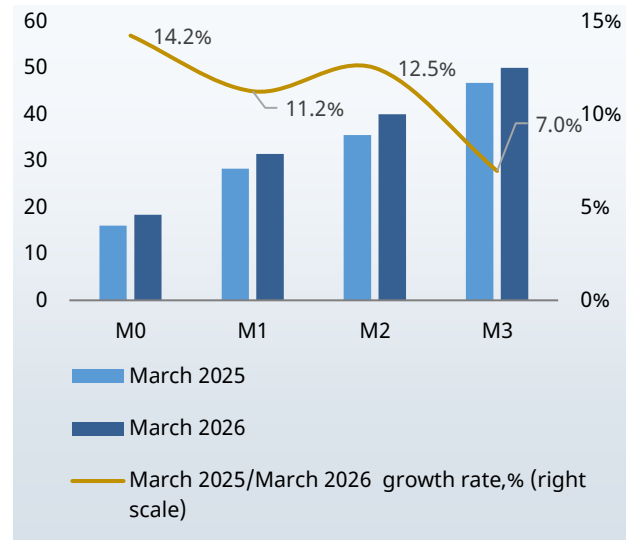
Source: CBA



In the reporting period, broad money supply (M3) increased by 0.2% to AZN49.9B. Broad money supply in manat (M2) decreased by 1% to AZN40.0B.

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

Source: CBA



In January-March 2026, structural elements of the M2 money aggregate changed in different directions. Cash money supply (M0) increased by 2.3%, demand savings and deposits increased by 3.6%, and term savings and deposits decreased by 7.8%.

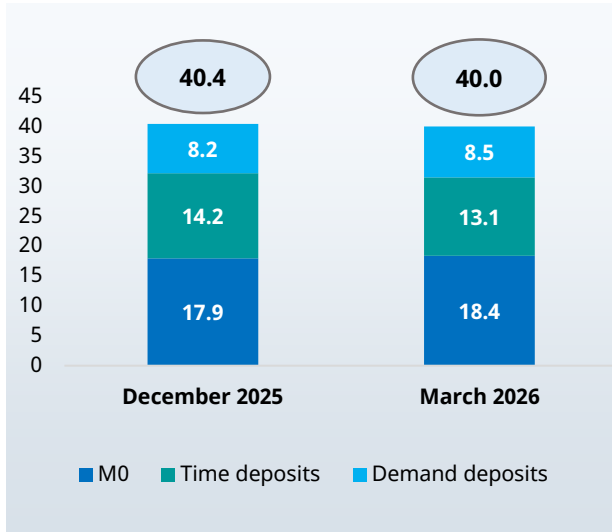
The share of demand deposits in M2 decreased by 2.4 pp to 32.8%, while the share

<sup>8</sup> Cash money outside the banking system, cash in bank ATMs and cash offices

of term deposits increased by 0.9 pp to 21.3%.

**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 45.9%.

The share of foreign currency denominated savings and deposits in total savings and deposits was 31.6%. The share of foreign currency denominated savings and deposits in M3 money aggregate was 20%.

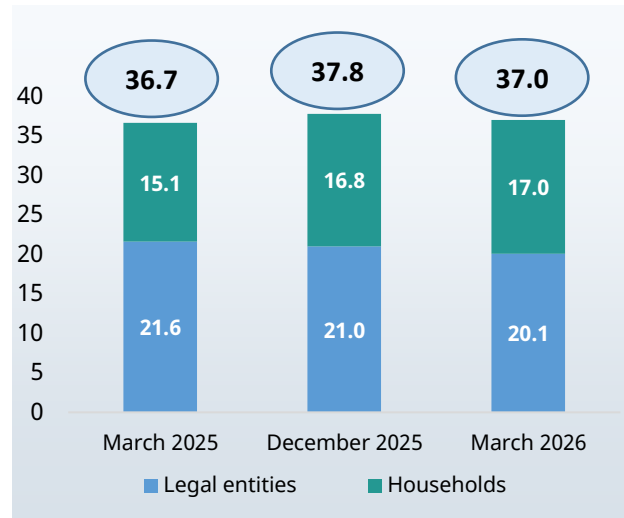
### 3.2.2 Deposit market

As of the end of Q1 2026, the deposit portfolio (excluding the financial sector) decreased by 2% to AZN37B compared to the beginning of the year. Term deposits increased by 2% to AZN16.3B, while current deposits decreased by 5% to AZN20.7B.

