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REGIONAL DISPARITIES IN BANK HOUSING LENDING IN BULGARIA

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Abstract: The subject of research in this article is bank housing lending. Its object is to outline the challenges arising from the existence of regional disparities in housing lending in Bulgaria, the negative consequences stemming from them, and the possibilities for overcoming these problems. The thesis defended in the study is that decisions regarding bank housing lending, the terms of the loans and their accessibility are directly dependent on regional economic development, the real estate market, and the demographic situation in the various regions of the country.

Keywords: bank sector, lending, housing loans, credit risk, regional disparities.

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Introduction

A housing loan is not only a financial instrument aiding the acquisition of one's own home. It is a key driver of the economy that stimulates the construction sector, production of construction products, transportation, services, and consumption. At the same time, in Bulgaria - a country with marked regional differences - the housing loan market is not uniform. This creates conditions for the formation of separate, almost autonomous market niches with completely different characteristics and dynamics. The relevance of the issue stems from the phenomenon of the "two-speed" Bulgarian economy, where the capital region dominates in almost all economic indicators. The result of this inequality is a massive internal migration from the provinces to the capital. This deepens the disparities by creating a "vicious circle" of depopulation and economic decline in the less-developed regions. These imbalances are also reflected in the credit market. They create a risk of financial exclusion for the population in peripheral and economically underdeveloped regions. Understanding the regional aspects is essential both for banks (in terms of risk management) and for government institutions (in terms of formulation of targeted regional policies).

The subject of this research is *bank housing lending*. **Its object** are the *regional disparities in housing lending in Bulgaria and the possibilities for overcoming them.* Hence, the study is not limited solely to describing the existing situation. It aims to propose a concrete action framework based on data and good practices.

On these grounds, the following **research thesis** was formulated: *Decisions regarding bank housing lending, the terms of the loans, and their accessibility are directly dependent on regional economic development, the real estate market, and the demographic situation in different parts of the country.*

The main objective of the study is to *identify and analyze the cause-and-effect relationships between regional factors and the parameters of housing loans in Bulgaria*.

The following research **tasks** were set: 1) to examine certain regional aspects of credit decisions in bank housing lending; 2) to analyze the challenges and consequences arising from regional disparities in housing lending; 3) to outline the possibilities for promoting balanced regional housing lending.

1. Regional aspects of bank housing lending decisions

A housing loan is a long-term obligation in which a bank provides funds for the purchase of a home, which serves as collateral (a mortgage). Bank housing lending plays an important role in the economy as it has both social and financial functions. On the one hand, it provides access to housing for people who do not have sufficient personal funds to purchase a home. On the other hand, housing loans are very important for a country's economic prosperity, stimulating the development of the construction sector, the production of building materials, transportation, services, creation of new jobs, and general consumption (Dimitrova, 2013).

Housing loans to households constitute a significant share in the credit portfolios of banks in Bulgaria. Loans secured by residential real estate account for about 23% of all loans extended by the banking sector in the country as of the end of 2024. (see Fig. 1)

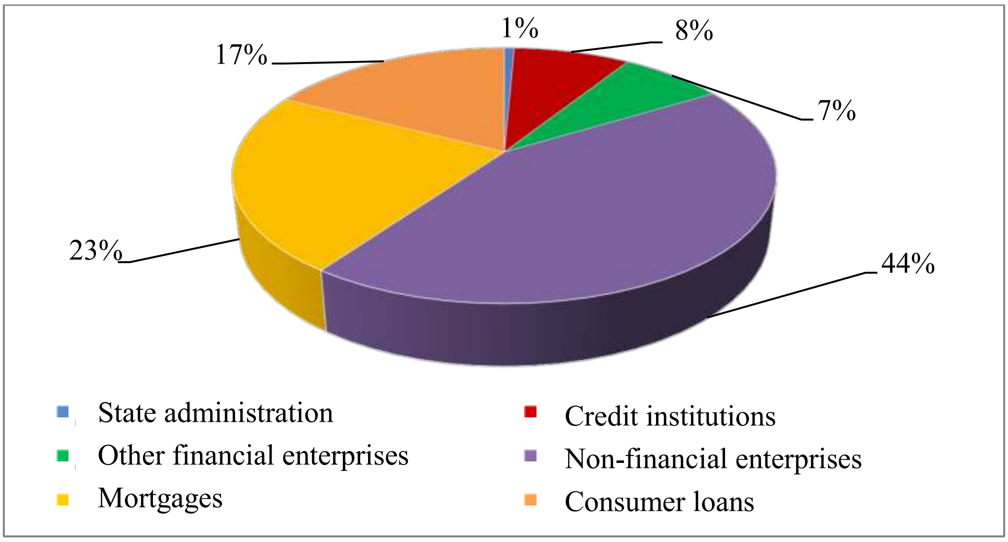

Figure 1. ***Structure of bank loans in Bulgaria as of 31 Dec. 2024***
Source: author's calculations using data from the Bulgarian National Bank, 2025

