Bulgarian banks in regional context

The sector in the country is characterized by solid growth and efficiency, but profitability and risk require attention

Author: Dr. Marc Strauss

Original published online on capital website in Bulgarian language: Българските банки на фона на региона (Sep 12, 2025)

Top 3 Findings:

- **Bulgarian banks are among the most cost-efficient** in the region, with second-lowest cost-to-income ratio and strong administrative cost discipline
- **Profitability is only average** despite strong loan growth, due to the lowest net interest yields in the region
- **Risk costs remain a hidden drain** as Bulgaria shows the highest impairment losses relative to assets, suppressing returns

Bulgarian Banks in Regional Spotlight: How They Perform Across Profitability, Efficiency, and Risk

A **newly conducted regional banking study** covering about 180 banks across 13 countries in Central and South Eastern Europe (CEE/SEE), using annual report data from 2019 to 2024, highlights the **profile of Bulgaria's banking sector: stable, operationally strong, and deeply embedded in the economy — yet held back by structural revenue and risk-related challenges**.

The analysis benchmarks key Key Performance Indicators (KPIs) around profitability, efficiency, and risk, placing Bulgaria in regional context. It shows clearly where the country leads, where it matches peers, and where strategic improvements are required.

Banking System Structure: Deeply Rooted in the Economy

Bulgaria (BUL) has 16 banks, placing it mid-tier among regional peers. It`s top 3 banks hold 59% of total sector assets — indicating moderate market concentration compared to sample. With about 419k inhabitants per bank, Bulgaria shows 2nd-highest density after Romania (average per country in sample is 277k).

Further structural observations reveal for the Baltics (EST, LAT, LIT) fewer banks (avg. of 10) and inhabitants per bank (about 188k) as well as very high concentration in the top 3 (74–89%), indicating a high sector consolidation. The Balkans (SRB, ALB, NMK, MNG, KOS, BOH) display more fragmented banking landscapes (on avg. 14 banks) with lower concentration (40–61%).

At a structural level, the Bulgarian banking sector is deeply integrated into the national economy. The country displays the highest branch density in the region (1 branch per about 4.200 inhabitants; CRO is second with 4.800 and EST lowest with about 96k), and one of the highest bank employment ratios (0.39% of total population), banking is very visibly present across the country.

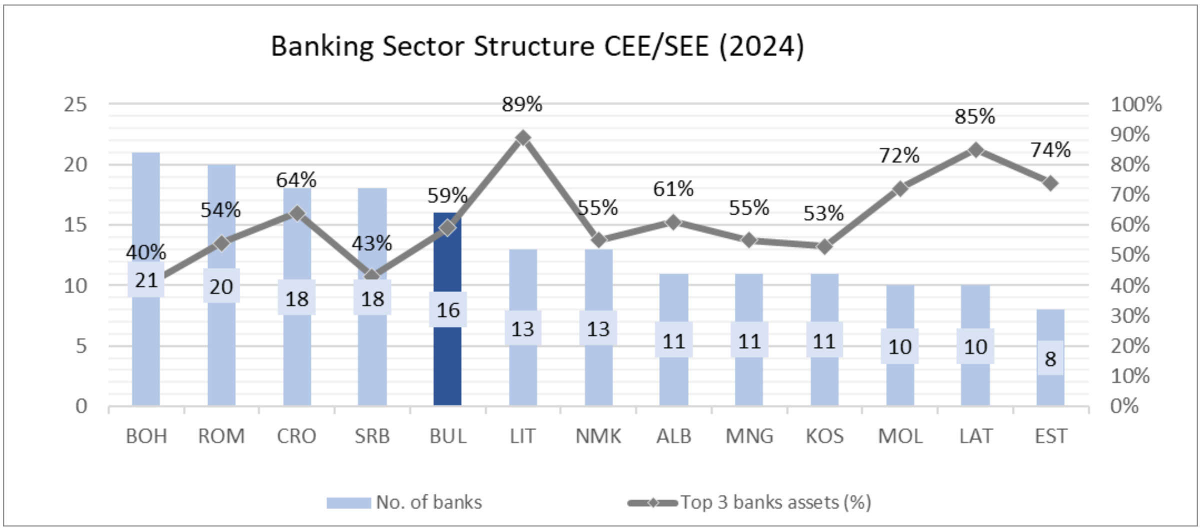

Figure 1

Profitability: Strong Volume Growth, But Weak Yields Hold Back Returns

The study confirms that **interest income remains the dominant revenue pillar** across the region with about 73% share (ALB, EST, KOS reach over 80%). For Bulgaria, net interest income (NII) in 2024 accounts for 71% of total income, placing the country only 10th.

A reason for this might be the revenue side of interest income: **Bulgarian banks show the 2nd lowest Net Interest Yield (NIY;** net interest income as share of total assets**)** after CRO, sitting at **2.9% in 2024** (vs. 2.3% in 2019). Interest on loans in 2024 is just **6.0%,** the **lowest level** behind CRO, BOS, and KOS – after 4.9% in 2019). In effect, excess loan capacity might have eroded pricing power, especially for high share standard retail and mortgage products, which by itself are rather low-margin products.