Total deposits of legal entities were AZN20.1B. The share of current deposits in total deposits of legal entities was 72.3%, while the share of term deposits was 27.7%.

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

Source: CBA

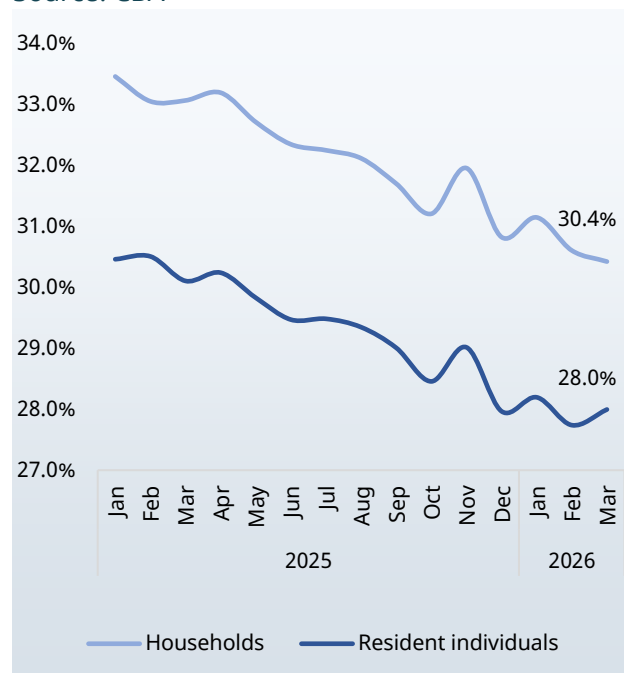


As of the end of Q1, manat deposits amounted to AZN23.8B, while foreign currency denominated deposits were AZN13.3B.

In the reporting period, dollarization of individuals' savings decreased by 0.4 pp to 30.4%. Dollarization of households' savings remained unchanged in the reporting period and stood at 28%.

**Chart 44. Dollarization of deposits, in %**

Source: CBA

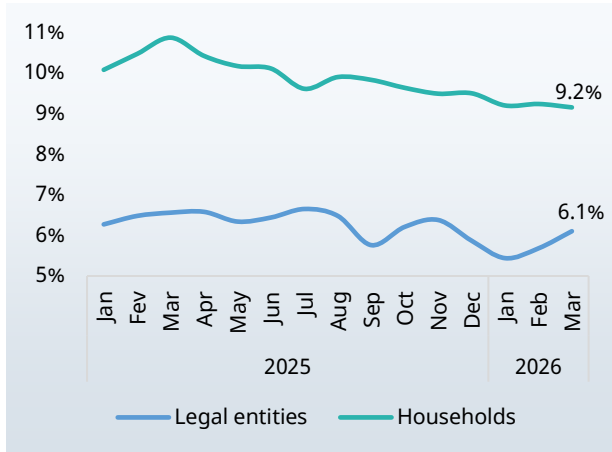


Interest rates on newly attracted manat deposits decreased by 0.3 pp. As of

the end of March, interest rates on newly attracted deposits for legal entities amounted to 6.1%. Interest rates on newly attracted foreign currency deposits decreased by 0.5 pp. Interest rates on newly attracted foreign currency deposits for legal entities were 3.5% at the end of March.

**Chart 45. Average weighted interest rates on newly attracted manat deposits**

Source: CBA



### 3.2.3 Credit market

Credit investment in the economy continued to grow in January-March 2026. The loan portfolio (banks and nonbanks) increased by 1.1% to AZN32.3B. Long-term loans dominated and stood at 81.4% as of the end of the period. Long-term loans increased by 0.6% to AZN26.3B. Short-term loans have increased by 3.7% since the early year to AZN6B.

