Article | 3 September 2026 ARMENIA AZERBAIJAN

CIS-4: Currencies remain supported, selective rate cuts still possible

Higher fuel prices and persistent carry trade reinforce our constructive near-term FX outlook for commodity exporters and high-yielding CIS markets. Inflation risks are also rising, but domestic buffers should prevent a uniformly hawkish shift, keeping regional rate decisions selective – between a hold and a cut

Azerbaijan, which is benefiting from higher fuel prices

Commodity support uneven

The revised global outlook combines a higher near-term fuel price trajectory with renewed Black Sea disruptions. Azerbaijan is the clearest beneficiary: stronger hydrocarbon revenues reinforce already substantial fiscal and external buffers, leaving the budget and current account in high surplus while keeping the manat firmly pegged.

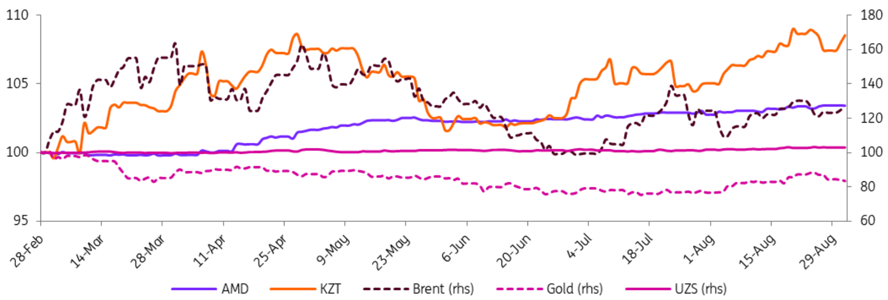
Kazakhstan receives a less straightforward boost. Higher oil prices support nominal export receipts, but disruptions to the CPC route have forced the authorities to lower the 2026 production target. Even so, according to our estimates, annualised crude exports remain around 10% above their 2021-22 post-pandemic level, cushioning the external accounts and the tenge.

The tenge also benefits from portfolio inflows. Kazakhstan's large interest rate differential, declining inflation and prospects of Euroclear access have strengthened demand for local government debt. Non-resident holdings have been growing rapidly since 4Q25 and reached $5.4bn as of July 2026, or 8.9% of the overall market. This supports our constructive near-term KZT view, while also increasing sensitivity to any reversal in carry flows, especially given the declining state involvement in the forex market.

Uzbekistan's soum has also outperformed. Gold exports restarted at $1.3bn in July, restoring an important source of foreign currency supply and partly offsetting softer gold prices. Persistently high real interest rates provide additional support for capital inflows. We have therefore improved our near-term UZS expectations alongside the KZT.

KZT and UZS keep outperforming underlying commodities thanks to portfolio inflows

Dynamics of commodities and floating CIS FX vs. USD (rebased) since the outbreak of the Iran war



Source: Refinitiv, CEIC, national sources, ING

Inflation risks rise, but from different starting points

Higher global energy and food prices, combined with upward pressure on core rates, raise risks to inflation and policy-rate trajectory across the CIS-4. The implications are not uniform, however.

Inflation in Armenia and Azerbaijan is rising from a relatively low base of 4-6%. Much of the incoming pressure is cost-driven, reducing the urgency for an immediate policy response. In Armenia, continued dram strength and improved fiscal performance provide additional disinflationary offsets. We expect both central banks to keep policy rates unchanged at 6.50% for an extended period.

Kazakhstan and Uzbekistan are on the opposite side of the spectrum, as their price growth is currently slowing from much higher levels. Kazakhstan's annual CPI returned to single digits (9.8% year-on-year) in August, keeping a gradual easing cycle in play despite renewed external price risks. Uzbekistan's central bank has also indicated that there may be room for a rate cut in 2026, as inflation gradually slowed to 6.4% YoY in July from double digits in 2024-25 amid fiscal consolidation and the rally of the soum.

The KZT and UZS appear well-supported, but mostly by portfolio inflows, as Kazakhstan and Uzbekistan's exports are affected by transport disruptions and volatile gold export volumes. But the global inflation and rates backdrop argues against broad-based monetary policy easing. FX resilience should allow selective policy rate cuts in Kazakhstan (from 16.75%) and Uzbekistan (from 14.00%), whereas Armenia and Azerbaijan are likely to remain on hold at 6.50%.

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