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ARMENIA AZERBAIJAN

CIS-4 resilience to face tests in the second half of 2026

Amid volatility in global commodity markets, the CIS-4 is starting the second half of the year with stronger financial buffers, stable FX and resilient demand, but inflation risks remain sticky. Foreign-policy spillovers, rate path uncertainty and market access will decide how much support the regional markets can retain



Astana, Kazakhstan. Strong buffers are helping CIS-4 weather volatility, though external risks remain firmly in focus

Stronger financial buffers, stickier inflation risks

Since our [previous monthly update](#), the CIS-4 has demonstrated continued strengthening in its financial position, resilient domestic demand and exchange rates, as well as central banks being more cautious amid elevated inflation risks. Foreign policy challenges remain in focus for most of the countries in the region.

In **Armenia**, the ruling party's re-election was followed by renewed Russian pressure in the form of agricultural import restrictions, while the EU offered a counterweight with proposed tariff-free access for up to 80% of Armenian exports. The Central Bank of Armenia [kept rates at 6.50%](#) on 16 June and gave a neutral signal, but since then, inflation has risen from 4.2% in May to 5.1% year-on-year in June, as imported food inflation pushes the overall CPI further

away from the long-term target of 3%. The next decision is likely to be a choice between a hold and a hike, despite the continued strength of the dram.

In **Azerbaijan**, the macro story remains focused on strong finances and weak economic growth. The news regarding the prospects of trade and financial flows remains positive, with BP considering further gas investment in the ACG field and a long-term Absheron gas supply deal to Turkey from 2029. Fitch's BBB- affirmation highlighted low public debt and large sovereign assets. However, a 0.3% YoY GDP contraction in the first quarter amid subdued output in the fuel sector has led to a downgrade in full-year expectations. The Central Bank of Azerbaijan [kept rates unchanged at 6.50%](#) on 24 June, and the guidance suggests that an extended period of unchanged rates is likely, as CPI is gravitating around the upper bound of the $4\pm 2\%$ target range.

Kazakhstan's main surprise was the [National Bank's 100bp cut to 17% in June](#), although the Governor warned against assuming a full easing cycle. Oil-sector disruption at Karachaganak, linked to the Orenburg gas plant shutdown, underlined exposure to Russia-Ukraine spillovers – even as output partially resumed – and the oil target was maintained. The tenge strengthened towards the end of June despite flat oil prices, suggesting support is coming from capital inflows, mostly likely of a portfolio nature amid expectations of connection to Euroclear and planned bond placements.

Uzbekistan has received positive credit-rating news, with Fitch moving the outlook to positive and Moody's upgrading the sovereign to Ba2, citing reform progress, fiscal discipline and energy subsidy adjustments. Fiscal consolidation was confirmed by the first-quarter data, which showed a reduction in the consolidated deficit to 1.2% of GDP (4Q trailing sum) from 2.1% in 2025 and 3.1% in 2024. The Central Bank of Uzbekistan [kept rates at 14.00% on 17 June](#), disregarding a material CPI slowdown and noting demand-side and external price risks. In June, CPI re-accelerated to 6.4% after May's 5.5% YoY as some base effects wore off, but the overall level still suggests some scope for easing in the second half of the year. The soum was stable, as weaker gold prices and the renewed pause in gold exports in May were likely offset by continued foreign portfolio inflows in the local financial market.

2H26 hinges on foreign policy spillovers, inflation persistence and market access

For the second half of 2026, the first watch factor is foreign policy orientation. The Armenia-Russia-EU trade triangle, Azerbaijan-Russia tensions and Kazakhstan's energy disruptions all show that Russia-Ukraine spillovers are a valid macro variable.

Secondly, the scale of global inflation spillovers will determine if the medium-term rate trajectory continues its downward trend. Armenia's food inflation, Kazakhstan's high producer prices and Uzbekistan's CPI re-acceleration argue for caution, even where nominal rates remain elevated.

Thirdly, market access and portfolio flows can outweigh trade in terms of importance for the FX market. Kazakhstan's planned Eurobond and Samurai placements, Uzbekistan's improving rating trajectory and growing local bond market, and Azerbaijan's large sovereign assets will test whether investors continue to reward the region's buffers and reform stories despite fiscal, trade and geopolitical risks.

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