The highest growth in business loans was in transport (3.3%), construction (2.3%). Business loans increased by 0.7% to AZN16.2B in Q1 2026.

Dollarization of loans continued to decline during the reporting period. Manat denominated loans increased by 1.3%, while foreign currency denominated loans increased by 0.5%. The share of foreign currency denominated loans in total loans decreased by 0.1 pp from early year to 13.5%.

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

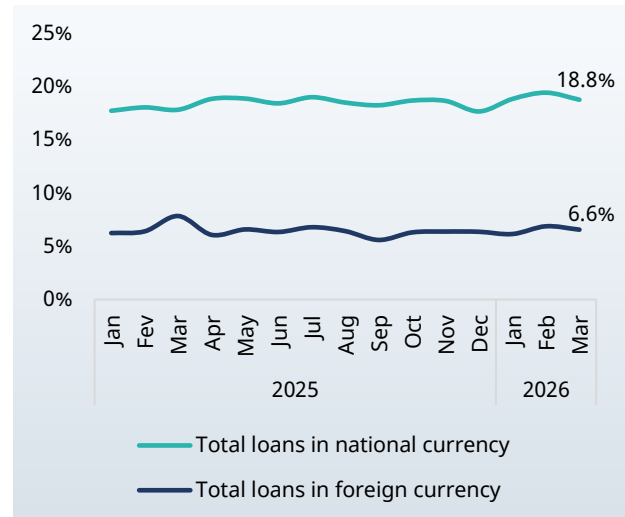
Source: CBA



In March 2026, average weighted interest rates on newly issued loans in manat stood at 18.8%, those in foreign currency stood at 6.6%. Average interest rates on loans issued in both manat and foreign currency over the last year remained stable.

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

Source: CBA



# 4

## ECONOMIC OUTLOOK

## 4.1 GLOBAL ECONOMIC FORECASTS AND RISKS

*Amid the conflicts in the Middle East, the global economy has faced serious supply shock, with growth prospects deteriorating and inflationary risks shifting upward. Global inflation forecasts indicate that the pace of inflation, which had been declining in recent years, is expected to rise again during the current year.*

### 4.1.1 Global economic growth and inflation forecasts

According to the IMF April 2026 WEO, global economic growth is projected to stand at 3.1% in 2026 and at 3.2% in 2027. Updated forecasts indicate that the global economic growth rate will slow slightly this year, falling below the 2024-2025 rate and the pre-pandemic historical average of 3.7%. The forecast for 2026 was revised down by 0.2 pp, while the projection for 2027 remains unchanged. Intensifying geopolitical risks are increasing volatility in commodity markets, tightening financial conditions, and raising inflation expectations. All these factors act as key constraints on the sustainability of global economic growth in the medium term.

Although the latest report did not change the overall forecasts for the AE group, we observed changes in the forecasts for individual countries. According to the new projections, economic growth in AE group is expected to stand at 1.8% in 2026 and at 1.7% in 2027.

Economic growth in the United States is projected to stand at 2.3% in 2026 and at 2.1% in 2027. This represents a downward revision of 0.1 pp for 2026 and an upward revision of 0.1 pp for 2027 vs the previous projection round. Even if trade barriers continue to impact economic activity, growth this year is supported by fiscal policy and the effects of monetary easing in 2025.

The euro area economy is predicted to grow by 1.1% in 2026 and by 1.2% in 2027. This is lower than the 1.4% growth recorded in 2025. The forecast for the current and next

year was revised downward by 0.2 pp. Against the backdrop of recent conflicts, rising energy prices, disruptions in production processes, and the real appreciation of the euro are diminishing growth prospects.