In recent years, there has been a trend toward a steady increase in the volume of housing loans in the country (see Fig. 2). Over the ten-year period from 2015 to 2024, they increased by approximately three times. In 2024 alone, compared to the previous year, 2023, this increase exceeded 25%.

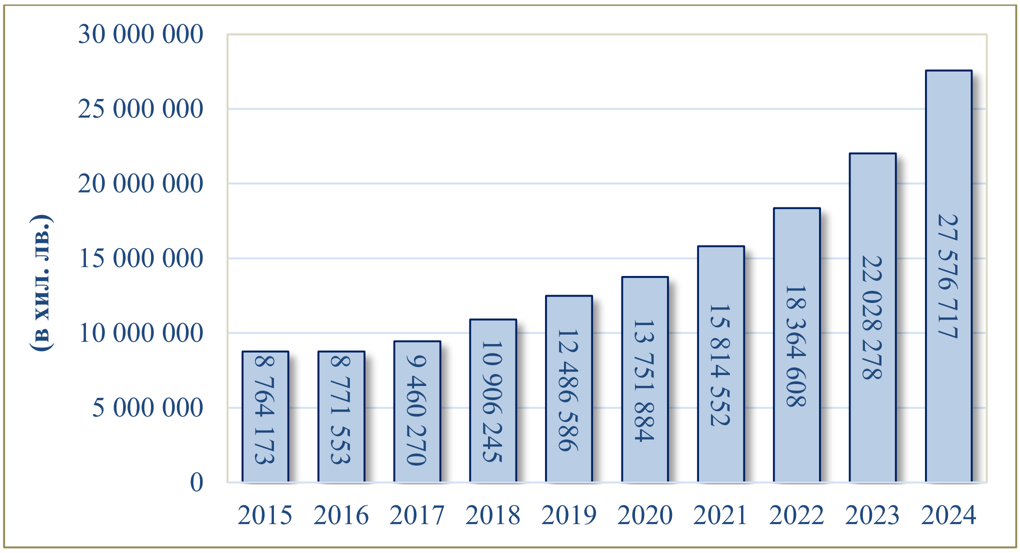

Figure 2. ***Bank housing lending trends in Bulgaria over the period 2015-2024 (in BGN thousand).***
Source: author's calculations using data from the Bulgarian National Bank, 2025

The steady and fast rate of growth of the housing loan market has given grounds for a certain degree of concern in recent years. Credit activity in the segment of bank housing lending to households continues to be characterized by *excessive credit growth*. For banking supervisory authorities, this is a signal of the potential build-up of *additional risks for the banking sector*. It is therefore no coincidence that, considering the emerging trends and in order to preserve the stability of the banking system, the Bulgarian National Bank (BNB) introduced requirements for a set of key indicators when granting and renegotiating loans secured by residential property. These requirements have been in force since 1 October 2024 and aim to cool down credit growth in the household housing lending segment. Some of these indicators, pursuant to Article 79, paragraph 3, item 4 of the Law on Credit Institutions, 2006 are: 1) the loan amount to collateral value (*Loan-to-Value* or ***LTV*****)** *ratio*. A lower *LTV* ratio means lower risk for the bank. The required level is ≤ 85%; 2) the debt service payments to borrower's monthly income (*Debt Service-to-Income* or ***DSTI***. It is a key indicator of solvency. The required level is ≤ 50%); 3) the ratio between the current payments for servicing the mortgage and the borrower's monthly income; 4) the loan amount to borrower's annual income (*Debt-to-Income* or ***DTI***) ratio; 5) the maximum duration of the loan agreement (maturity) – 30 years.

