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ARMENIA AZERBAIJAN

# CIS-4: Early implications of war in the Middle East

As the military conflict affects the CIS through higher commodity prices, global flight to safety, risk of trade disruptions and imported inflation, Uzbekistan appears the most secure, while Armenia is in the most vulnerable position



Tashkent, Uzbekistan. The country currently appears the most secure among the CIS-4

The renewed conflict in the Middle East calls for an update to our CIS-4 outlook. The macro impact will flow through the following main channels: commodity prices, portfolio flows and imported inflation. Our [initial global take](#) highlights upside risks from commodities but also downside risks via risk off behaviour, shifts in capital flows and possible trade frictions.

## Commodity prices

Higher oil and gold prices provide a near-term boost to the external balances of Azerbaijan, Kazakhstan and Uzbekistan, while putting pressure on the energy-importing Armenia.

- Every sustained \$10/bbl increase in oil prices adds roughly \$6bn to Kazakhstan's annual export proceeds and \$3bn to Azerbaijan's (1.8% and 4.0% of GDP, respectively).

- On the fiscal side, the same increase adds around \$1.5bn to annual fuel revenues for both countries (0.5% of GDP for Kazakhstan and 2.0% of GDP for Azerbaijan).
- Uzbekistan benefits through higher gold prices, with each \$1,000/oz ensuring around \$4bn (2.7% of GDP) of export proceeds.

### Portfolio flows

A sustained global flight to safety is unlikely to favour portfolio inflows into the region, with a possible exception for Uzbekistan.

- Kazakhstan is exposed through recent non-resident inflows into the government bond market of \$1.7bn in 2025 and an additional \$0.6bn year to date. During the 12-Day War in June 2025, the [tenge reacted more to global risk off than to higher oil prices](#). A global market downturn also poses a risk to the investment income of the sovereign fund, which totalled 3.5-4.0% of GDP in 2024-25 and may be lower moving forwards.
- Armenia has also recently seen higher portfolio inflows amid the US-mediated peace process with Azerbaijan. Both countries are direct neighbours of Iran, meaning that security implications could be material in case of further escalation. Armenia has closer ties with Iran, while Azerbaijan is more aligned with Israel and Turkey.
- By contrast, the Uzbek soum's positive performance during last year's US tariff episode and the 12-Day War underscores its relatively defensive status among regional currencies, supported by gold exposure.

### Trade disruptions and imported inflation

Direct CIS-4 trade exposure to the countries involved in the conflict is limited. However, dependence on EU imports and broader DM/Turkey/Iran/GCC supply chains remains a watch factor. Import exposure to these markets ranges from 14% of total imports for Armenia to 46% for Azerbaijan. This raises upside inflation risks, especially given limited near-term appreciation potential across CIS FX. For Kazakhstan, these factors [reinforce our view](#) that the National Bank of Kazakhstan is likely to hold at 18.00% this Friday, as downside to rates remains constrained.

#### Implications by country

- **Armenia – most vulnerable:** Exposed through energy imports, portfolio outflow risk and proximity to the conflict. Reinforces our cautious view on the dram.
- **Azerbaijan – relative winner:** A stronger trade surplus, removes our concerns about potential current account deficits or manat de-pegging in the medium-term; defence spending may rise due to proximity to Iran.
- **Kazakhstan – balanced:** Oil benefits may be offset by portfolio flow volatility and

lower sovereign fund investment income, maintaining the need for fiscal consolidation.

• **Uzbekistan – best positioned:** A defensive play via gold exposure, stronger current account and geographic distance from Iran. Reinforces our constructive view on UZS.

### Author

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

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