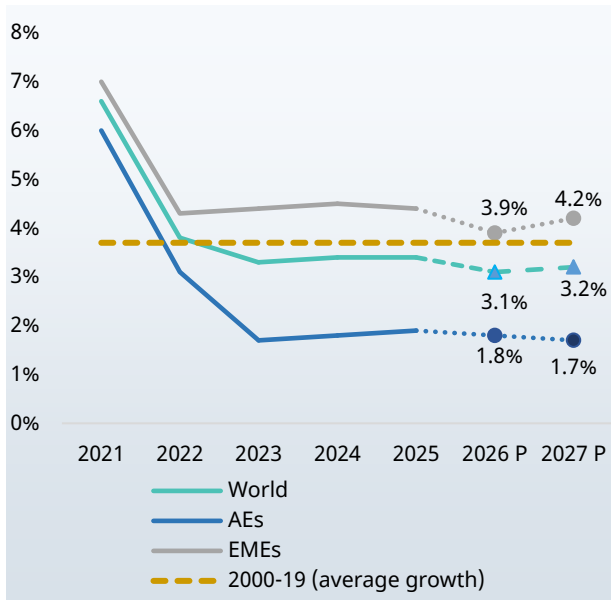
In Japan economic growth is expected to stand at 0.7% in 2026 and at 0.6% in 2027. This is the same as the forecast in the previous report. Overall, growth expectations are quite low compared to previous year. The fiscal stimulus package announced by the new government and strong domestic demand are key factors supporting growth.

Economic growth in the United Kingdom is also projected to remain weak compared to 2025. It is expected to reach 0.8% in 2026 and 1.3% in 2027. These figures are 0.5 pp lower for the current year and 0.2 pp lower for the next year than previous forecasts.

The ongoing conflict in the Middle East affects economic growth for EMEs through channels such as capital flows, remittances, and energy dependence. Overall, the impact on EMEs is expected to be more significant than on AEs. The growth is forecast to grow by 3.9% in 2026 and 4.2% in 2027. Forecasts were revised downwards by 0.3 pp for the current year and upwards by 0.1 pp for the next year vs the January forecast.

**Chart 48. Global economic growth forecasts**

Source: The IMF WEO



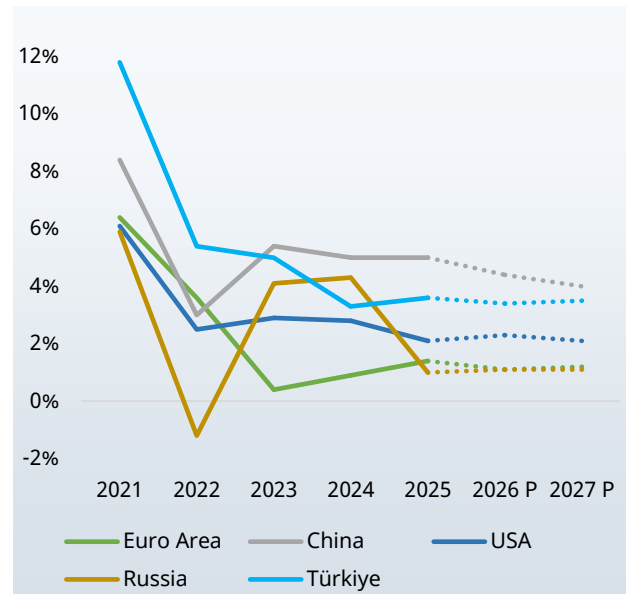
China's economic growth is expected to reach 4.4% in 2026 and 4% in 2027. These forecasts were revised downward by 0.1 pp for 2026 and left unchanged for 2027 versus the January forecast. Current year economic growth is driven by the United States' lowering of effective tariff rates applied to products of Chinese origin. At the same time, the implemented stimulus policies are partially offsetting the negative effects of the Middle East conflict.

Against the backdrop of rising commodity prices, economic growth in Russia is expected to slightly exceed the growth rate in 2025 over the next two years. The growth forecast for 2026 and 2027 is 1.1%. Forecasts were revised upwards by 0.3 pp for 2026 and by 0.1 pp for 2027 vs the January forecast.

A downward adjustment has been made to the forecast for Türkiye's economic growth. The increase in oil and gas prices is limiting economic activity. Economic growth is expected to reach 3.4% in 2026 and 3.5% in 2027. These figures represent reductions of 0.8 and 0.6 pp, respectively, compared to the January report.

