

## We're changing the outlook for the CIS-4 due to global woes

Global trade developments appear to be hitting the CIS region through higher inflation risks, stronger gold and weaker oil; there are not many opportunities for high-risk currencies. We have adjusted our macro views on Azerbaijan, Armenia, Kazakhstan and Uzbekistan, mainly to reflect oil's recent downturn



A view from the Caspian walkway in Baku, Azerbaijan

### The initial reaction by central banks and currencies so far align with our views

Our [initial take](#) on the implications of global trade tensions for the CIS region was that, despite the limited direct exposure to the US, the consequences would manifest themselves through indirect channels. These include higher inflationary concerns, expectations of stronger gold and weaker oil prices, and the mitigation of global dollar weakness due to portfolio outflows from high-risk assets.

Although three weeks is not enough time to provide a full set of new macro data, some preliminary signals suggest that the first impressions were largely correct.

- The central banks of [Azerbaijan](#), [Uzbekistan](#), and most recently [Armenia](#) followed the earlier example of [Kazakhstan](#) in expressing concerns about the growing inflationary risks coming from the external environment. In all four meetings over the past month, the respective policy rates were kept unchanged, in some cases contrary to signals and market expectations of a cut. The CPI trajectories are generally pointing up, further reinforcing our expectations that the room for key rate cuts for the foreseeable future is extremely low.
- The CIS-4 currencies have so far failed to materially benefit from the weakness of the global US dollar. Setting the Azerbaijani manat aside for now, as it is pegged to the US dollar, the year-to-date moves of the currency pairs in the area vary from flat for the Uzbekistani soum to a 1.4-1.5% appreciation of the Armenian dram and Kazakhstani tenge – all against the backdrop of 8% depreciation of the US dollar to the major currencies over the same period. While there are country-specific contributors to this muted reaction to be discussed further, the general take is that in the time of global uncertainty, the capital flowing out of one safe asset is looking for another safe haven. Therefore, the CIS-4 is not a likely receiver of portfolio flows in the current environment.
- Uzbekistan is benefiting from higher gold prices. The flat YTD performance of the soum is actually an improvement compared to steady 3-4% p.a. nominal depreciation vs. the US dollar seen in the previous years. Stronger gold exports could be a factor here. The recent customs data shows it boosted monthly gold sales to around 17 metric tons per month between February and March 2025, volumes last seen 11 months ago. Most likely, this reflects the tactic of capitalising on the stronger gold price environment. To note, Uzbekistan earns US\$3-4m per \$1/oz of gold price annually, depending on the physical volumes of gold exports. Assuming the average gold price stays just above US\$3,000 per ounce in 2025, that would mean an increase of annual gold export proceeds from US\$7.5bn in 2024 to US\$9.5-10.0bn in 2025.
- Lower oil prices put Kazakhstan and Azerbaijan in the spotlight. As the two countries derive a significant portion of their export proceeds (55% and 88%, respectively) and fiscal revenues (22% and 52%) from oil trade, each \$1/bbl of oil price matters. According to our estimates, each dollar of average annual oil price means US\$550m of annual export proceeds and US\$150m of budget revenues for Kazakhstan, while for Azerbaijan, it is US\$300m and US\$150 mn, respectively. The recent [downgrade in the house view on oil prices](#) by US\$5 for 2025 and US\$11 for 2026 can increase Kazakhstan's expected current account and fiscal deficits by 0.3-0.6ppt of GDP in 2025-26, while the scale of financial hit for Azerbaijan could reach around 2% of GDP on a two-year horizon. While Kazakhstan has the opportunity to adjust through the flexible exchange rate, Azerbaijan's peg might lead to the first current account deficit since 2020. Azerbaijan's large fiscal buffers could serve as a mitigating factor here.
- For Armenia, the implications are mixed. On the one hand, higher gold prices and lower oil prices should improve the expected current account trajectory by around 1ppt GDP in 2025-26 each, and that could already be the reason behind continued dram appreciation from the already expensive levels. In addition, lower trade exposure to the EU and China (10-20%) compared to oil-producing Azerbaijan and Kazakhstan (50-60%) should better insulate Armenia from the potential slowdown in trade partner activity. On the other hand, the small size of the economy and financial market, combined with country- and region-specific risks, could prevent Armenia from fully benefiting from the capital account and activity side.

## Tweaking our 2025-26 forecasts

Overall, compared to our [March](#) views on the CIS-4, we have to make the following adjustments. First, we increase the expected CPI trajectories by 0.5-1.0ppt and reiterate a lack of scope for key rate cuts at least until the end of this year. Second, we improve Uzbekistan's current account expectations by 1% of GDP for 2025 and 2026, softening the expected depreciation path to 3% p.a. Third, we downgrade fiscal and current account expectations for Kazakhstan (within 0.3-0.6ppt) and Azerbaijan (c.2% GDP), reflecting lower oil price expectations. This reinforces our view on the likely KZT depreciation in the longer term and adds some weight to balance of payments concerns we expressed earlier about Azerbaijan.

Finally, we trim our 2025 GDP growth expectations for Armenia and Azerbaijan by 0.5ppt, largely reflecting the weak first quarter performance. Our below-consensus view on 4.5% GDP growth for Kazakhstan has now gained weight, while Uzbekistan's activity may surprise on the upside.

Despite the abovementioned concerns, we continue to see the CIS-4 region as offering at least some insulation from the global turmoil, compared to regions directly targeted by the US trade policies.

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