31 March 2026
EM macro and credit

CIS macro and credit

Commodity buffers cushion Middle East risks

The Global Markets Research version of this report (found at research.ing.com) includes our investment strategies and trade recommendations

Contents

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.

Sovereign credit views

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

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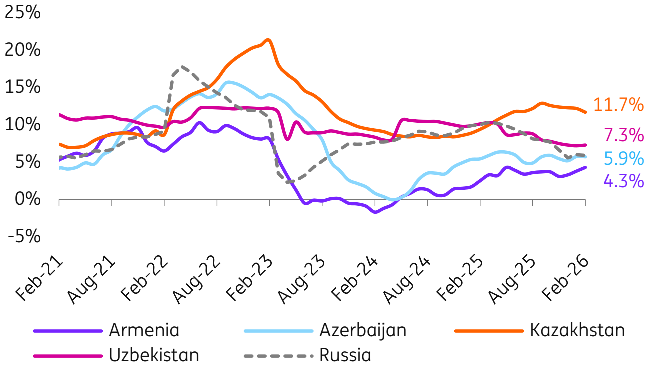
Key macro indicators for 2025-27F

	Armenia			Azerbaijan			Kazakhstan			Uzbekistan		
	2025A	2026F	2027F	2025A	2026F	2027F	2025A	2026F	2027F	2025A	2026F	2027F
GDP												
Real GDP (%YoY)	7.2	4.5	4.0	1.4	2.5	3.0	6.4	5.0	4.5	7.7	6.5	6.0
Nominal GDP (US$bn)	25.9	27.4	28.8	75.9	81.9	88.6	306	349	365	147	175.0	194.1
GDP per capita (US$)	9640	10650	11412	7413	7784	8343	15003	16788	17298	3820	4454	4839
Fiscal balance												
Consolidated budget balance (% of GDP)	-3.5	-3.5	-3.5	2.6	2.7	-0.8	0.5	-0.4	-0.4	-2.6	-2.1	-1.6
Public debt (% of GDP)	46.9	47.3	47.7	22.4	23.6	26.9	22.8	22.9	22.5	35.5	35.9	36.2
Fiscal breakeven Brent (US$/bbl)	n/a	n/a	n/a	59	70	72	57	92	92	n/a	n/a	n/a
Balance of payments												
Current account (% of GDP)	-7.1	-8.4	-5.6	4.6	6.5	1.7	-3.8	-2.4	-3.0	-3.8	-2.7	-3.8
Trade balance (% of GDP)	-10.1	-10.1	-6.4	8.4	11.6	6.6	3.8	5.9	4.0	-10.6	-7.9	-7.9
Foreign debt (% of GDP)	61.7	60.4	60.7	17.4	18.6	17.7	55.8	51.8	51.2	58.0	51.0	48.6
Current account breakeven Brent (US$/bbl)	n/a	n/a	n/a	57	64	63	88	97	86	n/a	n/a	n/a
CPI, Interest & exchange rate												
CPI (year-end, %YoY)	3.3	4.8	4.5	5.2	5.0	5.5	12.3	10.5	8.0	7.3	8.0	7.5
Central bank key rate (year-end, %)	6.50	6.75	7.00	6.75	6.50	6.50	18.00	16.50	14.50	14.00	13.00	12.50
Exchange rate vs USD (year-end)	381.36	381	393	1.70	1.70	1.70	503	540	570	12010	12130	12736

Source: National sources, CEIC, ING

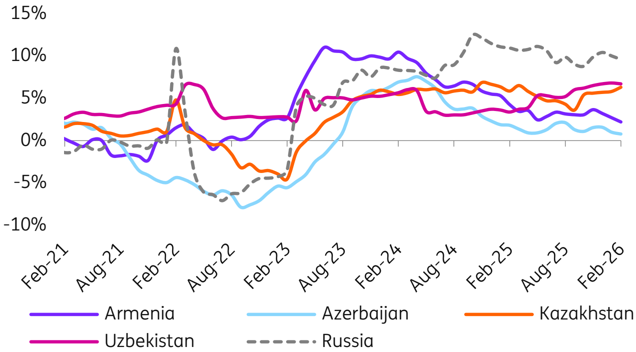
CIS cross-country overview charts

Fig 1 Inflation (% YoY)



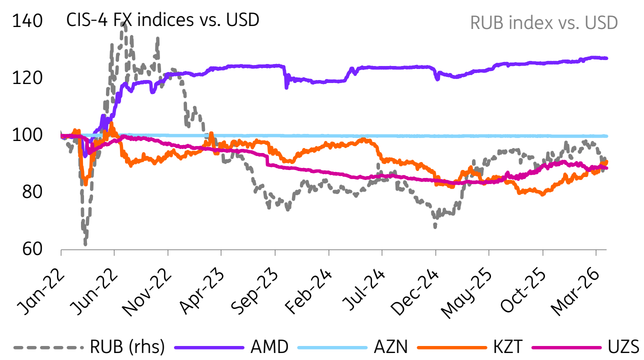
Source: National sources, CEIC

Fig 2 Real policy rates (%)



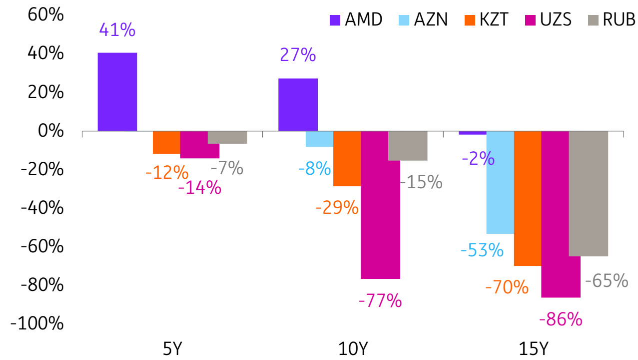
Source: National sources, CEIC, ING

Fig 3 CIS currencies vs USD, index, end-2021 = 100



Source: National sources, Refinitiv, CEIC, ING

Fig 4 Long-term performance of CIS currencies vs USD*



*as of cob 30 March 2026

Source: National sources, Refinitiv, CEIC, ING

Sensitivities to the war in the Middle East – by country

Armenia
Vulnerable as commodity importer and Iran's neighbour (BoP, fiscal, CPI, FX)

- ↓ +US$10/bbl = +US$180m (0.6% GDP) to AM energy imports after 2% GDP C/A deficit in 2025, public debt 47% GDP.
- ↑ +10% global food prices = +2ppt to AM CPI (3.3% in 2025).
- ↑ Higher defence/security spending after 3.5% GDP consolidated deficit in 2025 and capital outflows from hot real estate and financial markets.

Kazakhstan
Balancing opportunities (fuel exports) and risks (portfolio outflows, higher CPI)

- ↑ +US$10/bbl = +US$6bn (1.8% GDP) to exports and +US$1.5bn (0.5%) to budget revenues...
- ↓ ... offset by dividend outflows and lower investment income of sovereign fund (3.5-4.0% GDP in 2025-26).
- ↑ +10% global food prices = +0.8ppt to KZ CPI (12.3% in 2025).
- ↓ Portfolio inflows into govt debt in focus after strong US$1.7bn in 2025 and US$0.6bn in 2M26.

Azerbaijan
Benefits as fuel exporter (BoP), but faces higher fiscal pressures as Iran's neighbour

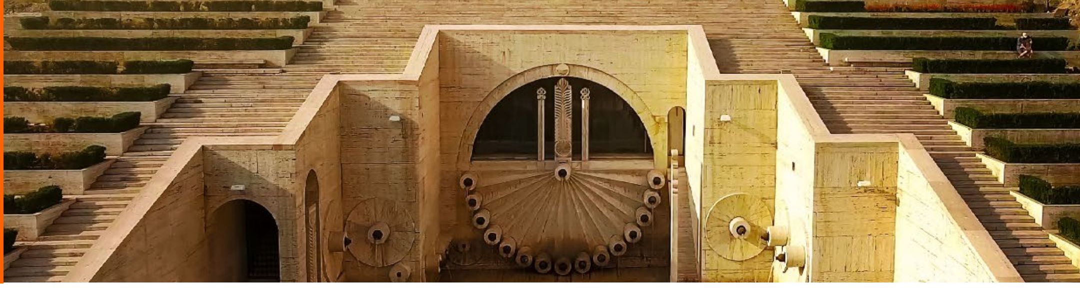
- ↑ +US$10/bbl = +US$3bn (4% GDP) to exports and +US$1.5bn (2%) to budget revenues. No more risk of negative current account and manat de-pegging in 2026-27.
- ↑ +10% global food prices = +1.5ppt to AZ CPI (5.2% in 2025). High risk of imported CPI as 46% of imports comes from DM/Turkey/Iran/GCC.
- ↑ 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

- ↓ +US$10/bbl = +US$550m (0.4% GDP) to UZ energy imports...
- ↑ ...offset by gold: +US$1,000/oz = +$4 bn (2.7% GDP) exports.
- ↑ +10% global food prices = +1.2ppt 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 the 65% gold price rally, as UZ sold 85mt of gold, 85% of annual capacity.

Source: ING

Armenia



Economic overview

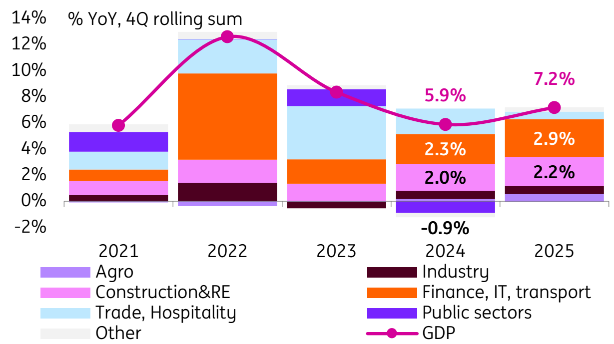
Armenia started the year on a strong footing, benefiting from progress in the normalisation of relations with Azerbaijan, higher capital and remittance inflows, and a pick-up in investment-driven activity. However, amid rising regional tensions around Iran, Armenia has become increasingly vulnerable as a receiver of portfolio inflows and as a commodity importer. Every additional US$10/bbl increase in oil prices adds around US$180m (0.6% GDP) to annual energy imports, potentially widening the current account deficit.

Despite limited direct exposure to developed markets and war-adjacent import origins, Armenia remains structurally sensitive to global food prices. A 10% increase in global food prices could add up to 2ppt to inflation, which averaged 3.3% in 2025. Additional downside risks stem from potentially higher defence and security spending, as well as a prospective slowdown in activity and capital outflows from the real estate and financial sectors.

Economic activity: above expectations, but momentum is in cyclical easing. Economic growth has exceeded expectations so far, with GDP growth accelerating from 5.9% in 2024 to 7.2% in 2025 (9.8% YoY in 4Q25). This performance was largely driven by robust expansion in the post-2022 growth leaders – finance, IT, transport, construction and real estate. Improved sentiment surrounding the Armenia–Azerbaijan peace process likely supported additional capital inflows into investment-focused sectors.

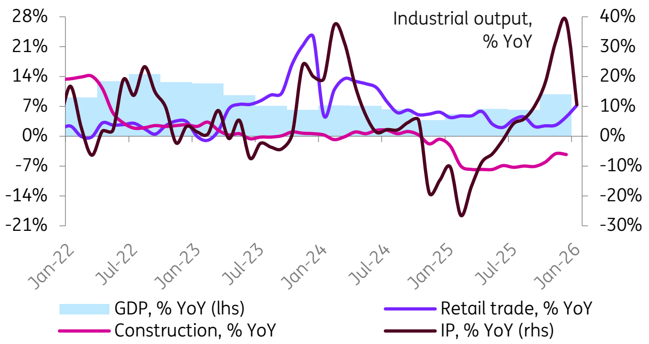
Stronger activity was also recorded in more volatile segments such as manufacturing and the public sector, most likely reflecting one-off projects and stronger fiscal support towards year-end. By contrast, consumer-orientated sectors, while broadly healthy, have shown no material improvement in recent months.

Fig 5 Armenia: GDP growth components by production



Source: National sources, CEIC, ING

Fig 6 Armenia: key activity indicators

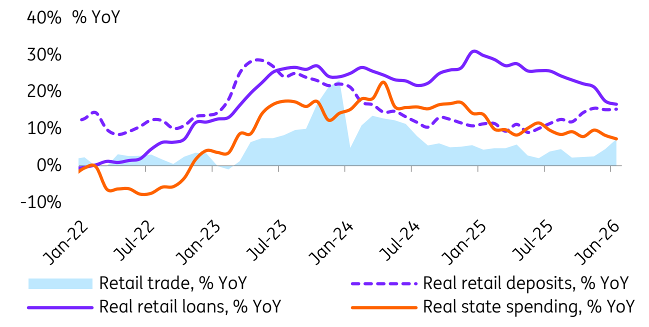


Source: National sources, CEIC, ING

Domestic consumption momentum appears to be gradually fading, reflecting a higher household preference for savings. Retail lending growth has slowed to a three-year low of 17% YoY in real terms (31% of GDP), while deposit growth has accelerated to 15% YoY (30% of GDP). Meanwhile, real state spending growth has remained in the high single-digit range, reinforcing cautious consumer sentiment.

