



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

STATEMENT
OF THE CENTRAL BANK OF THE
REPUBLIC OF AZERBAIJAN ON MAIN
DIRECTIONS OF THE MONETARY
POLICY FOR 2026

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The consistent and multifaceted policy implemented under the leadership of His Excellency President Ilham Aliyev yielded significant successes in the political and socio-economic domains in 2025 as well. Throughout the year, macroeconomic stability was safeguarded, economic growth continued, and Azerbaijan's international credit rating improved.

In 2025, the Central Bank of the Republic of Azerbaijan continued to focus its activities on price stability, its primary mandate. During the reporting year, annual inflation remained within the target range ($4 \pm 2\%$). Reforms aimed at improving the monetary policy operational framework continued, resulting in a stronger interest rate transmission channel.

In 2026, the primary objective of the Central Bank's monetary policy will be to keep inflation within the target range. Accordingly, decisions will be based on macroeconomic forecasts, and demand- and supply-side inflation risk factors will be closely monitored. Reforms will continue to enhance the effectiveness of monetary policy in influencing inflation.

I. Monetary policy pursued in 2025 and its outcome

In 2025, the main objective of the monetary policy was to maintain low and stable inflation. The monetary policy was crucial in keeping inflation within the target range by influencing monetary conditions.

According to the State Statistics Committee, in November 2025 12-month inflation was 5.5% - annual inflation on food, alcoholic beverages and tobacco products was 7.1%, non-food products gained 2.5%. Annual price hike on paid services made up 5.7%. Annual core inflation - calculated by excluding changes in regulated prices and prices for seasonal products and services was 4.8% in November 2025.

Inflation was driven by a number of supply and demand factors. External cost factors had a significant impact on inflation dynamics. In November 2025, annual inflation in Azerbaijan was estimated to increase by 2.87 percentage points due to inflation in trade partners, while the nominal effective exchange rate contributed an additional 0.38 percentage points to annual inflation. Over the period, the effects of domestic supply factors (agricultural producer prices, etc.) and demand factors (household and government consumption, etc.) on inflation were also expansionary overall.

The FX market stability was critical in price stability in the country. Over the past period of 2025, supply prevailed over demand on both cash and cashless segments of the market. Dollarization of savings of resident individuals has decreased by 2.1 percentage points over recent 12 months to 29% in November 2025. Favorable external sector indicators supported the FX market equilibrium. Current account surplus of the balance of payments amounted to \$3B (5.4% of GDP) over 9 months of 2025. On this backdrop, strategic foreign exchange reserves increased by 17.7% over 11 months to \$83.6B. Central Bank's foreign exchange reserves increased by 4.3% to \$11.4B.

In 2025, monetary policy decisions were made in light of macroeconomic forecasts, changes in risk factors of inflation, the situation in the FX market and interest rate cut expectations in foreign countries. Over the period, interest rate corridor parameters have been discussed eight times under the predetermined schedule. At 6 meetings of the Management Board of the Central Bank the refinancing rate was decided to be kept unchanged and at 2 meetings the refinancing rate was decreased. In general, throughout the year the monetary policy was eased, the refinancing rate was shifted to 6.75% from 7.25%, the ceiling of the interest rate corridor to 7.75% from 8.25% and the floor to 5.75% from 6.25%. Presently, the refinancing rate is at its lowest level in the past four years, close to the neutral rate.

In 2025, monetary policy tools were applied in response to money market developments and the banking system's liquidity position, ensuring an adequate response of unsecured money market rates to the change in the Central Bank's interest rate corridor. Over recent months, the gap between the policy rate and AZIR, the average interest rate on overnight operations in the unsecured money market, the auxiliary operational target of monetary policy, plunged to a minimum. The average daily rate of the AZIR index was 6.89% in October, 6.91% in November, and 6.84% over the past period of December. In general, over 11 months the standard deviation between the refinancing rate and the AZIR was 0.29 percentage points (0.04 percentage points recent three months), acceptable in terms of international practice. The refinancing rate weighed on other interest rates through AZIR. In July, the policy rate cut was accompanied by a decline in yields in the securities market, as well as lower interest rates on new deposits and loans.

Activity in both unsecured and secured sectors of the interbank market remained high. Over 11 months, AZN61.8B worth of 3482 transactions were concluded among banks on the Bloomberg platform. Over the period, AZN3.0B worth of 287 transactions were concluded in the interbank repo market.

Liquidity in the banking sector has increased in consequence of auctions held by the Ministry of Finance to deposit available national currency balances of the treasury account in commercial banks, since April. Against this backdrop, to manage

AZIR close to the refinancing rate, seven-day deposit operations were used as the key open market operation. As of 30 November 2025, seven-day deposits accounted for 87% of the sterilization portfolio.

Efforts continued to improve the monetary policy operational framework. The maturity of one-day standing deposit and reverse repo operations was changed from 24 hours to overnight, the requirement for a minimum number of participants in note auctions was removed and seven-day repo was replaced with seven-day deposit, to manage short-term liquidity more effectively.

