Article | 30 January 2026

ARMENIA AZERBAIJAN

An upbeat start to the year for the CIS-4

Despite growing global uncertainties, the CIS region has entered the new year in better shape than we had previously expected. With few exceptions, the outlook for economic growth, inflation, interest rates and currencies seems to have room for improvement

Clockwise from top left: Armenia, Azerbaijan, Uzbekistan, Kazakhstan

Armenia: Ongoing peace process supports market sentiment

Armenia's latest data for 2025 shows economic activity holding up slightly better than expected. GDP growth remains resilient and is unlikely to slow meaningfully from the 5.8% recorded in 2024. Inflation surprised to the downside at 3.3% year-on-year in December, while the dram continues to firm up. Meanwhile, the ongoing foreign policy normalisation – highlighted by the recent start of fuel shipments from Azerbaijan – is supporting market sentiment.

We are constructive on Armenia's macro outlook for 2026. The improving geopolitical backdrop and a resilient currency create favourable conditions for inflation dynamics in 2026. Risks persist, notably around fiscal policy – which has yet to show clear signs of consolidation – and still elevated household inflation expectations. Against this backdrop, we expect the Central Bank of Armenia to keep the policy rate unchanged at 6.50% at the 3 February meeting, with room for a cut later this year should inflation anchor closer to the central bank's

3% long‑term target. The stability of the dram remains a prerequisite for this scenario.

Azerbaijan: Growing external buffers to offer more insulation for the currency peg

Azerbaijan's trade surplus continues to narrow – falling below $1bn for the full‑year 2025 – while softer oil price expectations point to lingering risks of a negative current account in 2026. However, the likelihood of this triggering pressure on the manat's 1.70/USD peg has diminished. A stronger-than-expected 2.6% GDP consolidated budget surplus last year boosted liquid assets at SOFAZ and the central bank to roughly 110% of GDP, giving policymakers ample capacity to defend the currency if needed. Meanwhile, the recent appreciation of floating regional currencies – including the Kazakhstani tenge and Uzbekistani soum – makes the pegged manat less of an outlier, easing relative pressure.

On the rates side, the forward-looking indicators paint a relatively dovish picture. Slower-than-expected 1.4% GDP growth in 2025, easing inflation at 5.2-5.3% YoY, and a declining FX share in bank deposits all support the case for eventual monetary easing. Still, caution is warranted; the consolidated fiscal balance excluding SOFAZ fuel revenues widened to 11% of GDP last year due to higher spending, while the external trade balance deteriorated as imports outpaced exports. These trends argue for maintaining the current stance in the near term, with any cuts contingent on firmer evidence of sustained disinflation and improved fiscal discipline. We expect the Central Bank of the Republic of Azerbaijan to leave the policy rate unchanged at 6.75% at the 4 February meeting.

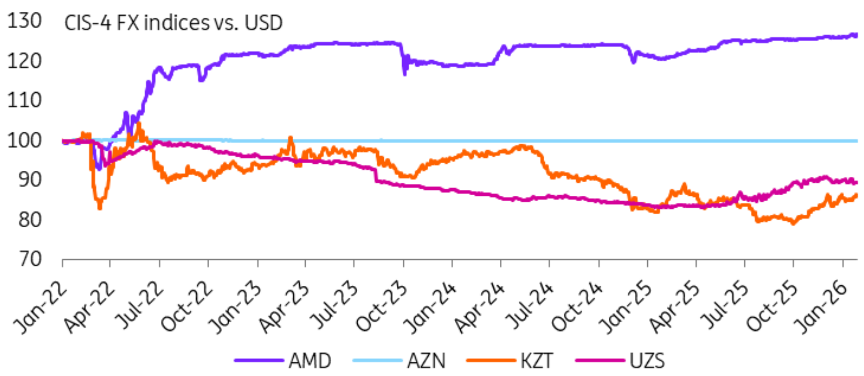
Kazakhstan: Fiscal and quasi-fiscal developments pivotal for the macro case

Kazakhstan entered 2026 with a slightly firmer-than-expected FX performance. This was supported by portfolio inflows helping to contain inflationary pressures, which remain significant. Headline CPI, despite the recent slowdown, is still elevated at 12.3% YoY as of December 2025, and the National Bank of Kazakhstan (NBK) expects the VAT hike to add up to 2ppt to CPI in the first quarter of 2026, followed by some temporary moderation afterwards. However, several factors call for extra caution. The disinflationary impact of tenge appreciation has largely faded, the expiry of the administrative freeze on utility tariffs poses an upside risk beyond 1Q26, and quasi‑fiscal support via Baiterek venture fund lending of roughly KZT8tr (4-5% of GDP) continues to fuel demand-side pressure. We reiterate that we expect 14-15% YoY CPI to be the threshold for the NBK; a breach in the coming months could trigger additional rate hikes.

Prospects for the tenge also remain uncertain, as the FX market is set to experience a decline in state‑driven FX support. Transfers from the state oil fund NFRK, around 80% of which convert into FX sales, are projected to fall from $10.4bn in 2025 to $5-6bn this year. While actual transfers may again exceed the plan given previous fiscal patterns, we still expect them to remain below the $8.2bn seen in 2025. This will be partly offset by higher NBK FX sales linked to domestic gold purchases (including $5bn related to 2024, spread across 2026-27). Overall, we remain constructive on the KZT in the near term as the scope for portfolio inflows into the local state bond market is not exhausted, but we will turn more cautious later in the year as fiscal FX support declines and oil exports moderate after a strong 2025.

CIS-4 FX markets are in an upbeat mood

CIS currencies vs USD, index, end-2021 = 100



Source: National sources, Refinitiv, CEIC, ING

Uzbekistan: Gold price rally not yet fully priced in by the soum

Uzbekistan's central bank kept its policy rate unchanged at 14.00% this week, maintaining a tight stance despite another downside surprise in inflation, which slowed to 7.3% YoY in December. The accompanying statement, however, was dovish, signalling that rate cuts may be considered if disinflation continues, though authorities also highlighted several upside risks – including strong domestic and external demand, expected 6.5-7.0% GDP growth, and uncertainty around upcoming changes in regulated utility tariffs. In our view, additional pressures stem from rapid monetary supply growth of 37% YoY and signs that the disinflationary pass-through from the earlier UZS rally (+6.9% in 2025) is fading as the currency stabilises.

Looking ahead, we see a balanced but cautiously positive outlook. The planned May 2026 regulated tariff increase is modest, at around 10%, far below the large 33–50% adjustment in May 2025, while fiscal policy may offer a disinflationary surprise, given the strengthening consolidation trend since 2024. Importantly, we believe the ongoing gold price rally is not yet fully reflected in the soum. With the government's gold exports on tactical hold since October, the eventual resumption should support the trade balance and potentially deliver a second leg of UZS strength. According to our estimates, each $1,000/oz of gold translates into $3.5-4.5bn of annual gold exports for Uzbekistan. Taken together, these factors keep the door open to a policy rate cut of up to 200bp later in the year – provided inflation anchors itself in the 6-7% range.

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