Banks assess housing loan risks through a comprehensive evaluation of borrower's creditworthiness based on the "*three C's of credit"*: **C**apacity (measures the ability to repay debt through *DSTI*, i.e. income/expenses); **C**ollateral (the value, liquidity and quality of the real estate collateral); and **C**haracter (credit history and discipline) (Radkov, R., Mihaylov, E., Vatev, Z., Asenova, M, 1994), (Bozhinov, 2016).

Studies show that the specifics of bank housing lending are strongly influenced by the regional disparities existing within a given country (Di Maggio, M., Kermani, A., Palmer, C., 2016), (Beraja, M., Fuster, A., Hurst, E., Vavra, J., 2019), (Bourdin, 2025), (Agarwal, S., Deng Y., He, J., Wang, Y., Zhang, Q, 2023).

Regional imbalances in Bulgaria are the result of the influence of various factors, such as: *legacy of the past* (for example, uneven industrialization prior to 1989 which concentrated industry in certain cities and after 1989 when certain large enterprises were closed in some regions); *concentration of economic activity*, respectively investments and jobs, in the capital city and several other large cities at the expense of weaker development of small and medium-sized enterprises in peripheral and rural areas; *infrastructure factors* (uneven development of transport infrastructure and poor connectivity between regions; more difficult access to public services in some regions); *demographic factors* (migration to the capital and large cities, respectively depopulation and population ageing in rural and peripheral regions); *governance factors* (centralization of governance and public resources in Sofia and the larger cities and limited administrative capacity of local authorities in less developed regions and districts; the benefits of Bulgaria's membership in the EU are concentrated in the more economically developed regions); *educational and social factors* (unequal access to quality education and healthcare across regions; regional differences in the educational and qualification levels of the population; a higher risk of poverty in rural and peripheral areas); *natural factors* (the existence of remote and mountainous territories that hinder economic activity).

Statistical data show the existence of obvious economic and social inequality among the various regions and districts in Bulgaria. According to data from the National Statistical Institute (2025) National Statistical Institute, 2025, while the country's average *GDP per capita* in 2022 was BGN 25,956, in Sofia (the capital) it was BGN 39,400, in the Southwestern Region – BGN 27,900, and in the Northwestern Region it was only BGN 12,800. The difference is more than threefold. The *average gross monthly salary* at the end of 2023 for the country was BGN 2,173. In Sofia it was BGN 2,966, in Varna – BGN 2,147, while in districts such as Montana and Vidin it was less than BGN 1,700. As of the end of 2023, the *unemployment level* nationwide was 4.3%; 1.6% in Sofia (capital); 3.4% in the Southwestern Region; and 9.1% in the Northwestern Region — i.e., unemployment was several times higher in the poorer regions.

Table 1

Key economic indicators by region

Region	GDP per capita (2022)	Average salary (Q4, 2023)	Unemployment (Q4, 2023)
Sofia (capital)	BGN 39 400	BGN ~2 900	1.6%
Southwestern	BGN 27 900	BGN ~2 300	3.4%
Northwestern	BGN 12 800	BGN ~1 780	9.1%
Southeastern	BGN 18 500	BGN ~2 080	5.2%

Source: (National Statistical Institute, 2025) (Bulgarian National Bank, 2025) (Ministry of Labour and Social Policy, 2025)

Similar conclusions can also be drawn regarding the demographic situation. There are clear trends of population migration from the Northwestern and North Central regions toward Sofia, the Southwestern, and the Southeastern regions. To emphasize the seriousness of the demographic problem, which intensifies regional disparities, it can be added that according to data from the National Statistical Institute, for the period 2011–2021, the Vidin district reported the sharpest population decline - by more than 22%. By comparison, the population of the Sofia district increased by nearly 10% over the same period.

Housing prices are directly indicative of the levels of economic development and demand of a given region. The average housing prices at the end of 2023 are as follows: in Sofia: between 1,850 and 2,300 EUR/sq. m; in Varna: between 1,450 and 1,800 EUR/sq. m; in Plovdiv: between 1,300 and 1,600 EUR/sq. m; in Burgas: between 1,200 and 1,500 EUR/sq. m; in Stara Zagora: between 850 and 1,150 EUR/sq. m; in Ruse, Pleven, and Vidin: between 700 and 950 EUR/sq. m.

The highest increase in housing prices in 2023 was registered in Sofia (+6.2%), while the lowest was in the Northwestern Region (+1.8%). There were regional disparities in property liquidity as well - in Sofia the average time for a sale was between 2 and 4 months, whereas in Vidin and Montana it ranged from 8 to 14 months on average.