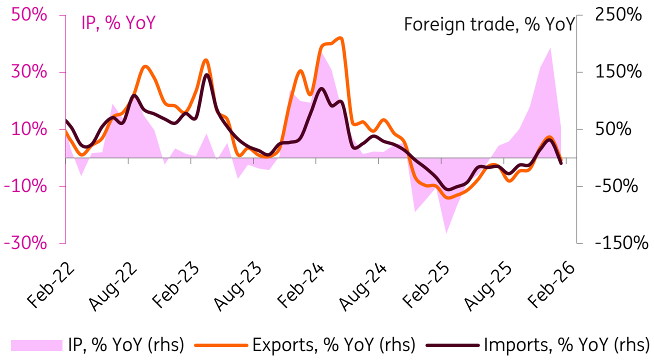
Industrial activity remains closely linked to Armenia's foreign trade dynamics. The recent pick-up in 4Q25 is now gradually easing, in line with moderating trade flows. We continue to expect GDP growth to moderate to 4-5% in 2026-27, with additional downside risks stemming from regional trade disruptions and uncertainty around capital flows into high-growth sectors.

Fig 7 Armenia: Consumption activity indicators



Source: National sources, CEIC, ING

Fig 8 Armenia: Industrial activity and foreign trade

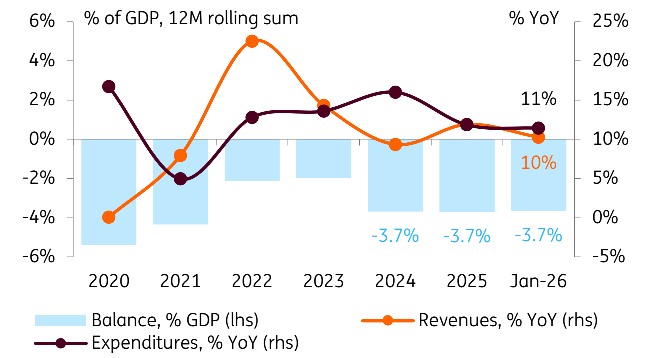


Source: National sources, CEIC, ING

Fiscal policy: supportive but with rising risks. The fiscal stance remains supportive. As expected, the state budget deficit stabilised at 3.7% of GDP (consolidated at 3.5%) in 2025, with both revenue and expenditure growth moderating. Strong activity growth is a positive signal for near-term revenues. However, expenditure risks are tilted to the upside. Escalating military tensions in neighbouring Iran may necessitate higher defence and security spending, while a previously unplanned increase in social spending will take effect in April, ahead of the June parliamentary elections.

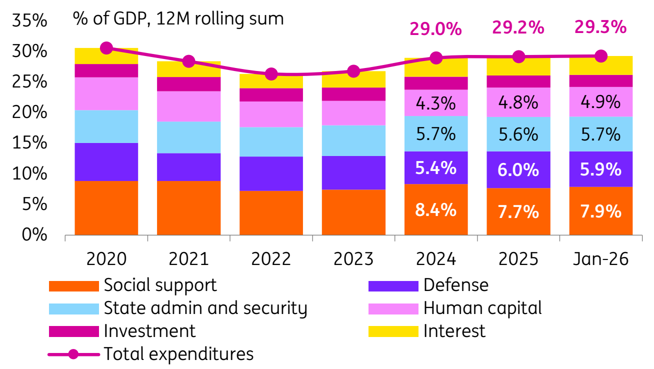
On the positive side, Armenia has stabilised public debt at around 50% of GDP in recent years, with external debt reduced to around 22% of GDP. As a result, fiscal risks remain manageable at this stage.

Fig 9 Armenia: Key state budget parameters



Source: National sources, CEIC, ING

Fig 10 Armenia: Budget expenditure, 12M rolling basis

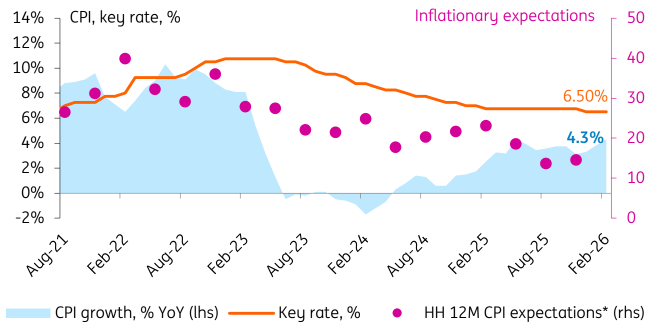


Source: National sources, CEIC, ING

Inflation and monetary policy: cost pressures re-emerging. Strong economic activity, combined with a broadly growth-supportive fiscal stance, has contributed to an acceleration in inflation. CPI rose to 4.3% YoY in February 2026, with core inflation at 4.7% YoY – well above the 3% long-term target. Rapid monetary aggregate growth points to a demand-side component in recent price dynamics.

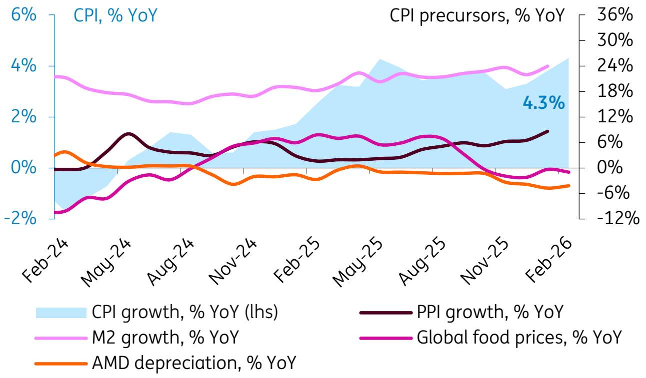
At the same time, Armenia is facing renewed external cost-side pressures from higher energy and agricultural prices. A hypothetical 10% increase in FAO food prices could add up to 2 ppts to headline CPI (around 4ppt to food CPI), according to our estimates.

Fig 11 Armenia: Inflation, expectations, and key rate



*% of households expecting fast to very fast price growth in the next 12M
Source: National sources, CEIC, ING

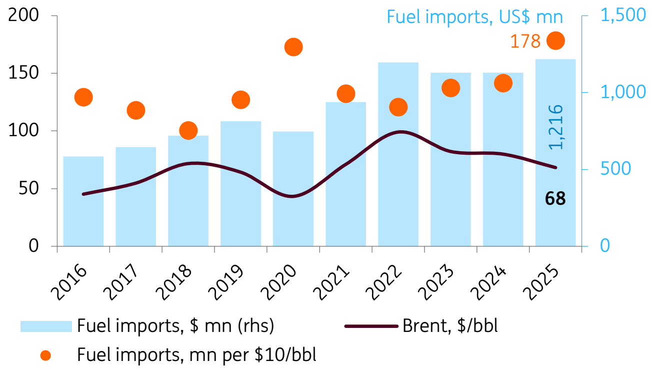
Fig 12 Armenia: Inflation drivers



Source: National sources, CEIC, UN FAO, ING

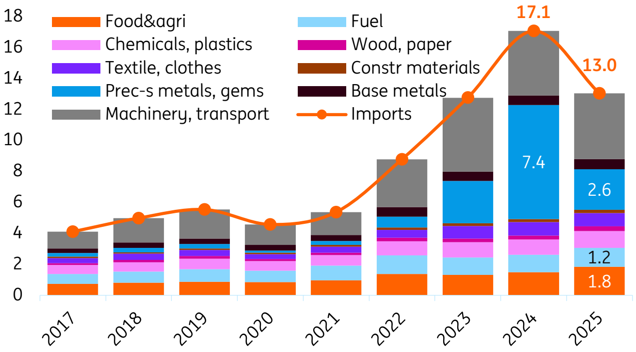
Although imports from developed markets and war-affected regions account for just 14% of total imports – the lowest share among the CIS-4 – Armenia remains structurally highly exposed to commodity shocks. The country imports 2.5–3 bcm of gas and 6–8m barrels of oil annually, effectively covering 100% of domestic needs. Each additional US$10/bbl increase in oil prices raises imports by US$150–200m (around 0.6% of GDP). Energy and food account for roughly 30% of imports (excluding one-offs and re-exports).

Fig 13 Armenia: Fuel imports



Source: National sources, CEIC, ING

Fig 14 Armenia: Imports by product



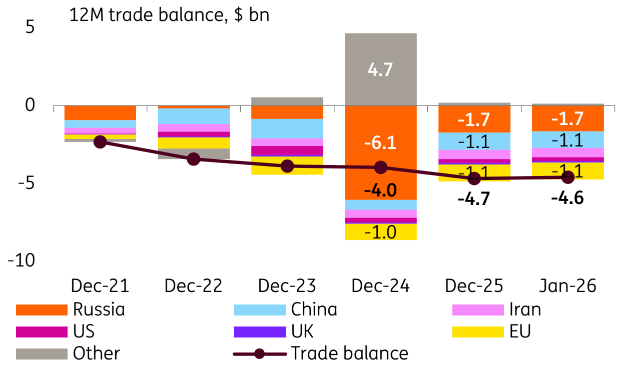
Source: National sources, CEIC, ING

Unlike in 2022, Armenia can no longer rely on additional inflows of skilled labour and remittances to lift potential growth or support further dram appreciation. Against this backdrop, we increase our CPI forecast to 4.5–5.0% for 2026–27. While cost-driven inflation does not mechanically require tighter monetary policy, the risk of second-round effects argues for caution, as reflected in recent CBA communication. We therefore see no scope for further policy rate cuts from the current 6.50% over the next two years, even if growth momentum softens, given the balance of inflation risks.

Balance of payments and exchange rate: capital inflows remain key. Armenia's trade deficit widened by US$0.7bn to US$4.7bn in 2025. However, FX market support has increasingly come from the capital account, with FDI and portfolio inflows offsetting the current account shortfall, making FX dynamics more sensitive to shifts in sentiment and geopolitics. Improved perceptions of country risk linked to the peace process with Azerbaijan have likely supported these inflows. As of September 2025, 12-month net private capital inflows of US$2.7bn exceeded the current account deficit by US$0.7bn, contributing to the dram's strength.

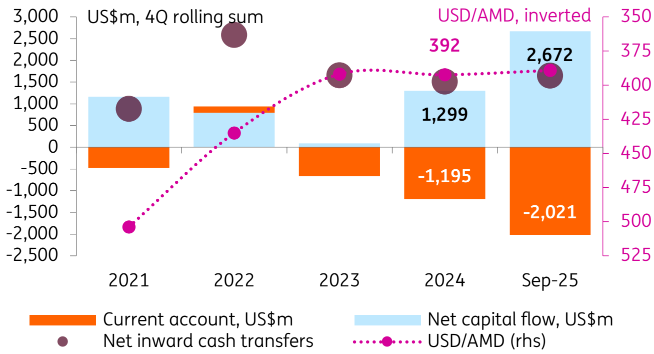
While the dram has so far remained resilient amid Middle East tensions, medium-term risks persist. Remittances (currently 6–7% of GDP per year) and portfolio flows may remain volatile should military tensions in neighbouring Iran intensify.

Fig 15 Armenia: Trade balance level and composition



Source: National sources, CEIC, ING

Fig 16 Armenia: Balance of payments vs AMD



Source: National sources, CEIC, ING

Credit strategy

A good start to this year has seen positive outlooks at both S&P and Fitch, aided by both progress in relations with Azerbaijan and fiscal stabilisation. While there remains the potential for further positive catalysts from the ongoing peace process with Azerbaijan, conflict in the Middle East leaves Armenia in a more vulnerable position, which should slow the fundamental improvement seen in recent years. Risks seem tilted to the downside for both the fiscal and external profile, while elections this summer also bring the possibility of domestic political uncertainty.