In May 2025 the Central Bank approved new, more advanced regulations for the calculation of the AZIR Index in close cooperation with experts from the EBRD, considering the analysis of developments in the interbank money market and best practices. The regulation contributes to continuous use of AZIR as a benchmark rate by financial market participants.

In 2025, the EBRD began to place national currency denominated floating rate bonds linked to AZIR. In this context, the first tranche in the amount of AZN50M was successfully placed through the public offering. This represents a major achievement for Azerbaijani financial market and also demonstrates the use of the AZIR index as a reliable benchmark interest rate.

Enhanced monetary policy transmission, in particular the reforms aimed at developing money markets contributed to the improvement of the national credit rating in 2025.

As in previous years, the Central Bank continued to refine its analytical and forecasting framework during the current year. The model toolkit, grounded in international best practices, was further enhanced, existing models were improved, and methodological efforts were undertaken to strengthen forecast accuracy. In addition, the scope of research was broadened, with deeper analysis of various monetary policy transmission channels, including interest rate–related assessments.

The Central Bank focused on the effective communication of the monetary policy. Press-releases regarding monetary policy decisions were published with appropriate analytical commentary, in parallel with regular press conferences on pre-announced dates. The Central Bank disclosed forecasts of key macroeconomic indicators and the breakdown of actual inflation by factors in live-streamed press conferences. In addition to publication on the Central Bank’s official website, information on decisions was also shared on social media platforms in the form of infographics. In 2025, the Monetary Policy Review was published quarterly, while the yield curve was assessed and published weekly. Quarterly reports on the analysis of intersectoral flow of funds, an interactive statistics section, completed research papers, and documentation on forecasting models were made available on the official website. Monetary policy decisions were discussed during meetings with

representatives of the financial sector as well as independent experts in the economy. Educational initiatives for media representatives and various target groups of the public continued. These initiatives made a significant contribution to enhancing public awareness of the nature of monetary policy and the functioning of its tools, as well as to strengthening the effectiveness of the Central Bank's communication.

In 2025, coordination between fiscal and monetary policies made a substantial contribution to macroeconomic stability. Responsible fiscal policy played an important role in price stability, the objectives of both policy areas complementing each other. Adherence to fiscal rules and the advance announcement of fiscal policy parameters facilitated the timely and appropriate adoption of the Central Bank's monetary policy decisions.

II. Monetary policy in 2026

2.1. The objective and framework of the monetary policy in 2026

In 2026, the Central Bank will gear its monetary policy towards the implementation of the macroeconomic stability and sustainability priorities set out in the '2022–2026 Socio-Economic Development Strategy.' The primary objective will be to keep inflation within the target range. Reforms aimed at further improving the monetary policy framework will also continue.

The monetary policy target will remain the maintenance of annual inflation at $4\pm 2\%$ in the coming year. As in previous years, the target indicator will be the 12-month change in the Consumer Price Index calculated by the State Statistics Committee.

Managing inflation within the target range is one of the key prerequisites for sustainable economic growth. It is essential for safeguarding incomes and savings of households as well as companies. Stable and low inflation strengthens confidence in the national currency and enhances its purchasing power, helping reduce the share of foreign currency-denominated assets and liabilities in the economy. These factors increase the economy's resilience to changes in the external environment.

According to the Central Bank's latest forecasts (October 2025), annual inflation in 2026 is expected to stand at 5.7%, which is within the target range. Forecasts by the Government, international financial institutions, and international rating agencies also suggest that inflation will largely remain within this range next year.

In 2026, the Central Bank will continue to quarterly update its inflation forecasts, based on a comprehensive analysis of inflation drivers. At the same time, the assessment of inflation expectations of households and businesses will continue, based on surveys conducted among the population and enterprises.

In the coming year, the Central Bank will continue to comprehensively assess domestic and external factors, as well as risks that may affect the national economy and inflation, when making monetary policy decisions. Overall, the share of external factors in the balance of inflation risks has increased significantly in recent years, which is expected to remain elevated over the medium term. Geopolitical tensions and global trade instability continue to keep uncertainties in commodity and financial markets at a high level. The main external risk relates to the pass-through of import prices to domestic inflation, dependent on inflation developments in trade partners and the dynamics of the nominal effective exchange rate. Domestic risk factors are primarily driven by supply-side and cost-related pressures. Over the medium term, a conservative macro-fiscal framework and the expected pace of credit growth reduce the risk of overexpansion of aggregate demand.

Taking into account domestic and external uncertainties, the Central Bank will continue preparing macroeconomic forecasts under alternative scenarios alongside the baseline scenario. This approach will ensure a flexible policy response if inflation risks materialize.

Next year monetary policy will be implemented within the existing regime. Exchange rate stability will continue to act as the main price stability anchor. According to projections, a current account surplus of the balance of payments will support the FX market equilibrium. Under the baseline scenario, the current account surplus in 2026 is expected to be around \$3B (3.7% of GDP). The Central Bank will continue to ensure that its foreign exchange reserves remain in line with sufficiency criteria and further improve their management next year.

In the application of monetary policy tools, financial market developments and changes in the liquidity position of the banking system will be considered. The use of tools will aim to neutralize the impact of autonomous factors on monetary conditions.