Regional markets in Bulgaria are characterized by several specific features: the emergence of a "*seller's market*" in the capital (in Sofia the market remains relatively active, but with an increased time required for property transactions); *stagnation in the provincial regions* (in the Northwestern Region the real estate market is characterized by low activity and a prolonged period of searching for buyers); *seasonality in the Black Sea cities* (in Varna and Burgas higher prices and activity are observed during the summer season, which affects the annual average values).

Direct public data on the volume of loans by districts are rarely published, but the indirect indicators are unequivocal. *More than 50% of all new housing loans were registered* in Sofia. The second-largest shares belong to districts with large cities such as Plovdiv, Varna, and Burgas. The Northwestern Region accounts for a negligibly small share of the total credit portfolio. The demographic "black hole" in this region worsens the real estate market and reduces credit activity to a minimum. Data from the Bulgarian National Bank (BNB) on the housing loan portfolio for 2023, for example, show that only 0.8% of the value of all housing loans in the country are for properties in the Montana province. This confirms the hypothesis of an extreme concentration of lending. This concentration leads to the effect of a "self-fulfilling prophecy," i.e., the lack of access to credit generates stagnation in the real estate market, which in turn confirms banks' perception of a high risk and leads them to continue restricting lending in these regions. This vicious cycle is difficult to overcome without external intervention.

The region functions as a proxy variable that strongly influences the specifics of credit relationships between banks and potential borrowers in Bulgaria. More specifically, this concerns the following aspects:

● *Impact on borrowers' solvency.* Potential borrowers from regions with high unemployment and low average incomes (e.g., the Northwestern Region) have a lower repayment capacity. In such regions, even a family couple with two average local incomes often fails to meet the DSTI ratio requirement for a loan that would be sufficient to purchase an apartment in the area.

● *Impact on collateral.* The real estate market is markedly regional in nature. Properties in a less developed region have a lower market value and significantly lower liquidity (they would be harder to sell in the event of default). This forces banks to apply more conservative valuations and to require lower LTV ratios in such regions. In practice, banks often reduce the officially approved value of the property by an additional "regional discount" of 10 to 20% compared to the market price in order to compensate for the lack of liquidity. This further reduces the officially approved size of the loan.

● *Impact on interest rates.* Banks apply *risk-weighted pricing*. A borrower in a region with high unemployment and an unstable property market may receive an offer with an interest rate of 0.5 to 1.5 percentage points higher than the offer to an applicant with the same income in Sofia. For example, while in Sofia the interest rate on a 20-year loan may be 3.5%, in cities such as Ruse or Vidin it may reach 4.5–5% for the same borrower.

● *Impact on the LTV ratio.* In Sofia, due to the stability and liquidity of the market, banks may approve loans with an *LTV* of up to 80 or 90%. In a small town with declining real estate prices, they may require an *LTV* of no more than 60 or 70%, which means a significantly larger down payment for the buyer. This forces potential buyers either to accumulate savings over many years or to turn to informal sources of financing.

● *Impact on the affordability index.* This clearly illustrates the problem. Where to purchase a flat of 60 sq. m in Sofia (2,000 EUR/sq. m = EUR 120,000) requires an income of X, then for the same apartment in Montana (800 EUR/sq. m = EUR 48,000) the price is 2.5 times lower. However, since income in Montana is also 2 to 3 times lower, such a transaction would actually be less affordable in this region. In addition, stricter LTV requirements make it harder to accumulate the required down payment. Furthermore, the phenomenon of the "shadow economy" is often observed in provincial areas, where part of income is not officially declared. This further reduces the officially reported household income and thus the ability to obtain a loan, even if the household actually has sufficient resources to repay it.

● *Impact on the age structure of borrowers.* In provincial regions, the average age of people who borrow housing loans is significantly higher than in the capital. This is due to the need to accumulate sufficient savings for the large down payment, which delays the decision to purchase housing by years, and sometimes even decades.

2. Challenges and effects of the regional disparities in housing lending

The existence of regional imbalances in housing lending in Bulgaria gives rise to a number of **challenges**. These affect both banks and potential borrowers, as well as homebuyers (Hermansen, 2021), (OECD, 2021), (European Commission, 2019), (European Commission, 2023), (World Bank, 2021).