Fig 17 Armenia: Rating drivers/sensitivities; factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Ba3 (STABLE)	• Durable and material improvements to government debt burden and affordability. • Structural reform implementation that would raise competitiveness and institutional strength. • A durable easing in geopolitical tensions with Azerbaijan.	• Weakening in growth and fiscal outlook, that could be triggered by a slowdown in major trading partners. • Escalation of geopolitical tensions with Azerbaijan that materially hampers policymaking.
S&P BB- (POSITIVE)	• Geopolitical risks are further reduced. • Public finances significantly outperform expectations. • BoP pressures ease, supported by further increase in FX reserves.	• Geopolitical risks escalate markedly. • Labour and capital inflows from Russia sharply reverse.
Fitch BB- (POSITIVE)	• **Fiscal:** Fiscal consolidation that supports a stabilisation in government debt. • **Macro:** Preservation of high growth rates that increase GDP per capita. • **Structural:** Durable decline in geopolitical risks.	• **Fiscal:** A sharp increase in government debt/GDP. • **External:** Reversal of improvements in FX reserves. • **Structural:** Materialisation of geopolitical risks that hit financial stability.

Source: Moody's, S&P, Fitch, ING

Azerbaijan

Economic overview

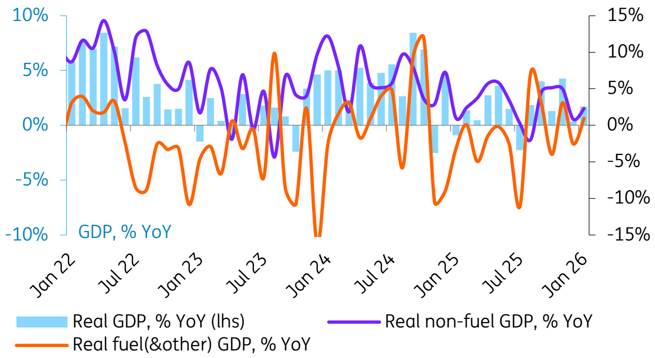
Azerbaijan is a relative beneficiary of the recent escalation in the Middle East, albeit primarily through prices rather than volumes. As an exporter, every additional US$10/bbl increase in oil prices translates into around US$3bn (4% GDP) in additional annual exports and US$1.5-2.0bn in extra budget revenues. Against this backdrop, we no longer see risks of a negative current account balance or manat de-pegging in 2026–27. As a direct neighbor of Iran, Azerbaijan may face higher defense and security spending needs. However, its overall fiscal position remains very strong, with a 2.6% GDP consolidated budget surplus in 2025 and sovereign savings exceeding 100% GDP.

At the same time, inflation risks are elevated. Around 46% of Azerbaijan's imports originate from developed markets and countries directly affected by the Middle East tensions, making the economy vulnerable to imported inflation. A 10% increase in global food prices would add around 1.5ppt to inflation, which was already somewhat elevated in 2025. Against this backdrop, we see no further room for monetary policy to ease at this stage.

Economic activity growth weakened notably from 4.2% in 2024 to 1.4% in 2025. While some slowdown was expected, the scale of deceleration exceeded earlier projections. Both fuel and non-fuel sectors came under pressure, including transport and other industrial segments. Non-fuel activity has remained sluggish, while output in the fuel sector has been volatile. Consumer-focused sectors proved more resilient than the rest of the economy, helping to cushion the overall slowdown.

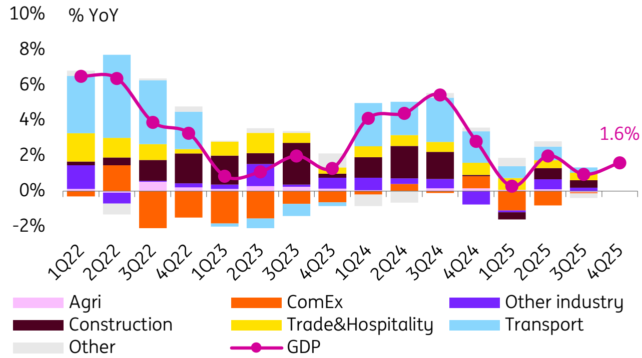
The deceleration was broad-based in 2025, although construction and trade continued to show relative strength. Looking ahead, we believe GDP growth could return to the 2–3% range in 2026–27, provided fiscal policy does not become overly restrictive and trade relationships with the US, EU and China continue to develop. The scope for a meaningful boost from the fuel sector remains limited, reflecting capacity constraints.

Fig 18 Azerbaijan: GDP growth by key contributors



Source: National sources, CEIC, ING

Fig 19 Azerbaijan: GDP growth by sectors

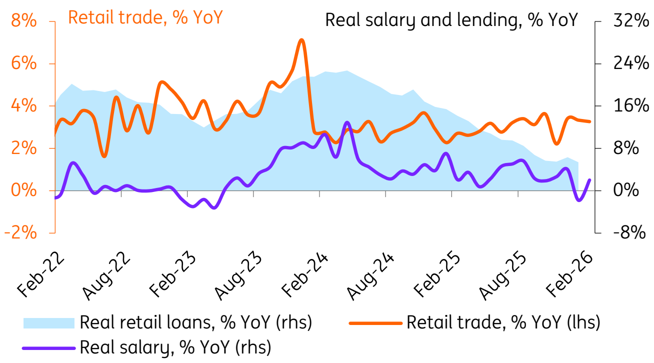


Source: National sources, CEIC, ING

Household consumption is becoming increasingly dependent on credit amid subdued income dynamics. While real income growth remains positive, it is not strong enough to fully support consumption, leading households to rely more heavily on retail lending, which has now reached 15% of GDP and slowed to a multi-year low of 5% YoY in real terms.

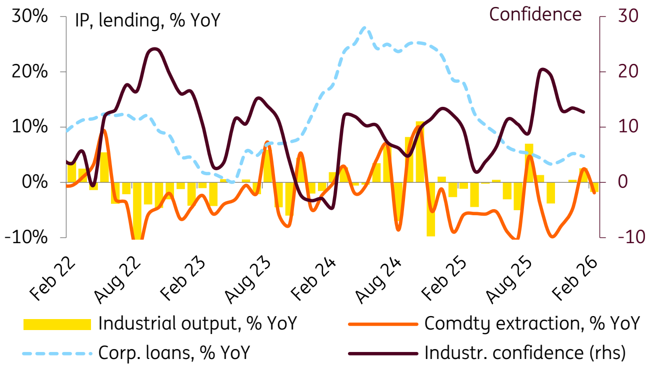
Outside the fuel sector, sentiment has shown tentative signs of improvement. The fuel sector – aside from a brief uptick in recent months – continue to weigh on overall industrial growth. At the same time, the recent stabilisation in corporate lending growth amid relatively high industrial confidence indicator points to a potential recovery in investment appetite in non-fuel sectors.

Fig 20 Azerbaijan: Consumption fundamentals



Source: National sources, CEIC, ING

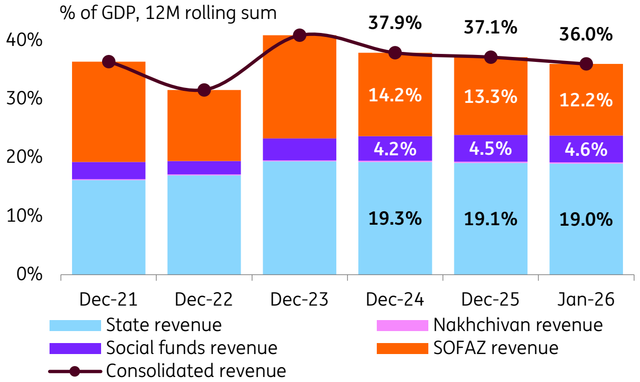
Fig 21 Azerbaijan: Key indicators of industrial activity



Source: National sources, CEIC, ING

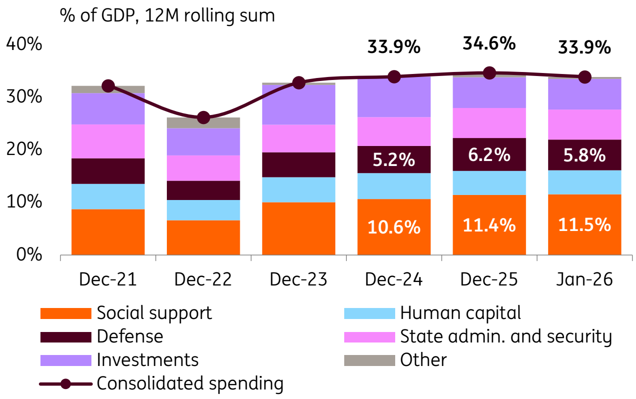
Budget policy: strong buffers, narrowing surplus. Azerbaijan's fiscal stance remains largely growth supportive. On the revenue side, budget inflows have moderated in 2025, largely due to the fuel component. Fuel revenues remain volatile, reflecting softer oil prices and lower export volumes last year, while non-fuel revenues have been comparatively stable. On the expenditure side, higher social spending, rising defense outlays and persistently elevated capital expenditure continue to underpin spending growth. The war in neighbouring Iran adds upside risks to defence and security spending.

Fig 22 Azerbaijan: Consolidated budget revenues



Source: National sources, CEIC, ING

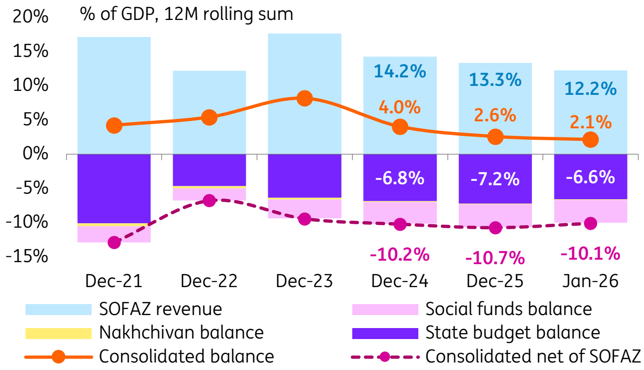
Fig 23 Azerbaijan: Consolidated budget spending



Source: National sources, CEIC, ING

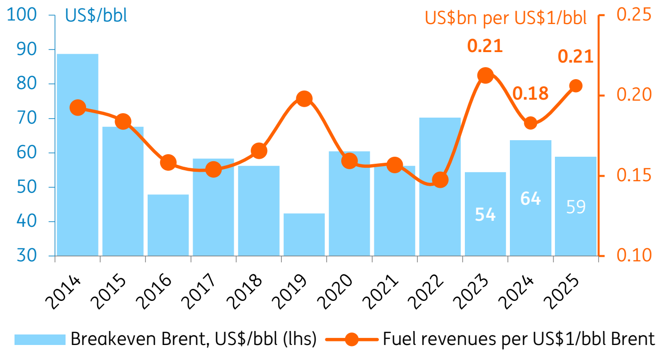
Due to the double pressure from the revenues and expenditures, the consolidated budget surplus has narrowed faster than expected, from 4.0% of GDP in 2024 to 2.6% GDP in 2025 and around 2.1% of GDP currently. The state budget deficit remains at around 7% of GDP, but this is largely offset by fuel revenues. Importantly, Azerbaijan's fiscal breakeven remains within its 10-year range. Robust fundamentals – reflected in annualised revenues of US$210m per US$1/bbl of oil price in 2025 (which, however, includes investment income of the sovereign fund) – have helped keep the fiscal breakeven oil price stable at around US$59/bbl, despite higher spending.

Fig 24 Azerbaijan: Consolidated budget balance



Source: National sources, CEIC, ING

Fig 25 Azerbaijan: Budget sensitivities to oil prices

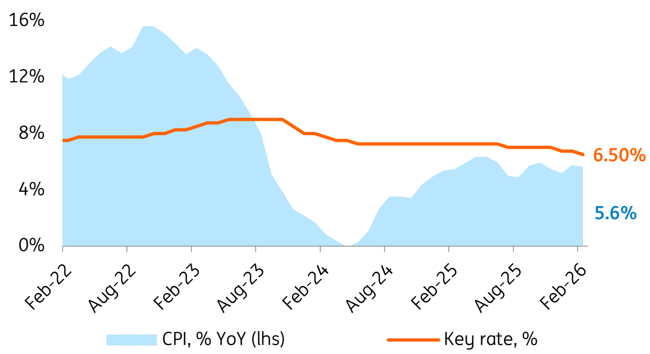


Source: National sources, CEIC, ING

Inflation and monetary policy: no more space for easing. Following the period of ultra-low inflation in 2024, price growth returned to the 5-6% range, where it has remained since early 2025. Inflationary pressures reflect both supply- and demand-side factors. Readings in 2025 were broadly in line with historical averages, but inflation picked up at the start of 2026 following domestic utility tariff increases. Food and services, which were key drivers of disinflation in 2024, have since reversed course, partly due to these domestic tariff hikes. With nearly half of imports sourced from regions exposed to Middle East-related inflation risks, headline CPI faces upside risks. According to our estimates, a 10% increase in global food prices would add around 1.5ppt to headline inflation.