**Chart 49. Growth projections across certain countries**

Source: The IMF WEO

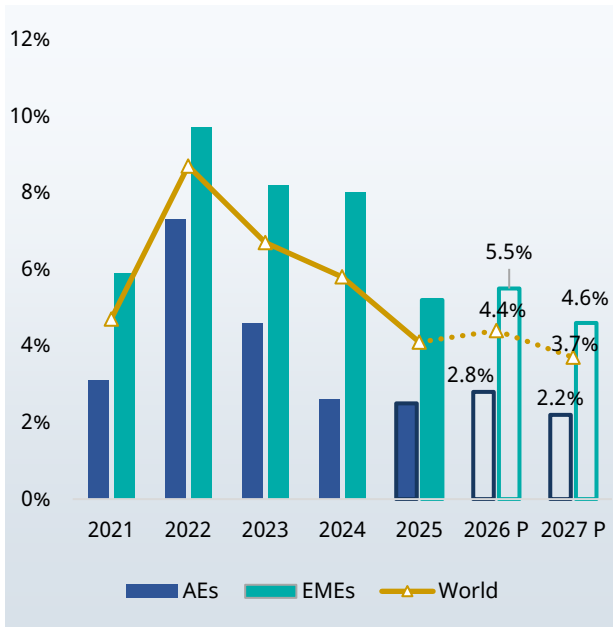


The trajectory of the global inflation forecast has changed significantly in the IMF's updated April report. Compared to the January report, the pace of the decline in inflation appears to have stalled. Geopolitical conflicts are causing supply shocks that are increasing the prices of energy-intensive goods and services, including fertilizers, chemicals, food, transportation, and heating. This is putting upward pressure on global inflation. The IMF forecasts global inflation to rise to 4.4% in 2026, up from 4.1% in 2025, before declining to 3.7% in 2027.

Overall, the inflation forecast for both AEs and EMEs has shifted upwards in 2026 and 2027. Accordingly, inflation in AEs is expected to remain at 2.2% and 2.8%, whereas in EMEs it is projected at 5.5% and 4.6%. Forecasts were revised upwards by 0.6 pp for AEs and by 0.7 pp for EMEs.

**Chart 50. Global inflation forecasts**

Source: The IMF WEO



**4.1.2 Global risks**

According to the IMF's April 2026 WEO, the global economy is once again facing serious risks due to the escalating conflict in the Middle East. The conflict is negatively impacting the global economy through commodity markets, inflation expectations, and financial conditions.

The deepening of geopolitical conflict may lead to the largest energy crisis in modern times. This, in turn, may result in rising energy prices, surging inflation, and weakening economic growth.

Trade related tensions could flare up again and the introduction of new tariff regulation could negatively impact global economic activity.

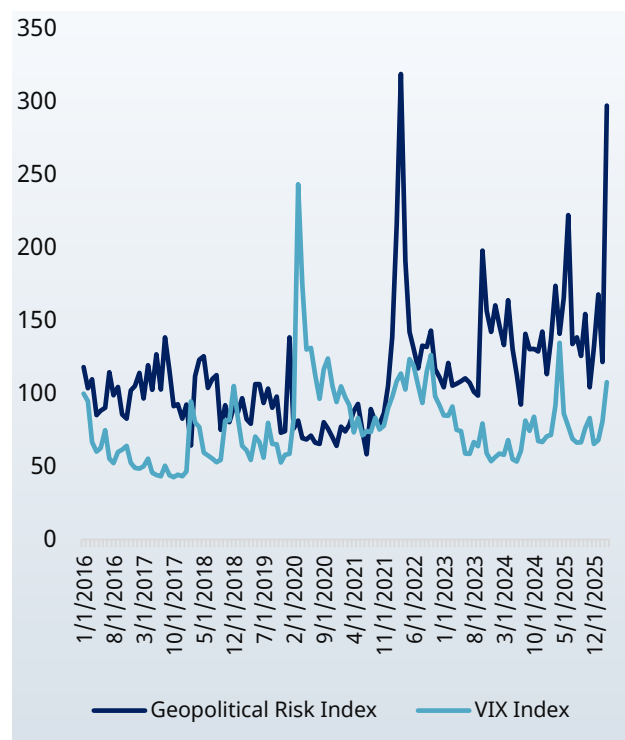
Declines in profit expectations related to artificial intelligence (AI), as well as expectations regarding possible margins against the backdrop of more intense competition, could lead to decreased investments in this area and corrections in financial markets.

