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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 CIS-4, 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

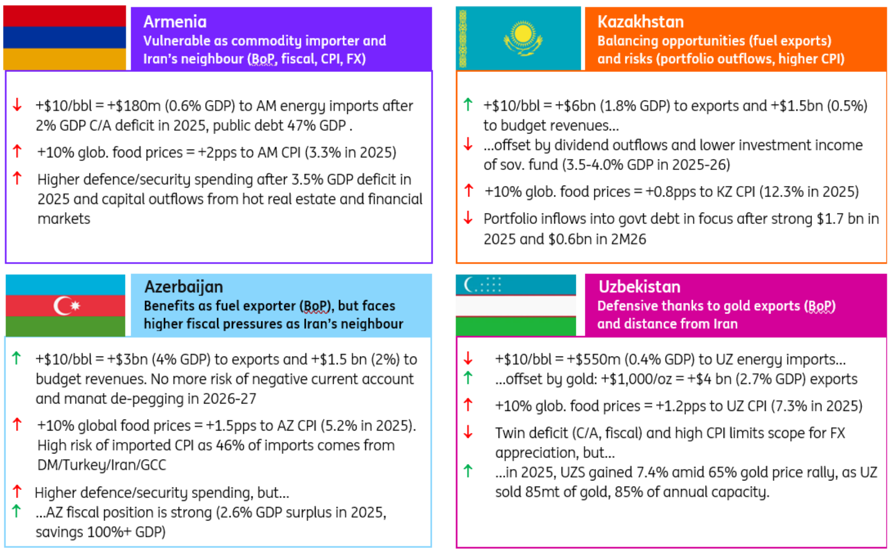
Activity: Kazakhstan is set to slow in 2026 after VAT hike. Potential of higher fuel-driven growth in Azerbaijan and Kazakhstan is capacity-constrained. Uzbekistan may catch up on gold exports; Armenia may cool down after the recent construction boom.

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



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.

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