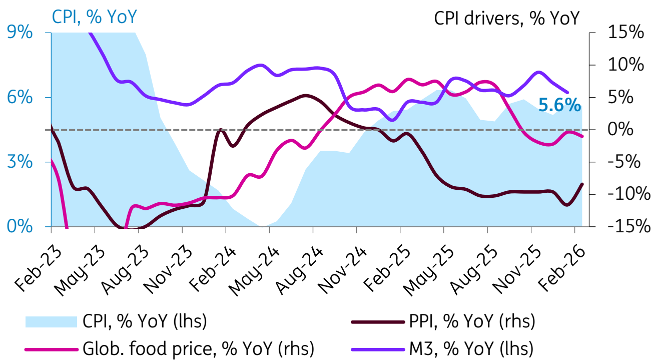
Against this backdrop, monetary policy is unlikely to have meaningful room for further easing. In January 2026, the Central Bank of the Republic of Azerbaijan (CBRA) cut the policy rate by 25bp to 6.50%, citing inflation within the 4±2% target band, a stable external environment, and softer activity. However, a looser fiscal stance and declining but still elevated dollarisation of bank funding constrain further rate cuts unless inflation surprises meaningfully on the downside. Forward-looking indicators, including producer prices, suggest some easing in cost pressures due to lower oil prices, but food input costs and demand-driven inflation remain elevated.

Fig 26 Azerbaijan: Inflation and key rate



Source: National sources, CEIC, ING

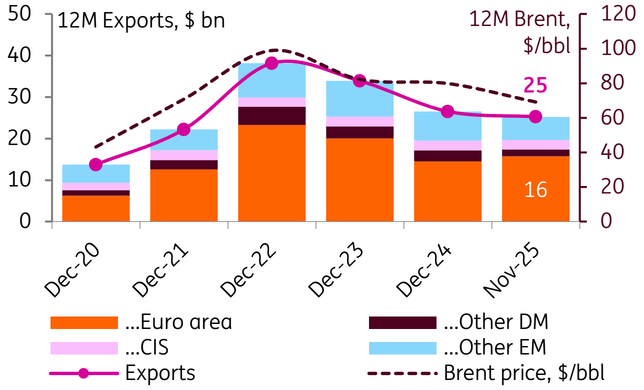
Fig 27 Azerbaijan: Inflation drivers



Source: National sources, CEIC, UN FAO, ING

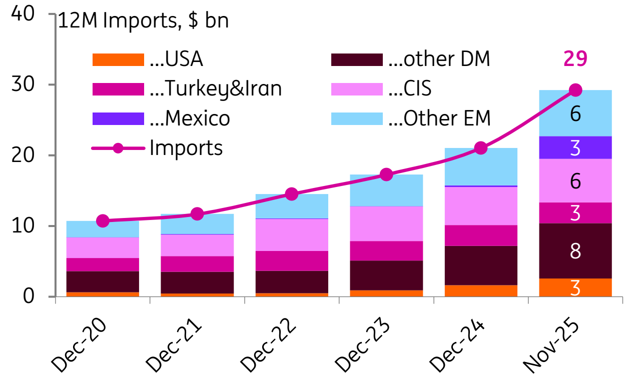
Balance of payments and AZN: fuel dominance, strong buffers. Azerbaijan's fuel-heavy exports are predominantly directed to the EU (62%), placing gas supply contracts with the EU firmly in focus. On the import side, the US emerged as a growing supplier in 2025 (9%), reflecting broader US strategic interest in the region (TRIPP). Azerbaijan has also diversified its import geography towards Mexico (11%), strengthened ties with China (15%), and further reduced reliance on Russia (11%).

Fig 28 **Azerbaijan: 12M exports by region**



Source: National sources, CEIC, ING

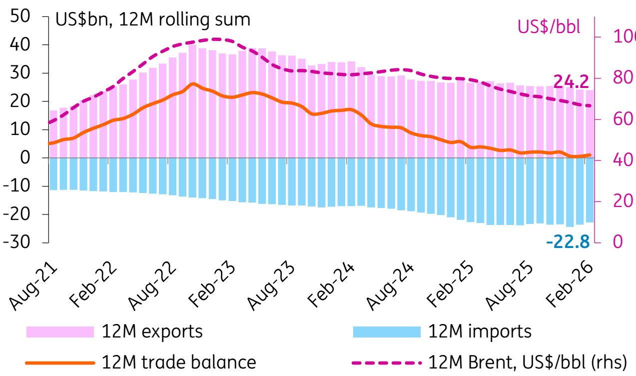
Fig 29 **Azerbaijan: 12M imports by region**



Source: National sources, CEIC, ING

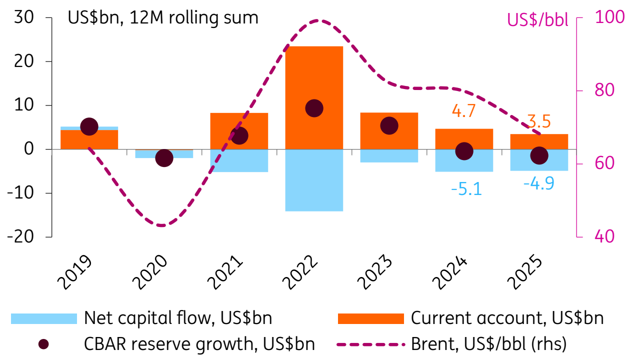
Azerbaijan's current account surplus narrowed to US$3.5 bn in 2025 as the trade surplus approached zero, driven by lower oil prices and strong import growth (partly reflecting higher gold purchases). This had led to concerns on our part about the prospects of a negative current account in 2026 and potential pressure on the FX market. Meanwhile, following the outbreak of the war in the Middle East and the resulting increase in oil prices, the risks of the manat's de-pegging have diminished. Given that ING has increased its Brent forecast by US$20 to US$82/bbl for 2026, we now expect Azerbaijan's current account to be in a 6-7% GDP surplus this year and see AZN peg secure in the next two years. Overall, the balance of risks to fuel price forecasts seems to be tilted to the upside.

Fig 30 **Azerbaijan: 12M trade balance composition**



Source: National sources, CEIC, ING

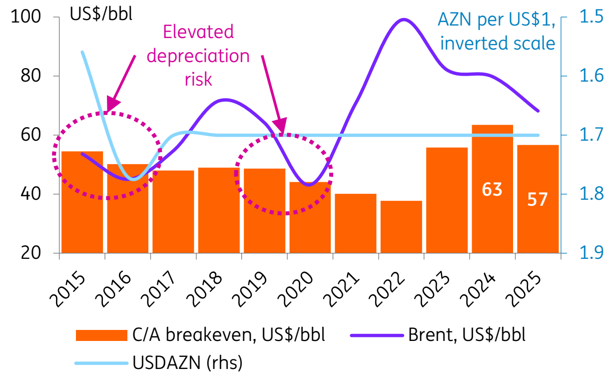
Fig 31 **Azerbaijan: 12M balance of payments composition**



Source: National sources, CEIC, ING

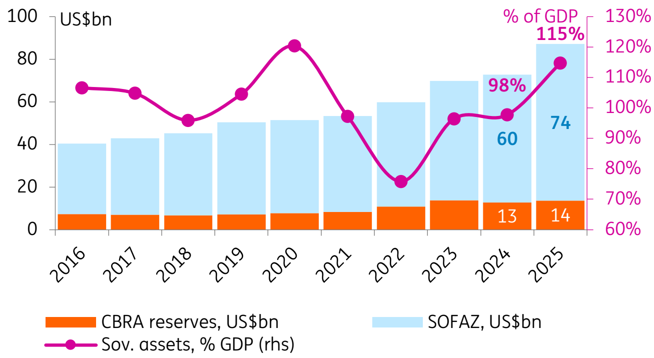
Azerbaijan's overall external position remains very strong. Annualised fuel export revenues amount to around US$300m per US$1/bbl of oil price, while sovereign assets – comprising CBRA reserves and SOFAZ (sovereign fund) holdings – stand at around 115% of GDP. These buffers should have allowed the authorities to defend the AZN/USD 1.70 peg even in the event of a temporary oil price drop below the c.US$60/bbl breakeven, as seen during previous episodes of market stress, including in 2020.

Fig 32 Azerbaijan: Current account breakeven



Source: National sources, CEIC, ING

Fig 33 Azerbaijan: External sovereign asset position



Source: National sources, CEIC, ING

Credit strategy

The fundamental picture is generally positive for Azerbaijan, with ratings now comfortably in the IG space and Moody's holding a positive outlook. At the same time, the country stands to be a significant beneficiary from the current energy price spike, given its high sensitivity to oil prices in terms of fiscal and external accounts. While there remains some risk of negative spillovers from the conflict in the Middle East given the generally tense relations with Iran and cooperation with Israel, for now this seems well contained, despite reports of Iranian drones hitting the Azerbaijani enclave of Nakhchivan. The ongoing peace process with Armenia seems more likely to act as a positive catalyst at this stage, given the progress in recent years. In this context valuations look decent for Azerbaijan, which should act as a strong defensive play in the event of a more prolonged conflict in the Middle East and persistent oil price spike.

Fig 34 Azerbaijan: Rating drivers/sensitivities; factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa3 (POSITIVE)	• Further progress in reforms to improve governance, transparency and policy predictability. • Economic diversification that reduces dependence on hydrocarbons. • Material improvements in economic and diplomatic ties with Armenia that reduces risk of a reescalation.	• Signs of erosion in the credibility and effectiveness of the policy framework. • Banking sector weaknesses resurfacing, raising contingent liability risks. • Renewed geopolitical tensions with Armenia.
S&P {Rating withdrawn}		
Fitch BBB- (STABLE)	• **Macro:** Continued strengthening of the economic policy framework and institutional capacity. • **External finance:** Additional strengthening of the sovereign balance sheet from higher energy revenues and prudent policy mix. • **Structural:** Structural reforms that support improved governance, growth, and economic diversification.	• **Fiscal/external:** Significant erosion of the sovereign balance sheet, such as from lower commodity prices or fiscal loosening. • **Macro:** A deterioration in the economic policy mix that, for example, results in macroeconomic and financial stability risks and/or increases Azerbaijan's vulnerability to external shocks.

Source: Moody's, S&P, Fitch, ING

Kazakhstan

Economic overview

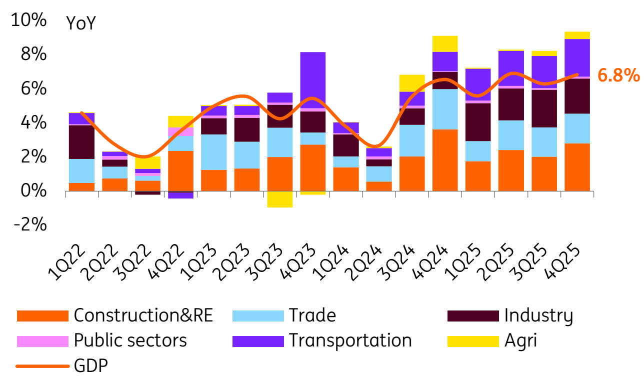
Amid heightened tensions in the Middle East, Kazakhstan is balancing upside from higher oil prices against risks stemming from weaker global risk appetite and rising inflationary pressures. Each additional US$10/bbl increase in oil prices adds around US$6bn (1.8% of GDP) to annual exports and roughly US$1.5bn to budget revenues. However, the positive impact on the current account is partly offset by dividend outflows. In addition, the balance of payments could come under pressure if a deterioration in global risk sentiment triggers a reversal of portfolio inflows into government debt, following strong inflows of US$1.7bn in 2025 and US$0.6bn in 2M26 – making us cautious about the recent KZT strength. On the fiscal side, the revenue boost may be more limited than in the past, as investment income of the sovereign fund, which reached 3.5-4.0% of GDP in the previous two years, may decline. Overall, 2026 looks like a year of a cyclical slowdown rather than acceleration.

While the inflation backdrop in Kazakhstan appears softer than expected, particularly in the context of the recent VAT rate hike, caution is warranted. Uncertainty around further domestic tariff increases, quasi-fiscal stimulus, and renewed risks of imported cost inflation all argue for vigilance. We estimate that a 10% increase in global food prices could add around 0.8ppt to headline CPI. Room for a rate cut (18.00%) appears limited to 100bp for 2026.

Economic activity in Kazakhstan was strong and exceeded expectations in 2025 with GDP growth picking up from 4.8% in 2024 to 6.5% (including a 6.8% YoY increase in 4Q25), thanks to strong performance of both fuel and non-fuel sectors. Fuel output and exports recorded double-digit growth over the year, making the fuel sector the main contributor to industrial expansion. Non-fuel industries also provided positive support, with construction and transport showing particularly robust performance.