Amid weakened fiscal buffers, rising budget deficits and public debt could put pressure on long-term interest rates and financial conditions.

A weakening of the institutional environment, including a decline in the independence of central banks and the credibility of monetary policy, could lead to a further rise in inflation expectations.

**Chart 51. Global geopolitical risk and VIX<sup>9</sup> Index (Jan 2016 = 100), annual change, %**

Source: The IMF April 2026 WEO



However, increased investment in AI and improved productivity could bolster economic activity. Additionally, strengthening structural reforms and easing trade tensions could provide further support for global economic growth.

<sup>9</sup> The VIX Index (The Chicago Board Options Exchange Volatility Index) measures expected volatility in the U.S. equity options market.

## 4.2 MACROECONOMIC OUTLOOK FOR AZERBAIJAN

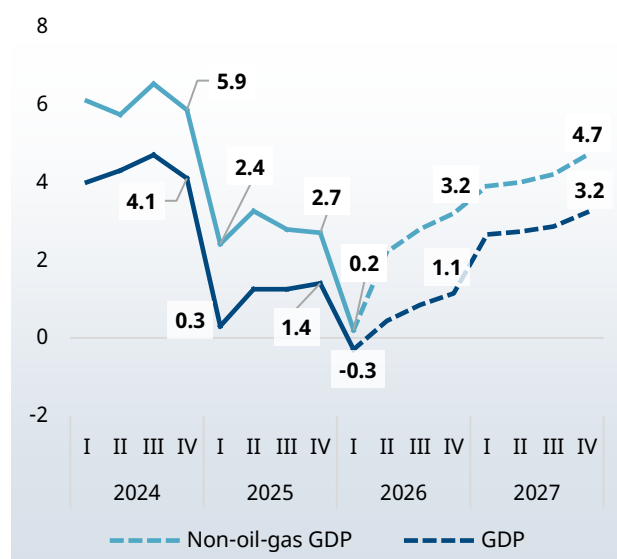
According to CBA's May 2026 forecasts, annual inflation is expected to remain within the target band over the medium term. At the same time, expectations regarding the outlook for economic growth are generally optimistic.

### 4.2.1 Economic growth forecast

Although revised downward, economic growth forecasts for 2026 are generally optimistic. According to the Central Bank's May 2026 forecasts, the real economic growth rate is expected to be 1.1% for total GDP and 3.2% for non-oil and gas GDP in the current year. According to the forecasts for 2026, the oil and gas sector 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 52. Real growth forecast for GDP and non-oil and gas GDP, year-over-year, in %**

Source: SSC and CBA AzIM<sup>10</sup> model



Economic growth in 2027 is projected at 3.2% for the overall economy and 4.7% for the non-oil and gas sector. The oil and gas sector is projected to have a neutral effect on overall GDP growth, while the non-oil-and-gas sector will provide an upward contribution. The growth of the non-oil and gas sector in 2027 is expected to be driven by households' final consumption expenditure and net exports of goods and services.

Note that the projections for the oil and gas sector are based on the government's official forecasts. The sector is expected to decrease in real terms by 3.3% in 2026 and remain flat in 2027.

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 internal and external aggregate demand.