Yet, when it comes to **volume growth**, Bulgaria shines: its **loan-to-asset ratio reached 58% in 2024** (5th highest), and total loan books **more than doubled (+113%)** since 2019 – outpacing all other countries and indicating that loan supply works.

Fee income, the second biggest revenue driver, **makes up 21% of total income** for Bulgarian Banks in 2024 (4th place), yet still indicating potential to further develop non-interest income streams such as **wealth management, advisory, or ecosystem-based services** – in order to buffer potential interest margin reductions going forward.

When balancing profit and volume in 2024, key metrics such as **return on assets (RoA) and return on equity (RoE)** place Bulgaria **slightly below the regional averages** (7th & 8th out of 13). Same holds for respective growth, as between 2019-24, both RoA and RoE metrics rank BG banks only at 8th position, indicating slower than average profit dynamics vs asset resp. equity increase.

The **net profit margin** (net profit / operating income), however, **ranks the Bulgarian banking system 3rd** (albeit, again, with lower dynamics as regional peers), benefiting from tight cost control rather than extraordinary revenue strength.

In short: Bulgarian banks are scaling lending activities, but returns seem moderated by pricing constraints and subdued margins.

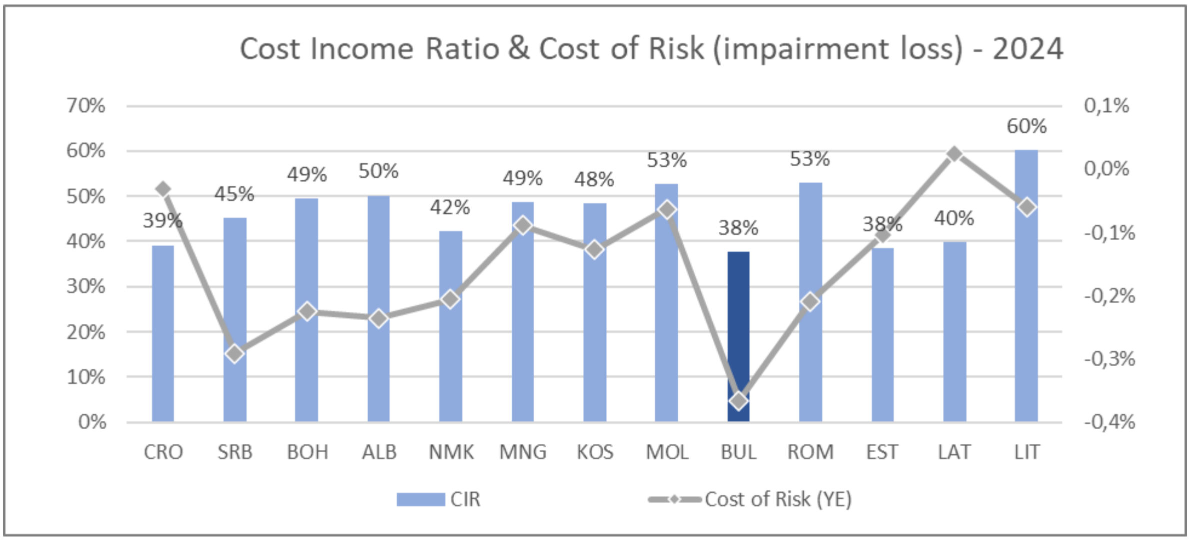

Figure 2

Efficiency: Clear Regional Strength

Efficiency is undoubtedly one of Bulgaria's competitive advantages. The **cost-to-income ratio (CIR) sits at only 38%** — the **lowest in the region** and slightly ahead of other top-ranked countries such as CRO, EST, LAT. For comparison, most other countries are around 50%. CIR in Bulgaria has improved by 23% since 2019 (49% back then), which is among the most significant reductions. Operating expenses as % of assets are also very low at 1.55%, placing Bulgaria 2nd after CRO.

Looking deeper into the cost components reveals some nuances:

Personnel expenses currently represent 48% of operating expenses — balanced, but with noticeable upward pressure. From 2019 to 2024, those costs grew by 87% (3rd strongest after ROM and MOL) while the workforce increased by a mere 9%, i.e. slowly in comparison with peers. This suggests heavily increased wage inflation and the growing cost of retaining skilled professionals.

General & Administrative Costs, however, remained tightly controlled, having risen by only +35% over the same period — 2nd lowest increase, only beaten by CRO where costs even decreased 4%. These G&A costs now make up 43% of operating expenses of the Bulgarian Banking system, slightly below regional average.

Summed up, the data shows that Bulgaria combines tight G&A control with cautious staff expansion, which has enabled it to scale efficiently during a period of rapid asset growth.

However, continued increases in personnel costs will need to be monitored, especially as banks modernize and adopt more digital delivery models.