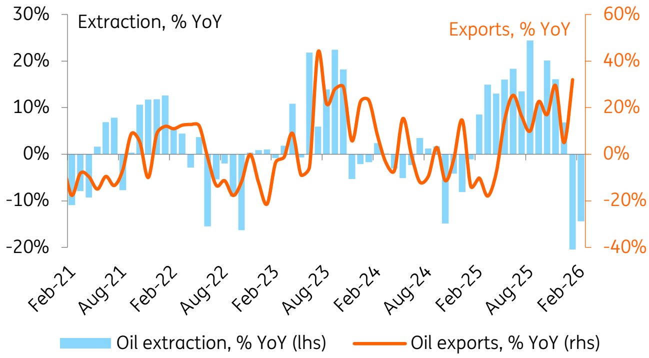
Looking ahead, some moderation in growth is expected in 2026 given the cyclical slowdown in the fuel sector (there is limited capacity to boost output from the current levels) and as the VAT hike gradually feeds through to domestic consumer demand.

Fig 35 Kazakhstan: GDP growth dynamics and structure



Source: National sources, CEIC, ING

Fig 36 Kazakhstan: Key oil sector indicators

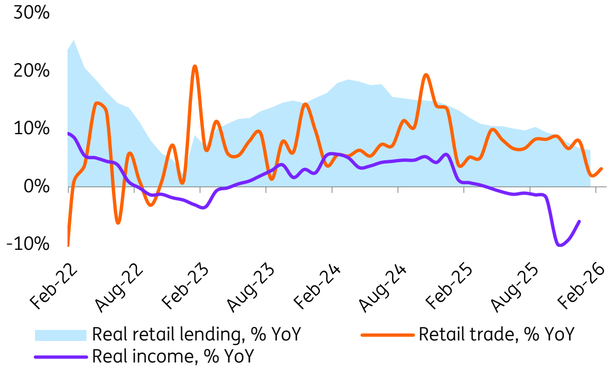


Source: National sources, CEIC, ING

Economic activity indicators in the beginning of 2026 are showing signs of some softening. Consumption is in a cyclical slowdown, with the recent VAT hike first supporting some acceleration of retail trade in 2025 but now adding further pressure. We believe the increase in the VAT rate from 12% to 16%, effective 1 January 2026, has weighed on household demand that was already moderating due to softer income dynamics and a cooling lending cycle.

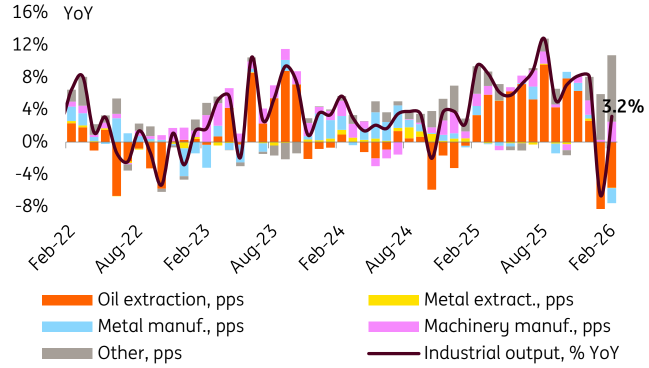
In addition, the strong oil sector momentum seen in 2025 has not carried into 2026. After double-digit growth in oil production and exports last year, capacity constraints limit further expansion. Early 2026 data already point to a decline, suggesting that the fuel sector is no longer providing the same support to overall growth, however industries outside oil extraction seem to show some resilience.

Fig 37 Kazakhstan: Consumption fundamentals



Source: National sources, CEIC, ING

Fig 38 Kazakhstan: Industrial output composition

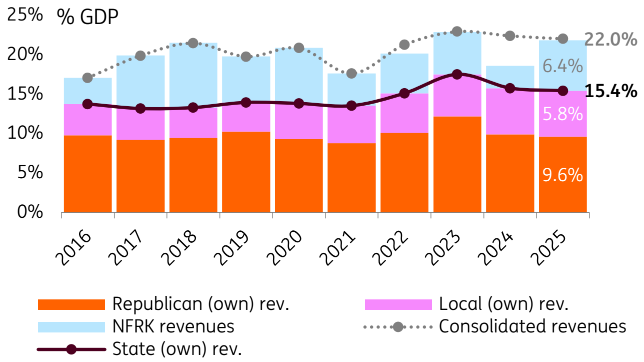


Source: National sources, CEIC, ING

Budget policy is under control, but highly dependent on volatile income items, with quasi-fiscal channels increasingly substituting for on-budget stimulus. At the state budget level, revenues appear relatively stable, reflecting the dominant role of non-fuel income. Additional support to the consolidated budget has come from strong revenues of the National Fund of the Republic of Kazakhstan (NFRK). However, in 2025 this support was driven largely by investment income, which accounted for 4.0% of GDP out of total revenues of 6.4% of GDP and may now decline due to a deterioration in global market performance.

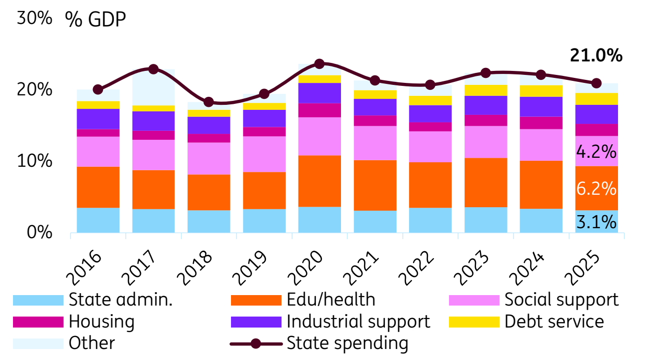
The expenditure side is now under better control, as following an expansionary 2018-2022, state expenditures declined in 2025, while still slightly outperforming initial budget drafts. An additional concern is that better control at the official spending level could be offset by expansion of the quasi-fiscal support, as according to the central bank of Kazakhstan (NBK) lending by the Baiterek holding is expected to amount to roughly 4-5% of GDP in 2026.

Fig 39 Kazakhstan: Consolidated budget revenues



Source: National sources, CEIC, ING

Fig 40 Kazakhstan: State spending

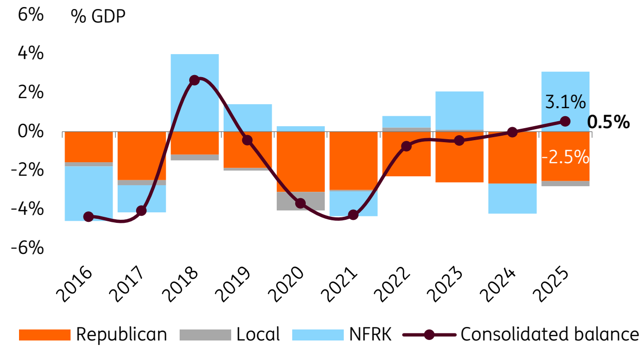


Source: National sources, CEIC, ING

In 2025, the consolidated budget recorded a surplus of 0.5% of GDP, but again, this is largely due to the unusually strong investment income of NFRK. By contrast, the republican budget, which is the key indicator of the fiscal stance and the main driver of debt issuance, remains growth supportive, with a stable 2.5% GDP deficit.

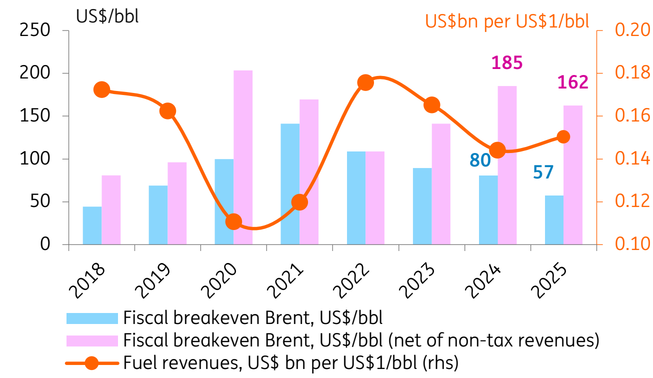
Annual fuel revenue collection per US$1/bbl of Brent price improved in 2025 to US$150m, supported by a 14% increase in oil production and an 8% rise in exports. Nevertheless, once non-tax items (including investment, privatisation income, and other irregular non-tax items) are excluded, the consolidated budget breakeven oil price stands at US$162/bbl (vs headline breakeven of US$57/bbl), underscoring the need for further consolidation. The government has reaffirmed its commitment to fiscal adjustment, with the VAT hike and additional revenue measures taking effect in 2026, but the pace and credibility of consolidation will remain under scrutiny by investors.

Fig 41 Kazakhstan: Consolidated budget balance



Source: National sources, CEIC, ING

Fig 42 Kazakhstan: Budget sensitivities to oil prices



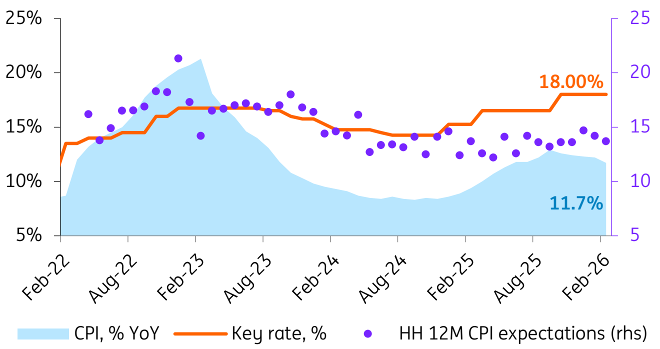
Source: National sources, CEIC, ING

Inflation and monetary policy: softer than expected, but caution is warranted**.** The slowdown of CPI from 12.3% YoY in December 2025 to 11.7% YoY in February 2026 suggests that part of the VAT rate increase effective 1 January 2026, may have been priced in advance. This has helped ease immediate concerns about a sharp VAT-driven inflation spike and supports the view that disinflationary forces are still at work, at least in the near term.

For now, forward-looking CPI indicators are supportive, helped by 14% KZT appreciation since the beginning of 4Q25, softer global food prices, and easing pressure from producer prices. Meanwhile, looking ahead, inflation risks remain tilted to the upside. Potential increases in domestic utility tariffs after the moratorium expires in 2Q26, quasi-fiscal support, and ongoing tensions in the Middle East pose clear pro-inflationary risks, including through imported cost pressures. Based on historical experience, we estimate that a 10% increase in global food prices could add around 0.8ppt to Kazakhstan's headline CPI.

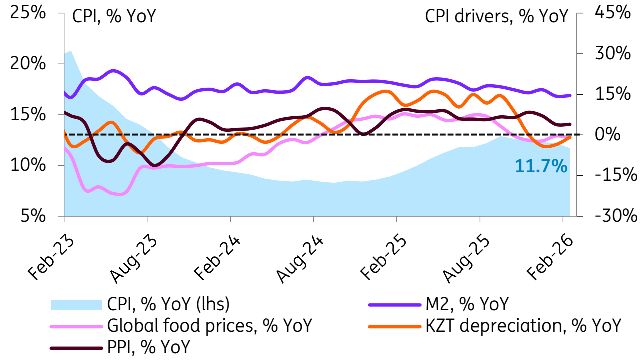
Against this backdrop, the key policy rate seems to have peaked at 18.00%, and some room for a cut is still present, but for the near term, the NBK is maintaining a cautious stance. While conditions could allow a rate-cutting cycle to begin around mid-2026, this hinges on the absence of a second wave of VAT-related price pressures and no material deterioration in the external environment. Ongoing Middle East tensions remain a key risk factor, reinforcing the central bank's wait-and-see approach. For now, we see scope for a 100-basis point cut in the next six months, followed by another 200-300bp before the end of 2027 provided CPI descends into the 8-10% range.

Fig 43 Kazakhstan: Inflation, expectations and key rate



Source: National sources, CEIC, ING

Fig 44 Kazakhstan: Inflation drivers

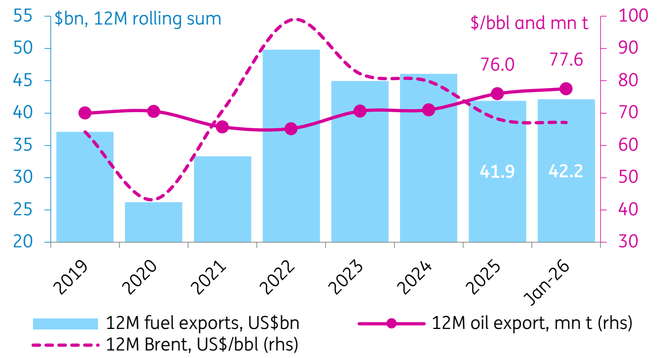


Source: National sources, CEIC, UN FAO, ING

Balance of payments and exchange rate: benefitting from higher oil, but there are other factors to watch. On the trade balance side, fuel exports, which accounted for 53% of total exports in 2025, were so far supported by volumes but used to be under pressure from prices until recently. Lower oil prices weighed on fuel export revenues in 2025, although this was partly offset by an 8% increase in export volumes. At the same time, Kazakhstan's export base has become more diversified. Non-commodity and other exports now account for 31% of the total, while non-fuel commodity exports, mainly metals and agricultural products, make up a further 16%.

