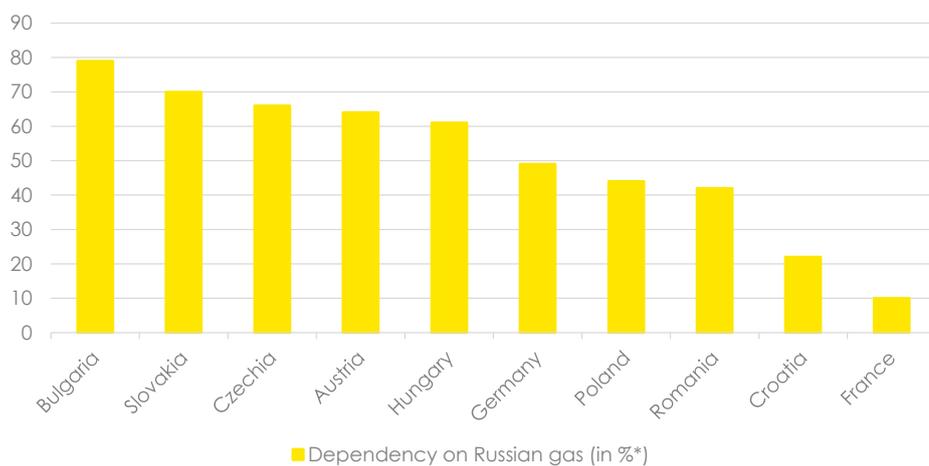


Bulgaria Watch: Cut off from Russian gas, what's next?

On April 26, Bulgargaz received a notification that natural gas supplies from Gazprom Export will be stopped from 27 Apr 2022 on. This comes against a backdrop of unrealised diversification and low gas reserves. Gas needs to be sourced from other sources, which comes at a price. This price increase and the impact of the crisis on industry warrant a revision of our GDP and CPI forecasts.



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Gazprom Export notifies Bulgargaz supplies will be suspended...

On April 26, the Bulgarian public gas supplier Bulgargaz received a notification that natural gas supplies from Gazprom Export will be suspended from 27 Apr 2022 on. According to the Ministry of Energy, Bulgaria has fulfilled its obligations and made all payments required by this gas supply contract. The analysis by Bulgargaz and Bulgarian Energy Holding stated that the new two-stage payment procedure proposed by the Russian side is not in line with the existing agreement, expiring at the end of this year, and poses significant risks for the Bulgarian side. According to the Minister of Energy, with the proposed procedure, Bulgaria would lose control over its payments: It is unclear what exchange rate will be applied and it would be possible that the Bulgarian side pays without receiving any gas supplies in return. The Ministry of Energy, the Bulgarian Energy Holding, Bulgargaz and Bulgartransgaz (gas infrastructure operator) have taken urgent steps for alternative natural gas supplies. At the end of the heating season the gas in storage should be sufficient. Thus, at present, no restrictive measures of gas consumption are required. A problem will occur if Bulgaria enters the next heating season without acquiring additional gas from existing sources.

... whilst Bulgarian dependence on Russian gas is high and gas reserves are limited

These events come against the backdrop of almost complete dependence of Bulgaria on Russian gas supplies due to unrealized diversification. In addition, the currently filled capacity of the national gas storage is about 20%, which signals weaknesses also in the operational gas management. Currently the government urgently needs to do what was not for many years. The upside in this case is that households in the country are gasified only to a very low extent. Furthermore, district heating companies are the largest consumers of natural gas, but since the heating season is over, they can switch back to burning coal and waste in this emergency. Large consumers of gas in the country are also glass, chemical, metallurgical plants, greenhouses, bakeries, etc., which can focus on

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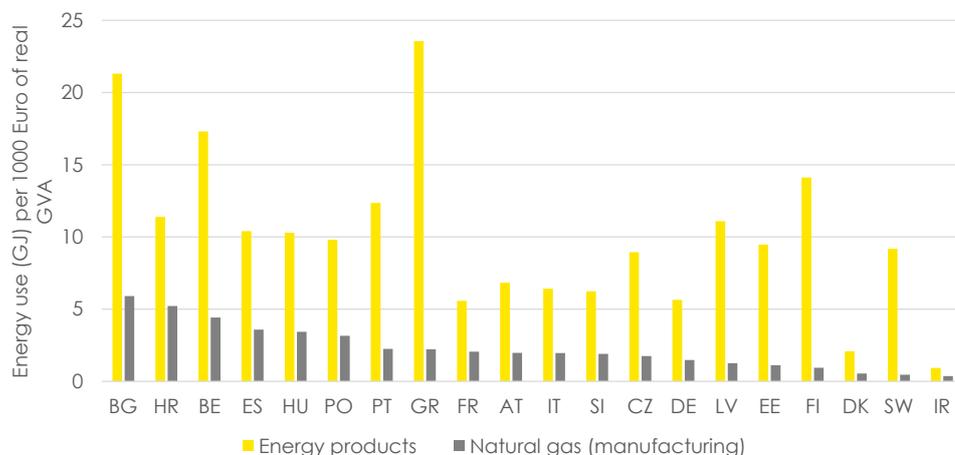
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alternative fuels or temporarily reduce production. The Lukoil Neftochim oil refinery uses gas as well and this could also be a problem.

Energy and natural gas dependence in manufacturing



Government remains confident: Additional gas from existing sources, albeit at a higher price

For now, the government is confident that it will deal with the gas crisis. In this regard, the interconnector with Greece is expected to be completed by July 1, and should start supplying gas before the new heating season. Moreover, it will be necessary to renegotiate the quantities delivered from Azerbaijan. Currently, Bulgaria supplies accounts for roughly 1 bn cubic meters and if this amount would be doubled, it would account for almost 2/3 of the gas needed. LNG supplies from neighboring countries could also be stepped up, although the prices would be higher. Bulgaria is in communication with the European Commission, where the possibilities for common supplies at EU level are in discussion. Of course, the urgency of possible measures implies a higher price of gas. According to the Minister of Energy, however, every aggressive and difficult transformation comes at a certain price.

Further inflationary pressure and industrial gas dependence warrant CPI and GDP revisions

Nonetheless, the crisis with the gas supply required a modest revisions of our forecasts. First of all, we expect an increase in inflation, which was adjusted from 9.0% to 12.6% eop. Of course, expected additional difficulties of the gas-dependent industries will contribute to a lower real GDP increase in 2022 and accordingly we modify our projection downwards from 3.0% to 2.0%, which from today's perspective, again underlines our moderately optimistic view on the economic activity during the year despite the external shocks.

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