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ARMENIA AZERBAIJAN

CIS macro and credit: Commodity buffers cushion Middle East risks

The war in the Middle East is affecting the CIS region through several channels: higher fuel prices, weaker global risk appetite, potential trade disruptions and rising imported inflation.



We see Armenia as the most vulnerable within an otherwise resilient regional setup, Azerbaijan and Kazakhstan as relative beneficiaries, and Uzbekistan as the most resilient.

Channels of impact of the war in the Middle East

Commodities: Higher oil prices lead to a higher exports outlook for Azerbaijan and Kazakhstan, while weighing on energy-importing Armenia. ING has so far [raised its Brent forecast](#) by US\$20 to US\$82/bbl for 2026F, and [upside risks remain](#). The gold price has retreated recently, but Uzbekistan can still benefit through higher sales volumes. Global agri prices are on the rise, affecting all CIS⁴, which remain net food importers.

Portfolio flows: A global risk-off is unlikely to support large inflows into the region. Kazakhstan is exposed to volatility following recent inflows into its bond market. Armenia has also seen inflows amid the peace process with Azerbaijan. Uzbekistan benefits through its high exposure to gold.

Trade disruptions and imported inflation: Dependence on EU imports and broader DM, Turkey, Iran and GCC supplies remains a key risk. Import exposure ranges from around 14% in Armenia to 46% in Azerbaijan. This raises inflation and interest-rate risks, particularly given limited

near-term appreciation potential across CIS FX.

Outlook for CIS-4

Activity: Kazakhstan is set to slow in 2026 after VAT hike. Potential of higher fuel-driven growth in Azerbaijan and Kazakhstan is capacity-constrained. Uzbekistan may catch up on gold exports; Armenia may cool down after the recent construction boom.

Budget: Armenia and Azerbaijan are likely to maintain elevated defence spending. Kazakhstan is moving towards consolidation, but similar to Azerbaijan, its revenues are volatile due to reliance on fuel and investment income. Uzbekistan is consolidating.

Interest rates: scope for easing exists in Kazakhstan and Uzbekistan, but domestic taxes, utilities tariffs and FX trends may delay the cuts. Middle East tensions are boosting global inflationary risks, arguing for a region-wide cautious approach.

Exchange rates: AZN peg is now secure, while AMD still appears overvalued. We are constructive on KZT and UZS in the near term, but a durable break in the depreciation trend would require sustained improvement in twin deficits and lower inflation.

Sensitivities to the war in the Middle East – by country

 Armenia Vulnerable as commodity importer and Iran's neighbour (BoP, fiscal, CPI, FX) ↓ +\$10/bbl = +\$180m (0.6% GDP) to AM energy imports after 2% GDP C/A deficit in 2025, public debt 47% GDP. ↑ +10% glob. food prices = +2pps to AM CPI (3.3% in 2025) ↑ Higher defence/security spending after 3.5% GDP deficit in 2025 and capital outflows from hot real estate and financial markets	 Kazakhstan Balancing opportunities (fuel exports) and risks (portfolio outflows, higher CPI) ↑ +\$10/bbl = +\$6bn (1.8% GDP) to exports and +\$1.5bn (0.5%) to budget revenues... ↓ ...offset by dividend outflows and lower investment income of sov. fund (3.5-4.0% GDP in 2025-26) ↑ +10% glob. food prices = +0.8pps to KZ CPI (12.3% in 2025) ↓ Portfolio inflows into govt debt in focus after strong \$1.7 bn in 2025 and \$0.6bn in 2M26
 Azerbaijan Benefits as fuel exporter (BoP), but faces higher fiscal pressures as Iran's neighbour ↑ +\$10/bbl = +\$3bn (4% GDP) to exports and +\$1.5 bn (2%) to budget revenues. No more risk of negative current account and manat de-pegging in 2026-27 ↑ +10% global food prices = +1.5pps to AZ CPI (5.2% in 2025). High risk of imported CPI as 46% of imports comes from DM/Turkey/Iran/GCC ↑ Higher defence/security spending, but... ↑ ...AZ fiscal position is strong (2.6% GDP surplus in 2025, savings 100%+ GDP)	 Uzbekistan Defensive thanks to gold exports (BoP) and distance from Iran ↓ +\$10/bbl = +\$550m (0.4% GDP) to UZ energy imports... ↑ ...offset by gold: +\$1,000/oz = +\$4 bn (2.7% GDP) exports ↑ +10% glob. food prices = +1.2pps to UZ CPI (7.3% in 2025) ↓ Twin deficit (C/A, fiscal) and high CPI limits scope for FX appreciation, but... ↑ ...in 2025, UZS gained 7.4% amid 65% gold price rally, as UZ sold 85mt of gold, 85% of annual capacity.

Source: ING

Sovereign credit views

The region remains a decent spot to be positioned in given generally improving fundamentals and resilience to spillovers from the Middle East.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

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