Risk: A Costly Weakness

One area where Bulgaria underperforms is in credit risk costs: **Impairment losses in % of total assets reached 0.37%** in 2024, highest share across the sample (SRB is second with 0,29%, LAT excels with a gain of 0,02%). Also, reduction since 2019 has been relatively modest with about 10% per year – top-ranked countries of similar size reduced about 10 times faster, albeit from higher levels.

These **losses consume 17% of the sector's 2024 pre-tax profit** (by far worst across the region) – a level that, if halved, could boost RoE by around 2 percentage points – a notable jump.

Considering the significant growth in loan volumes for Bulgarian banks, these numbers could reflect e.g. higher exposure to newer and less-tested borrower segments, lagging risk model development or implementation, or simply a more cautious provisioning policy.

Overall, improvement in risk management — particularly credit underwriting, monitoring, and early-warning systems — could meaningfully enhance profitability.

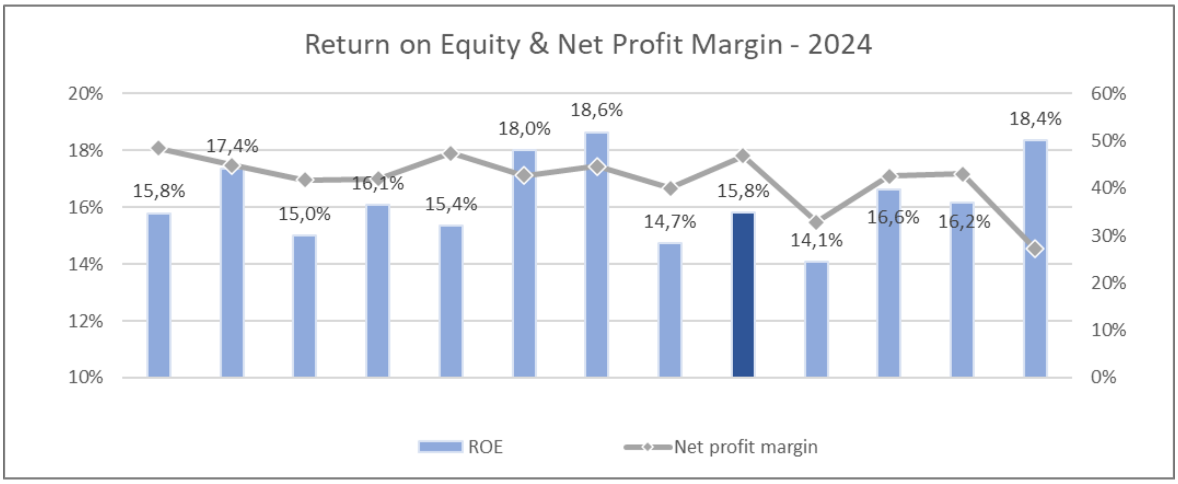

Figure 3

Conclusion: A Strong Platform That Needs Strategic Shifts

Bulgaria's banking sector has clearly made important progress in efficiency and lending growth. Operationally, it stands out as one of the most cost-disciplined and resilient banking systems in Central Eastern & South Eastern Europe.

But at the same time, it delivers only average profitability and carries the region's highest relative impairment cost. This creates a performance ceiling that can only be addressed through a proactive shift in strategy.

Compared to higher-margin lenders such as SRB and MOL or faster-innovating systems like the Baltics, Bulgaria's banks appear cautious — a stance that helped during uncertain times but now limits upside potential.

Next Steps: Strategic Levers for Bulgarian Banks

The road ahead will likely require a move from defensive efficiency to growth-focused innovation. Key priorities may include:

1. **Strengthen and Diversify Revenue Streams**

- Grow fee-based income via enhanced pricing, tiered services, and subscription models
- Expand advisory offerings in wealth management and private banking
- Target high-potential segments like SMEs and retail with tailored lending and cross-sell strategies
- Build digital ecosystems to drive non-interest income and strengthen client engagement

2. **Improve Credit Risk Practices**

- Modernize credit approval, monitoring, and stress-testing frameworks
- Reduce overprovisioning without compromising prudence

3. **Future-Proof the Cost Base**

- Continue controlling G&A costs while investing in core infrastructure upgrades
- Managing rising wage inflation through automation and workflow reengineering

Final Word

Bulgarian banks have laid a strong foundation — the sector is lean, well-integrated, and stable. But to move from solid to standout, banks must now confront the twin challenges of profitability and risk efficiency head-on.

With cost efficiency already pushed to high levels and interest rate pressure likely to persist, the room for further margin gains through traditional efficiency levers is limited. As a result, the strategic focus will need to shift toward revenue-generating measures to sustain returns and remain competitive in a region with rising benchmarks.

A two-speed sector

The banking sector in Bulgaria and other analyzed countries can generally be seen as divided into two distinct groups: local vs. foreign-owned banks, the latter often part of larger groups). This distinction is crucial as these two groups have different risk profiles, client bases, and operational strategies.

The current report by design provides a high-level overview of the banking sector and does not analyze these two tiers separately. Therefore, the sector's overall averages might be partly obscured.