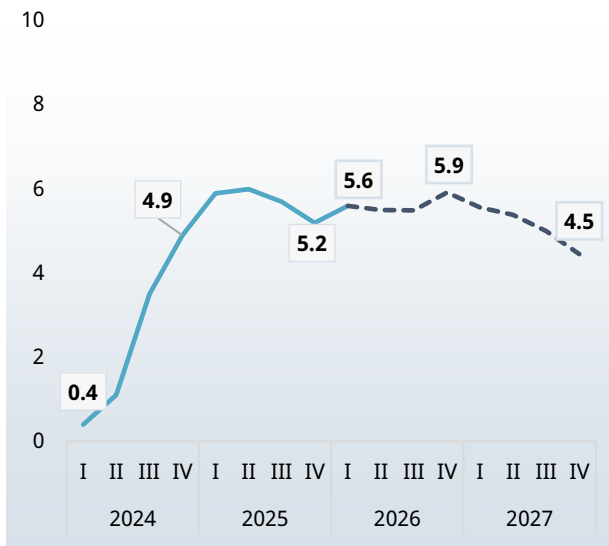
### 4.2.2 Inflation forecast

According to CBA's May forecasts, in 2026 and 2027 annual inflation is expected to remain within the target band ( $4\pm 2\%$ ) at 5.9% and 4.5%, respectively. Weighted inflation in trading partners is expected to contribute 2.59 pp, APPI 2.16 pp, household consumption 0.88 pp, and other factors 1.90 pp exerting an upward impact on the annual inflation forecast for 2026. The downward contribution of government consumption is expected to be 0.50 pp, the NEER - 1.13 pp.

<sup>10</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. May forecast for annual inflation, in %**

Source: CBA AzIM model



According to the assessments, the following factors are expected to contribute an upward effect in 2027: inflation in trade partners (1.92 pp), APPI (1.87 pp), household consumption (1.55 pp), government consumption (0.03 pp), and other factors (0.90 pp). Meanwhile, NEER is expected to exert a diminishing effect of -1.77 pp.

The realization of forecasts depends on potential changes in a range of internal and external factors. The main source of external risks is the possibility of price increases in partner countries. These price increases could be caused by fluctuations in commodity and financial markets against the backdrop of ongoing geopolitical tensions.

The conflict in the Middle East, in particular, is disrupting supply chains and increasing transportation and insurance costs, as well as price volatility in the global energy market. These processes are expected to continue for the rest of the year, significantly impacting the inflation dynamics of trading partners. Additionally, the depreciation of the NEER affects the

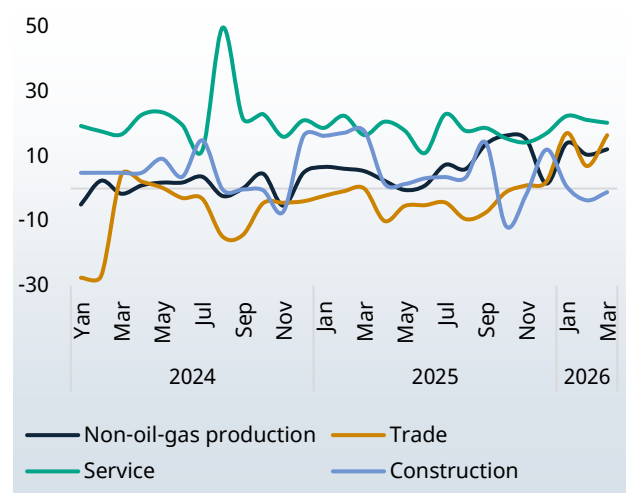
transmission of import inflation to domestic prices. On the other hand, climate change may negatively impact production and increase global inflationary pressures. The main risk to domestic factors may be growth trends in spending and demand.

### 4.2.3 Inflation expectations

In March 2026, inflation expectations varied across sectors. According to CBA’s RSM findings, expectations increased in the non-oil and gas production, trade and services sectors. For the construction sector, expected prices over the next 3 months decreased significantly year-over-year.

**Chart 54. Price expectations for upcoming three months across the real sector<sup>11</sup>**

Source: Surveys among entities



In March, the price index in the non-oil and gas production sector was 12.09 (y.o.y. 5.36), in trade 16.43 (y.o.y. -0.01), in construction -1.11 (y.o.y. 17.70), and in the services sector 20.25 (y.o.y. 16.45).

<sup>11</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 to +100 and reflects the trend of price expectations for the next three months.

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