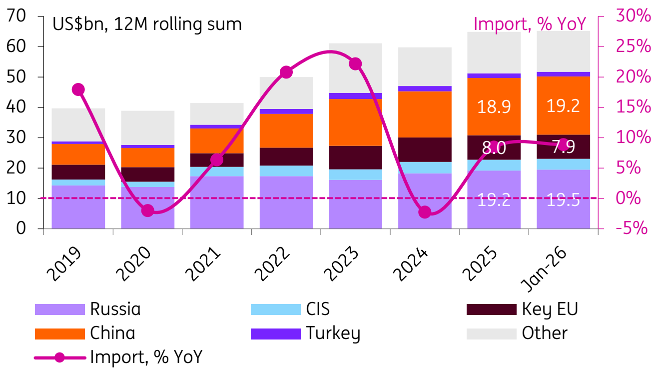
Meanwhile, imports returned to modest growth in 2025, driven by large capital expenditure projects and supported by resilient domestic demand. This trend reflects Kazakhstan's close trade ties with China and Russia, with imports from China in particular rebounding after a period of weakness.

Fig 45 Kazakhstan: Fuel export volume and value



Source : National sources, CEIC, ING

Fig 46 Kazakhstan: Import growth and geography



Source : National sources, CEIC, ING

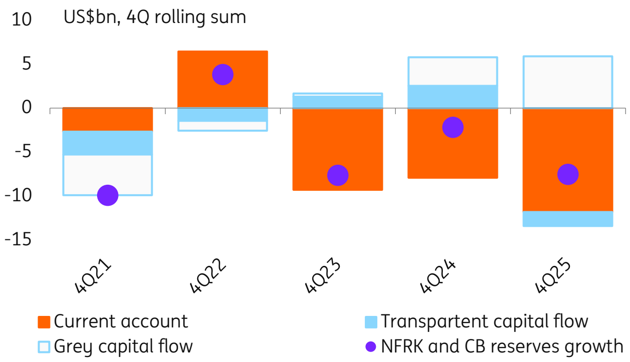
The outbreak of the war in the Middle East in March 2026 should offer an overall boost to Kazakhstan's trade balance, as each additional US$10/bbl of Brent price increases annual fuel exports by c.US$6bn. Thus, the impact on the current account should be muted, as a number of international JVs in Kazakhstan's commodity sector led to a dividend outflow equivalent of around 50-60% of fuel exports. As a result, while we expect an improvement in the current account compared to US$12bn deficit in 2025, under ING's house view of US$82/bbl Brent (which however is currently being tested due to the more extended nature of the Middle East conflict), it should remain in deficit of around US$8bn, in line with the 2024 figure.

The capital account is another channel to consider. It appears that international portfolio inflows into the tenge-denominated government debt market, which according to the NBK, totalled US$1.7bn in 2025 and US$0.6bn in 2M26, was an important support factor for the tenge in 4Q25 and 1Q26. As portfolio flows are somewhat sensitive to global risk sentiment, the sour mood on the global markets and flight to safety could be a factor limiting the positive impact of higher oil prices on KZT in the medium term.

Finally, FX sales by the NFRK, used to fund the republican budget deficit, and by the NBK, aimed at offsetting domestic gold purchases, are supporting the tenge at US$1.0-1.5bn per month. However, if the government follows through with fiscal consolidation, state FX sales are likely to decline. This could result in renewed KZT weakness unless additional private capital inflows materialise.

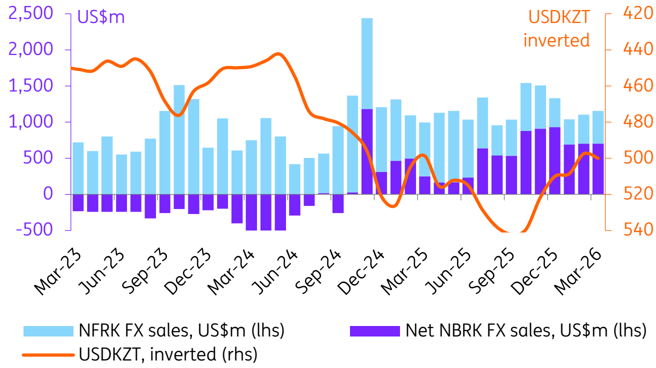
As a result, while we are constructive on KZT in the near term, we remain cautious about the longer-term prospects. Kazakhstan's chronic current account deficit and elevated inflation implies a structural need for KZT depreciation to maintain external competitiveness. Addressing this long-term imbalance would require either stronger export performance or more stable and sustained capital inflows. In the absence of these adjustments, exchange rate flexibility remains an important shock absorber.

Fig 47 Kazakhstan: Balance of payment composition



Source: National sources, CEIC, ING

Fig 48 Kazakhstan: NBRK/NFRK FX sales and KZT



Source: National sources, CEIC, ING

Credit strategy

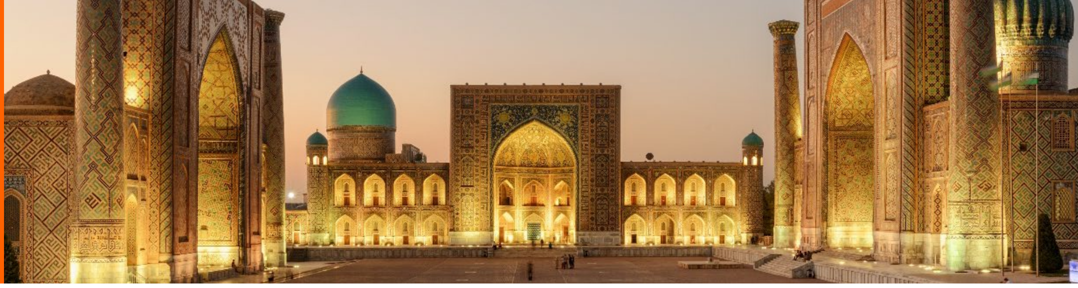
Kazakhstan's dollar bonds have remained very resilient against the risk-off moves seen in markets over the past month. Overall, the underlying fundamental momentum is generally positive, with fiscal consolidation under close focus, while higher energy prices should offer a modest boost to export and budget revenues. However, as with budget policy, on the issuance front, more quasi-sovereign supply remains a risk given tight valuations even within the BBB context.

Fig 49 Kazakhstan: Rating drivers/sensitivities; factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa1 (STABLE)	• Further reforms to strengthen institutional framework and policy credibility. • Accelerated process of economic diversification, to expand growth drivers and address structural challenges.	• A structural fall in oil production or exports, perhaps driven by acceleration of in global carbon transition. • Crystallisation of domestic political risks that impact government's institutional strength or progress in reform agenda, or a re-emergence of social unrest.
S&P BBB- (POSITIVE)	• New tax code results in sustainable expansion of non-oil revenue base and recovery of fiscal buffers. • Government interest burden is stabilised at moderate levels	• A significant decline in oil exports due to disruption to the CPC pipeline, which could worsen external position and fiscal deficits. • Authorities backtrack on measures to diversify the government revenue base. • Fiscal reforms prove insufficient to prevent a further decline in government liquid assets.
Fitch BBB (STABLE)	• **Structural/Macro:** Strengthening of economic policy framework and diversification. • **Fiscal:** Sustained improvement in fiscal performance leading to stronger sovereign balance sheet.	• **Structural:** Spillovers from Russia-related sanctions or domestic political instability. • **Fiscal:** Deterioration of sovereign balance sheet due to commodity price shock or looser fiscal policy. • **Macro:** Deterioration of policy mix that undermines macro stability.

Source: Moody's, S&P, Fitch, ING

Uzbekistan



Economic overview

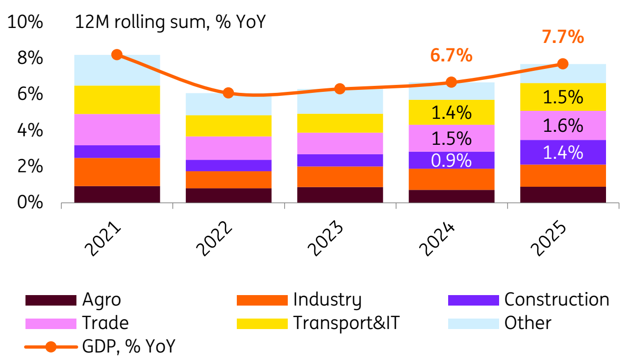
Uzbekistan remains relatively defensive amid Middle East tensions, largely due to policy-managed strong gold exports. Higher oil prices are a negative for the balance of payments, as every additional US$10/bbl increases annual energy imports by around US$550m (0.4% of GDP). However, this impact is more than offset by gold exports, where a US$1,000/oz increase in prices adds roughly US$4bn (2.7% of GDP) to export revenues.

In 2025, Uzbekistan sold around only 85 tonnes of gold, equivalent to roughly 85% of its annual production capacity, providing support to the currency: last year the UZS appreciated by 7.4%. At the same time, the discretionary nature of gold sales, persistent presence of twin deficits and still high inflation limit the scope for sustained FX appreciation. Inflation risks remain elevated. A 10% increase in global food prices would add around 1.2ppt to headline inflation.

Economic activity remains robust and diversified. Uzbekistan's GDP growth accelerated from 6.7% in 2024 to 7.7% in 2025, driven mainly by stronger output in construction and heavy industries. While consumption has remained resilient, its growth has lagged the expansion in industrial activity, pointing to an increasingly supply-led growth profile.

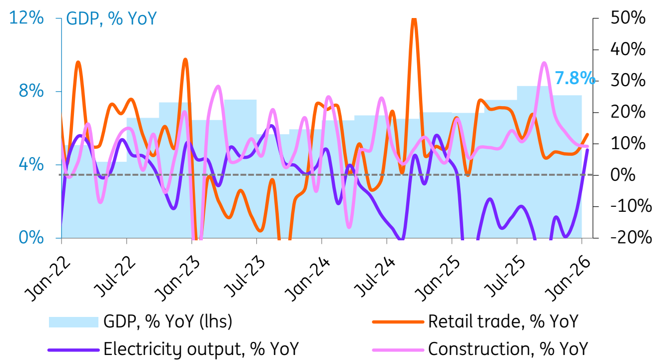
Sources of financing the growth appear to be largely external and related to exports and capital inflows. Domestic sources of financing are showing a mixed picture. On the one hand lending growth has picked up from 4 to 12% YoY in 9M25, while retail lending remained at 12% YoY, which is still modest adjusted for inflation. Fiscal policy (latest data available for 1Q25) was headed towards consolidation, as the general government deficit shrank from 4.9% GDP in 2023 to 2.8% in the four quarters ending in March 2025 amid higher revenue collection measures and cost controls.

Fig 50 Uzbekistan: GDP growth composition



Source: National sources, CEIC, ING

Fig 51 Uzbekistan: Key activity indicators



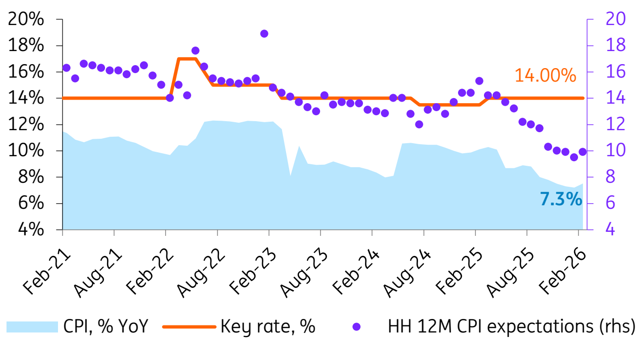
Source: National sources, CEIC, ING

Inflation and monetary policy suggest some cautious scope for easing. Despite two rounds of increases in regulated tariffs in 2024 and 2025, inflation in Uzbekistan has eased more than expected, falling to 7.3% YoY in February 2026. This outcome is better than anticipated, although CPI remains above the long-term target of 5%. The recent disinflation reflects a combination of base effects, tighter monetary conditions, and the 7% appreciation of the soum in 2025, which has helped dampen imported price pressures.

Looking ahead, inflation risks remain skewed to the upside. As a net importer of energy and food, Uzbekistan is exposed to external cost shocks, with potential CPI risks of around 1-2ppt. Global food prices and still strong domestic demand continue to warrant caution, while further adjustments to administered prices could slow the disinflation process. At the same time, the stronger exchange rate provides a partial buffer against imported inflation, supporting the central bank's expectation that CPI will remain in single digits this year and moderate further in 2026. We see CPI ending the year at 8%.