Enhancing analytical and forecasting capacity will remain a priority for the Central Bank in 2026. In the context of the forecasting and policy analysis system, the model arsenal will be continuously adjusted to best practices, while the scope and analytical depth of research will be expanded. Greater use will be made of theoretically substantiated and econometrically sound model outcomes in monetary policy decision-making. Improving the analysis of big data and expanding the application of machine learning approaches will be among the Central Bank's key priority areas.

Effective communication of monetary policy, aimed at influencing the expectations and behavior of economic agents, will remain a key focus in the coming year. Communication activities will serve to strengthen macroeconomic stability, enhance accountability, improve public understanding of monetary policy, reinforce confidence in the Central Bank, and ensure transparency. Main target audiences of communication will include financial market participants, the media, academic circles, experts in economy, entrepreneurs, the government, and the general public. In 2026, under a pre-announced schedule, press releases on the Central Bank's policy decisions will be published and regular press conferences will be held. Analytical reviews will continue to be published quarterly. To increase public awareness and financial literacy, short explanatory materials outlining the functioning of monetary policy and the tools employed will be shared via social media platforms.

In formulating its macroeconomic forecasts and interest rate decisions, the Central Bank will take into account planned fiscal policy parameters. The Economic Council will continue to play a main role in ensuring inter-institutional macroeconomic coordination.

The monetary policy will be aligned with the Central Bank's other areas of activity, particularly macroprudential policy. This coordination will be carried out through the Bank's internal collegial bodies, including the Monetary Policy and Financial Stability Committee. Higher financial depth, financial stability, and expanding cashless payments will continue to positively contribute to the effectiveness of monetary policy and the financial system resilience.

The macroeconomic impacts of climate change and the support of green finance initiatives will remain under close consideration. Assessments of the direct and indirect effects of climate change on inflation dynamics, economic growth, and the financial sector will continue.

Efforts will continue to define policy objectives for the introduction of a Central Bank's digital currency and prepare the corresponding roadmap. This will include identifying priority use cases, assessing potential risks and benefits, and developing a phased implementation plan aligned with the broader financial sector strategy.

2.2. Operating targets and tools of the monetary policy for 2026

In 2026, the Central Bank will make flexible and appropriate use of all tools at its disposal to achieve monetary policy objectives. To strengthen the transmission of monetary policy decisions to the real economy, the Central Bank will continue measures aimed at enhancing the impact of the auxiliary monetary policy anchor (AZIR).

In 2026, the bilateral exchange rate of AZN/USD, the main price stability anchor, will continue to be determined on the basis of the average rate of interbank transactions (both auction and off-auction operations). The Central Bank will continue to conduct foreign exchange auctions related to the currency sales of the State Oil Fund of the Republic of Azerbaijan (SOFAZ). Effective coordination between the Central Bank and fiscal authorities (SOFAZ and the Ministry of Finance) will support the balanced functioning of the FX market.

In 2026, the interest rate corridor will continue to play a key role in shaping monetary conditions, and short-term money market rates will be used as the auxiliary monetary policy operational target. The Central Bank will employ all tools in its toolkit flexibly and appropriately to ensure that interbank money market rates move within the interest rate corridor. Excessive volatility in the AZIR index, the weighted average interest rate on unsecured transactions, will be avoided, with particular emphasis placed on maintaining its close alignment with the Central Bank's refinancing rate. To this end, standing facilities and open market operations will be actively utilized.

Standing facilities will continue to ensure that money market rates are formed within the interest rate corridor. Overnight deposit and overnight reverse repo operations will be used as standing facilities, with interest rates set at the lower and upper bounds of the interest rate corridor, respectively.

As part of open market operations, auctions of Central Bank notes of various maturities for sterilization purposes, as well as auctions of 7-day operations, will be conducted. Interest rates on these tools will be determined in accordance with procedures established by the Central Bank's Management Board. As in previous years, operational modalities of these tools will be communicated to financial market participants in advance. The direction of open market operations (sterilization or injection) will be determined based on the liquidity position of the banking system. Decisions regarding the quantitative parameters and durations of open market operations will be taken promptly depending on liquidity conditions (excess liquidity or liquidity shortages) and communicated to relevant market participants prior to the conduct of operations.

Regular monitoring and forecasting of the banking system's liquidity position will continue in the coming year. Further strengthening of information exchange with fiscal authorities in liquidity monitoring and forecasting is envisaged.

Measures aimed at improving monetary policy tools and developing the money market will continue in 2026. Consultations with international financial institutions and the banking community will be maintained in this process. Reforms in this area will further enhance the diversification of financial instruments, increase market liquidity, and strengthen the sustainable financing of the national economy.

Schedule of disclosure of monetary policy decisions to public

In 2026, decisions related to the parameters of the interest rate corridor will be announced eight times under the schedule below:

4 February

2 April

6 May

24 June

5 August

23 September

4 November

23 December

Disclosure of decisions will be accompanied with press conferences on 4 February, 6 May, 5 August, and 4 November in 2026. Decisions will come into force on the working day following their announcement.