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CREDIT RUSSIA UKRAINE

# CIS Sovereigns: Bracing for a new wave of challenges

In the Commonwealth of Independent States, the recovery from Covid-19 will be tepid at best, as governments focus on maintaining macro stability, and the fiscal setting becomes less supportive



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Oil and gas sovereigns in the region have diverged in their fiscal response to the pandemic, with more limited stimulus packages in **Azerbaijan** and **Russia** (c.4% of GDP) while **Kazakhstan** rolled out a larger package (9% of GDP). As we go into 2021, support will come from higher oil prices, with our base case seeing Brent at an average US\$58/bbl for the year. Nonetheless, the recovery will be tepid at best as governments focus on maintaining macro stability, and the fiscal setting becomes less supportive. This is a positive in the short-run as it avoids depleting buffers, with the three countries boasting very strong fiscal and external balance sheets but it will do little to address structural and institutional bottlenecks that weigh on growth potential.

In **Ukraine**, positives come from budget execution (with a smaller deficit so far than expected) and a current account surplus (which could surpass 3% of GDP in 2020). The sovereign also secured a US\$5bn IMF Stand-By Arrangement in June but recent developments have raised concerns regarding monetary policy independence and the anti-corruption fight. Further setbacks are likely and preventing a reversal in hard-gained achievements since 2015 will be

key to maintaining investor sentiment.

Risks continue to come from the pandemic (with growing case numbers implying risks of reintroduced restrictions) and uncertainties to the oil price outlook. Moreover, geopolitical and social factors remain heavy weights, notably for Azerbaijan (with elevated risks coming from the escalation in the Nagorno-Karabakh conflict) and Russia which faces renewed sanction risks in light of the poisoning of opposition leader Alexei Navalny and uncertainties coming from the US elections.

## Country forecasts for 2019-21

	Azerbaijan			Kazakhstan			Russia			Ukraine		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
<b>Activity &amp; prices</b>												
Real GDP (%YoY)	2.2	-3.3	1.9	4.5	-1.9	2.2	1.3	-2.5	2.5	3.2	-5.7	4.8
Nominal GDP (US\$bn)	49	47	49	179	174	191	1,696	1,556	1,618	152	143	151
GDP per capita (US\$)	4,892	4,621	4,778	9,463	9,060	9,790	11,694	10,729	11,157	3,600	3,450	3,600
Unemployment rate (year-end, %)	5.0	6.7	5.3	4.8	5.2	4.9	4.7	6.5	5.5	8.7	11.0	10.6
CPI (year-end, %YoY)	2.4	2.6	3.2	5.4	7.3	6.1	3.0	3.7	3.3	4.1	4.3	5.0
<b>Fiscal balance</b>												
General government balance (% of GDP)	9.0	-7.5	-1.6	-0.4	-5.1	-1.7	2.3	-4.5	-2.0	-2.0	-7.5	-4.9
Primary balance (% of GDP)	10.9	-4.9	0.7	0.5	-4.1	-0.8	3.2	-3.5	-0.9	0.9	-4.5	-2.0
General govt gross debt (% of GDP)	31.0	36.9	33.4	22.7	28.2	27.6	12.9	17.4	19.1	52.0	66.0	65.0
Fiscal breakeven oil price (US\$/bbl)	40	64	62	69	99	79	48	82	71	n/a	n/a	n/a
<b>External balance</b>												
Current account balance (% of GDP)	8.9	-2.3	5.5	-3.1	-2.9	-1.2	5.3	1.3	2.0	-2.3	3.0	1.0
FX reserves ex gold (US\$bn)	6	5	5	10	11	12	444	440	451	25.3	30	29
Merchandise import cover (months)	6.7	6.0	5.5	3.5	3.9	3.1	26	30	27	6.1	7.5	7.0
Gross external debt (% of GDP)	39	43	39	89	94	88	29	31	30	80	86	84
External breakeven oil price (US\$/bbl)	49	47	48	77	53	63	47	36	44	n/a	n/a	n/a
<b>Interest &amp; exchange rate</b>												
Central bank key rate (year-end, %)	7.50	6.50	6.50	9.25	8.75	8.75	6.25	4.00	3.50	13.5	6.0	5.0
Exchange rate vs USD (year-end)	1.7	1.7	1.7	382.9	410.0	410.0	61.9	72.0	73.0	23.7	28.5	28.5

Source: National sources, CEIC, ING estimates

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