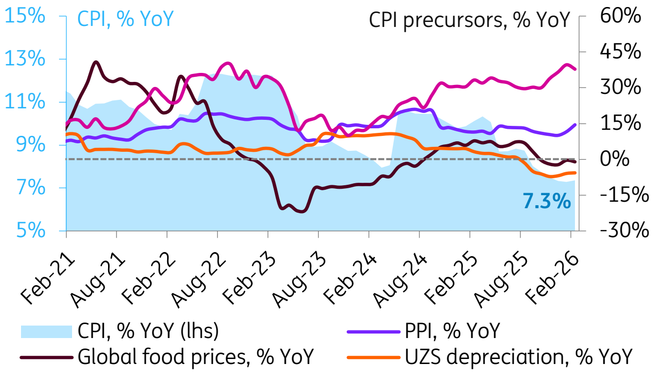
Against this backdrop, the CBRU has recently kept the policy rate on hold at 14.00% and signalled a cautious stance. While the inflation outlook has improved, the central bank has adopted a more hawkish tone on external risks, reflecting uncertainty around global food prices and broader cost pressures. A moderate rate-cutting cycle may not be far off if disinflation continues as expected, but policy easing is likely to proceed gradually, within a total of 100bp cuts in 2026, with the CBRU prioritising inflation control over near-term growth support.

Fig 52 Uzbekistan: Inflation, expectations, and key rate



Source: National sources, CEIC, ING

Fig 53 Uzbekistan: Inflation drivers

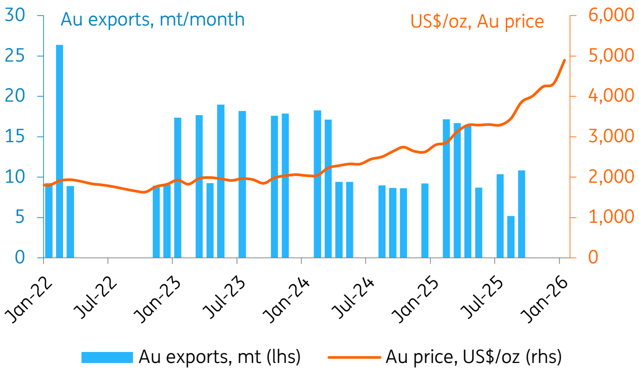


Source: National sources, CEIC, UN FAO, ING

Balance of payments and exchange rate: benefitting from strong gold prices. Uzbekistan sold around 85 mt of gold in 2025, showing restraint in physical sales but still benefiting from the sharp rise in gold prices. With annual sales capacity estimated at around 90-100 mt, the authorities retain discretionary flexibility to accelerate gold sales depending on market conditions after a tactical pause in 4Q25 and early 2026.

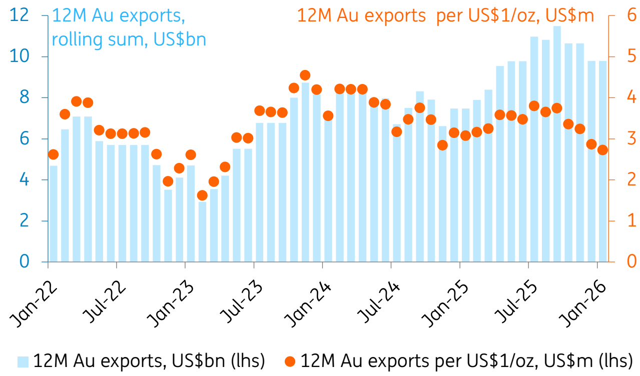
With US$3-5bn of annual gold export revenues (depending on the physical volume exported) generated for each US$1,000/oz of the gold price, Uzbekistan has significant scope to ramp up volume and of gold sales if needed. This provides an important buffer for the external account and strengthens resilience against potential external shocks. Higher gold sales volume could mitigate a potential decline in the gold prices as well as higher energy imports, as according to our estimates every additional US$10/bbl increases annual energy imports by around US$550m (0.4% of GDP).

Fig 54 Uzbekistan: CBRU monthly gold exports



Source: National sources, CEIC, media, Statista, ING

Fig 55 Uzbekistan: Export sensitivity to gold price

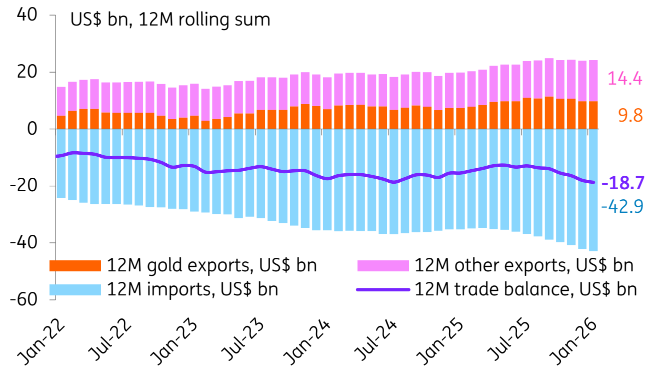


Source: National sources, CEIC, ING

Restrained physical gold exports did not allow narrowing in Uzbekistan's trade deficit in 2025, but the local FX market sentiment still improved thanks to some reduction in the current account deficit and ramped up private capital inflows. As a result, in 2025, the soum appreciated by 7.4% alongside a 65% rally in gold prices. This underscores the important role of gold exports in supporting the balance of payments and stabilising the exchange rate.

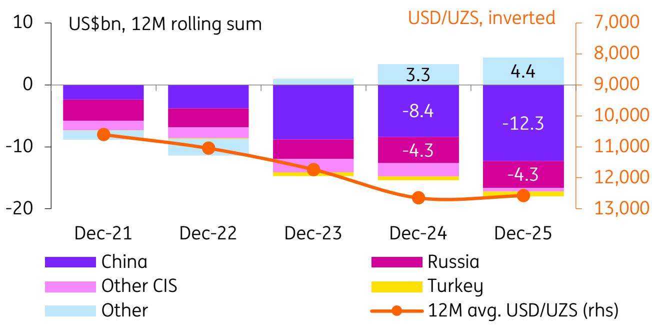
Since the beginning of the war in the Middle East, the gold price dropped by 15%, while UZS remained relatively flat. We are constructive on the soum for the near term, seeing a potential for higher physical exports of gold, but view gold-driven support as smoothing volatility rather than anchoring long-term expectations. Unless gold prices make another leap in 2026, we expect a mild correction in UZS in 2026 and 2027, as Uzbekistan's persistent twin deficits and still high inflation suggest a structural preference for a weaker nominal exchange rate for the sake of competitiveness.

Fig 56 Uzbekistan: Trade balance composition



Source: National sources, CEIC, ING

Fig 57 Uzbekistan: Balance of trade and services vs UZS



Source: National sources, CEIC, ING

Credit strategy

The fundamental picture for Uzbekistan has improved significantly in recent years, with narrowing twin deficits amid solid growth reflected in rating upgrades. Moody's positive outlook suggests there is still scope for improvement this year, while the stronger credit profile should increase the country's resilience to the current energy shock. Recent gold price volatility has added some uncertainty, but prices remain well above end 2022 levels and government policy should remain prudent in this respect.

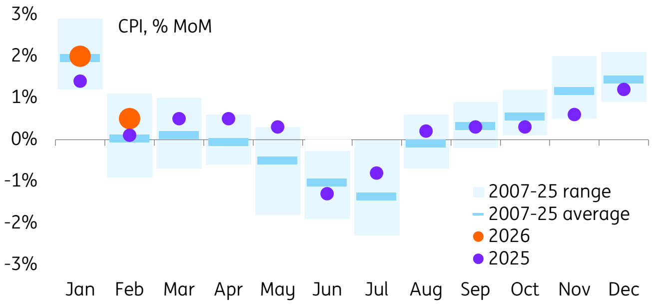
Fig 58 Uzbekistan: Rating drivers/sensitivities; factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Ba3 (POSITIVE)	• Further progress in structural reforms to improve competitiveness and strengthen institutions. • Advancing privatization of large SOEs and banks without compromising fiscal stability.	• Domestic political instability hinders the pace of reforms and weakens growth prospects. • Public sector fiscal metrics or external metrics deteriorate beyond expectations
S&P BB (STABLE)	• Budgetary and current account deficits moderate without impairing economic performance.	• External and fiscal deficits weaken beyond expectations – eg, from terms of trade, government spending, or contingent liabilities. • Growth rates prove weaker than forecast due to lower-than-anticipated economic benefits from debt-financed investment projects.
Fitch BB (STABLE)	• **Fiscal:** Consolidation that enhances medium-term debt sustainability. • **Macro:** Faster implementation of structural reforms that boost GDP growth prospects. • **Structural:** Further improvement in governance standards.	• **Fiscal:** Marked rise in government debt due to period of low growth, loose fiscal stance, sharp UZS depreciation, or crystallisation of contingent liabilities. • **External:** Worsening in external position due to large drop in remittances or widening in the trade deficit.

Source: Moody's, S&P, Fitch, ING

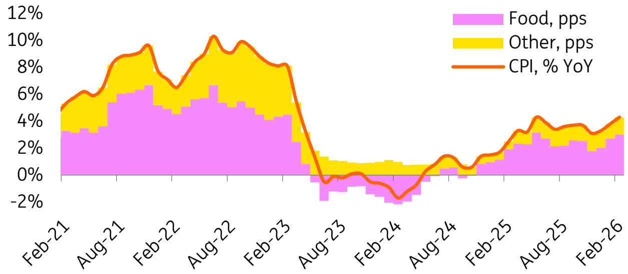
Appendix 1
CIS-4 Inflation: Seasonality and composition

Fig 59 Armenia: Monthly price growth seasonality



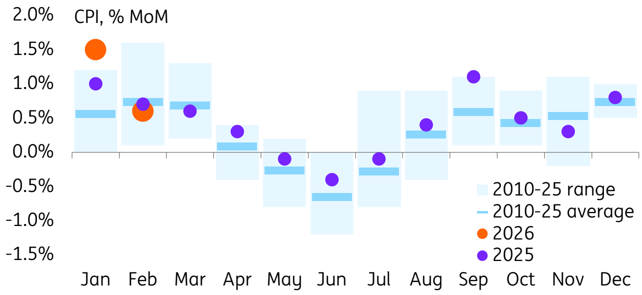
Source: National sources, CEIC, ING

Fig 60 Armenia: Annual CPI growth composition



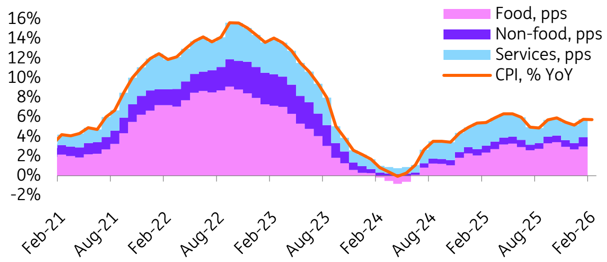
Source: National sources, CEIC, ING

Fig 61 Azerbaijan: Monthly price growth seasonality



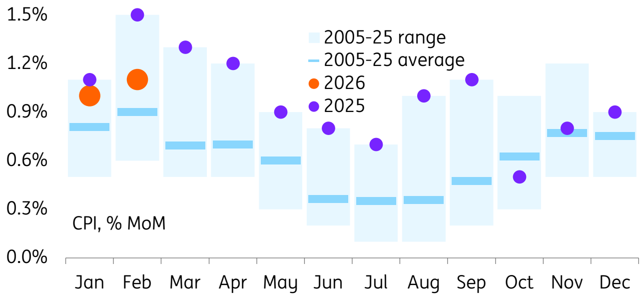
Source: National sources, CEIC, ING

Fig 62 Azerbaijan: Annual CPI growth composition



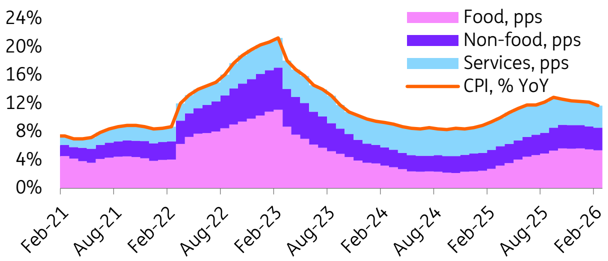
Source: National sources, CEIC, ING

Fig 63 Kazakhstan: Monthly price growth seasonality



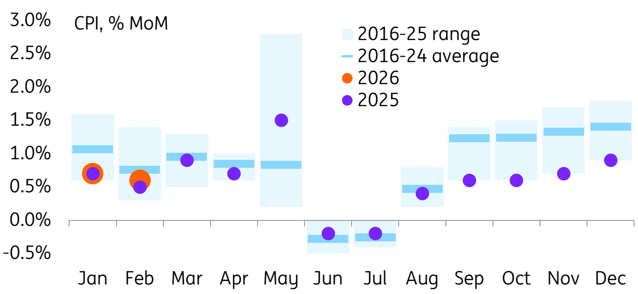
Source: National sources, CEIC, ING

Fig 64 Kazakhstan: Annual CPI growth composition



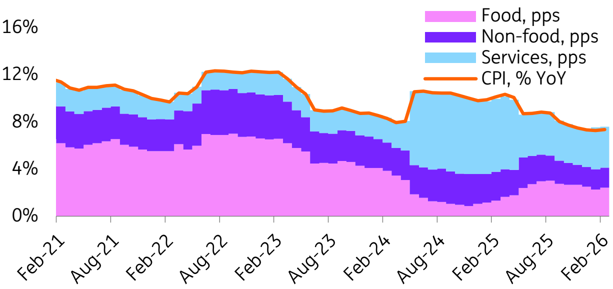
Source: National sources, CEIC, ING

Fig 65 Uzbekistan: Monthly price growth seasonality



Source: National sources, CEIC, ING

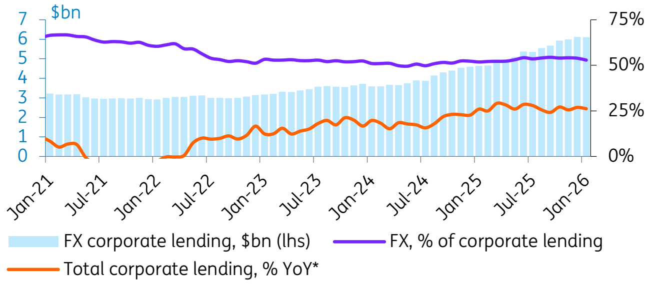
Fig 66 Uzbekistan: Annual CPI growth composition



Source: National sources, CEIC, ING

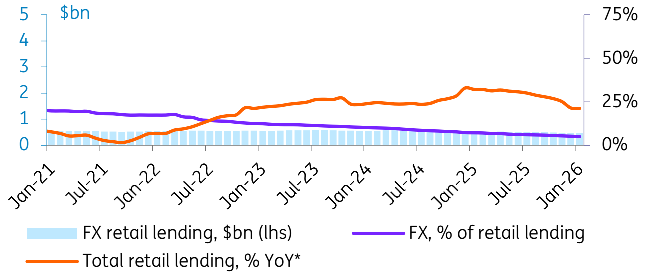
Appendix 2
CIS-4 banking sector lending trends

Fig 67 Armenia: Corporate lending (39% of GDP)



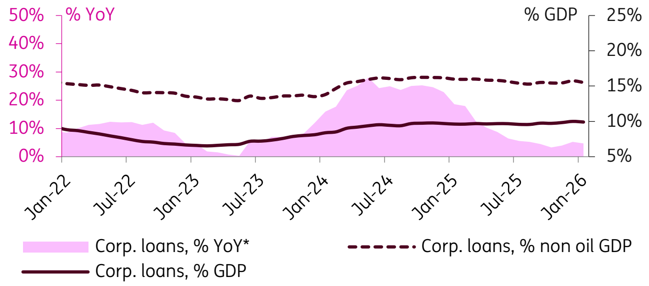
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 68 Armenia: Retail lending (31% of GDP)



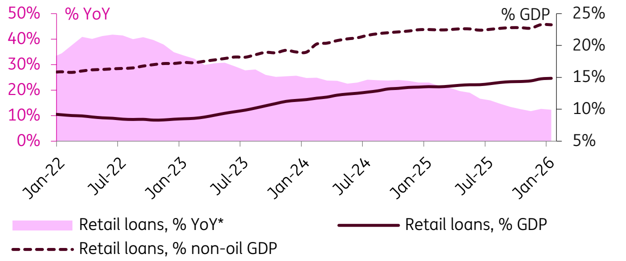
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 69 Azerbaijan: Corporate lending (13% of GDP)



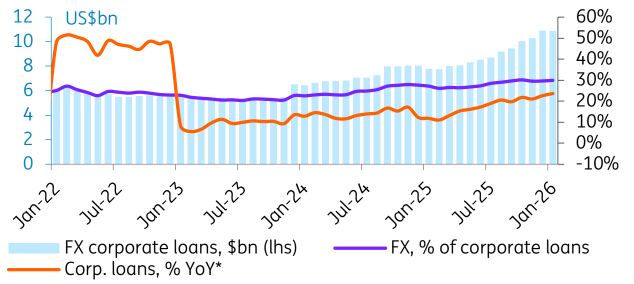
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 70 Azerbaijan: Retail lending (15% of GDP)



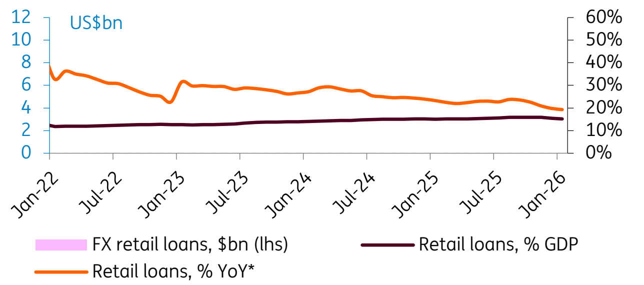
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 71 Kazakhstan: Corporate lending (11% of GDP)



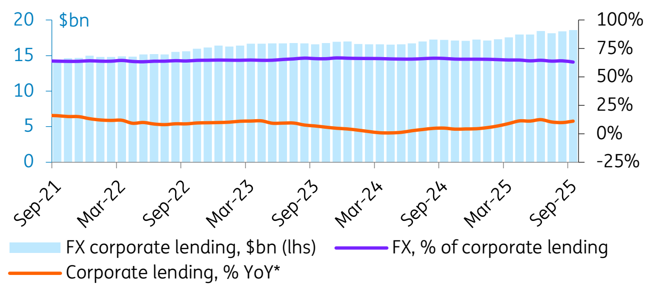
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 72 Kazakhstan: Retail lending (15% of GDP)



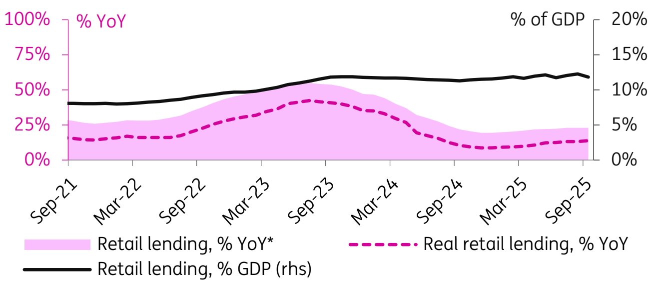
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 73 Uzbekistan: Corporate lending (20% of GDP)



*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

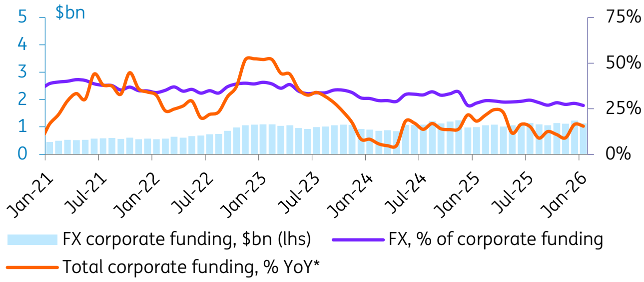
Fig 74 Uzbekistan: Retail lending (12% of GDP)



*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

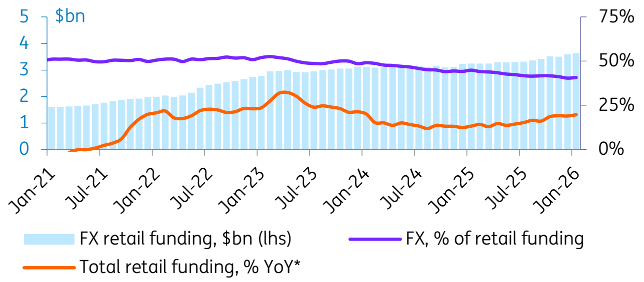
Appendix 3
CIS-4 banking sector funding trends

Fig 75 Armenia: Corporate funding (14% of GDP)



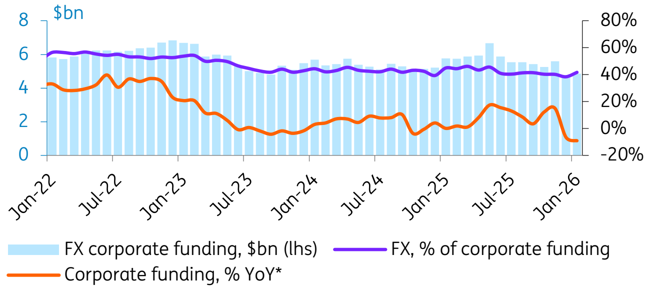
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 76 Armenia: Retail funding (30% of GDP)



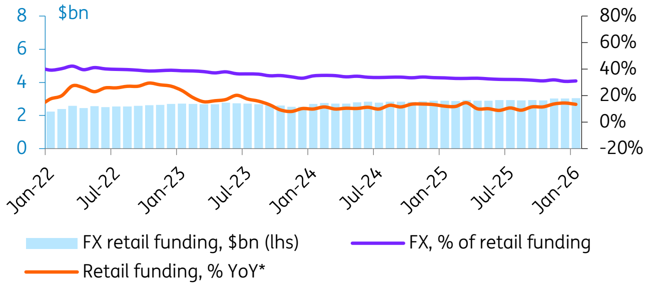
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 77 Azerbaijan: Corporate funding (15% of GDP)



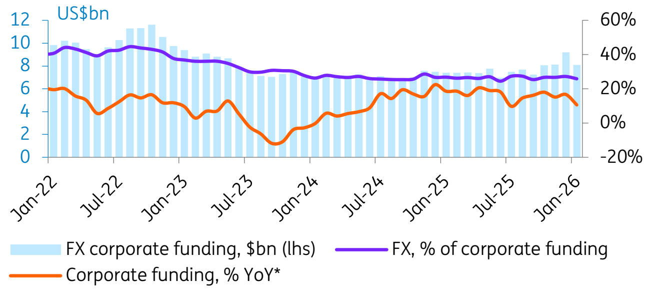
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 78 Azerbaijan: Retail funding (13% of GDP)



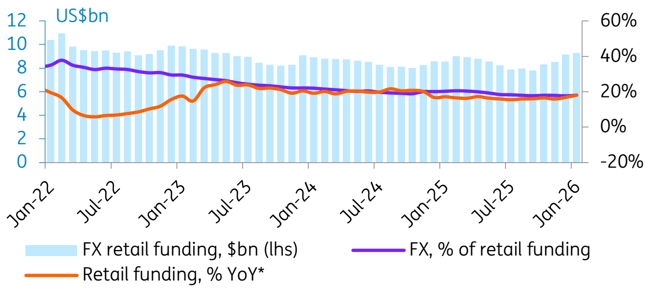
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 79 Kazakhstan: Corporate funding (12% of GDP)



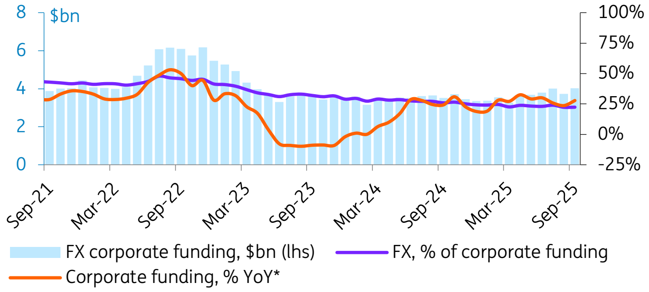
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 80 Kazakhstan: Retail funding (19% of GDP)



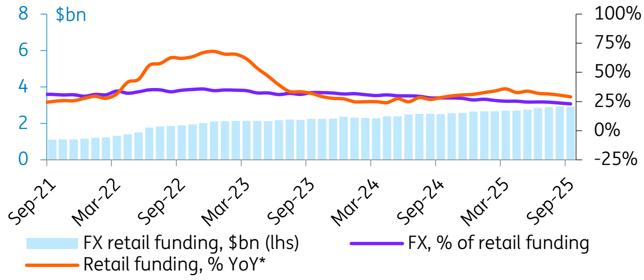
*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 81 Uzbekistan: Corporate funding (12% of GDP)



*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

Fig 82 Uzbekistan: Retail funding (9% of GDP)



*Adjusted for FX revaluation effect
Source: National sources, CEIC, ING

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