From the perspective of banks, this is primarily associated with the *concentration of credit risk*. The large share of loans granted in economically strong regions (mainly Sofia) creates a high exposure to a single market. In the event of an economic shock, a drop in real estate prices, or a sharp deterioration in purchasing power in the capital city, the banking system as a whole could incur significant losses. This contradicts the fundamental principle of risk diversification.

Moreover, the existence of regional disparities in bank housing lending creates difficulties in the *management and liquidation of collateral in peripheral regions*. More specifically, this refers to the following: *low liquidity* (in the event of loan default, the bank faces a prolonged and costly process of collateral liquidation. In small settlements, the market is small, which means that finding a buyer for the property may take months or even years); *high collateral depreciation rates* (during this period, the value of the property may continue to decline, especially in regions with negative demographic trends. Maintenance and security costs further increase the bank's losses); *subjectivity of valuation* (determining a realistic market value for a property in areas with few transactions is complex and often leads to conflicts with borrowers).

Another challenge for banks is related to *high operating costs and inefficiency*. Maintaining a branch network in small towns, where the volume of business is low, is economically inefficient. This forces banks to close branches, which further limits access to financial services in these regions and creates "financial deserts".

The lack of adequate data for fine risk modeling also creates problems. The absence of detailed historical data on the behavior of loans across different regions makes it difficult to develop precise credit risk assessment models that account for local specificities. As a result, banks tend to apply general, more conservative criteria that effectively "penalize" entire regions.

Banks also face *reputational risk* related to the perception of "discrimination" against certain regions. Public negative reactions and media attention regarding the closure of bank branches in small towns or rejection of loan applications may damage the institution's image and lead to the loss of customers even on the capital market.

At the same time, the existence of regional disparities in housing lending also creates a number of challenges for **borrowers and potential homebuyers**. It is associated with structural financial exclusion. People living in economically weaker regions (the Northwestern and parts of the North Central region) have in fact limited access to one of the main financial instruments for improving their housing conditions. This forces them to rely on personal savings (which are scarce) or on informal credit mechanisms that are associated with high risk exposures and interest rates.

At the same time, unbalanced regional lending creates *unequal lending conditions*. Even when they meet the basic criteria, borrowers in provincial areas face *higher interest rates* with a "regional risk premium" markup; *stricter requirements for the initial down payment (lower LTV)*, which forces them to accumulate significantly larger amounts of cash, which is extremely difficult when incomes are low; *more stringent income and employment verification*, whereas preference is given to employees of public institutions and large companies, which are rarely located in small towns.

Another challenge for potential borrowers is the *"housing poverty" trap*. The lack of opportunities to finance quality housing leads to living in old, inefficient, and often poorly maintained dwellings. This has a direct impact on health, education, and overall quality of life, creating a vicious cycle of poverty.

A significant problem in this regard is *forced migration*. In order to realize their housing plans, young and educated people are compelled to migrate to large cities. This is not a voluntary choice driven by career ambitions, but rather a necessity caused by the lack of financial opportunities in their home regions.

Ultimately, regional imbalances in lending lead to a *limited choice of financial products*. In provincial areas, housing loans offered by banks are often standard products, without the additional options or flexible terms available in the capital. Products tailored to the specifics of the local market (such as combined loans for the purchase and renovation of older homes, which are typical in small towns) are largely absent.

The identified problems related to regional disparities in housing lending in Bulgaria lead to negative macroeconomic and social **consequences**, including:

● *deepening regional economic inequality.* The loan market acts as an "amplifier" of already existing disparities. By directing capital mainly toward developed regions, it deprives peripheral areas of investments that could stimulate economic activity, create jobs, and increase incomes;

● *demographic degradation and "emptying out" of rural provinces.* Forced migration, driven, among other things, by the lack of financing, leads to population ageing, closure of schools, and depopulation of entire areas. This creates a burden for the entire economy and aggravates social problems.

● *inefficient use of the housing stock.* The demand for housing and residential infrastructure in the capital is increasing while in the provinces many homes remain vacant and devalued, which is irrational in terms of national resources utilization.

● *social tension and a sense of insecurity.* Systematic financial exclusion creates a feeling of injustice and alienation among citizens in provincial areas, which may undermine social cohesion and trust in institutions.

● *slowing down of the country's overall economic development.* The long-term and sustainable growth of a country cannot be based solely on the development of one or two regions. Ignoring the potential of the provinces limits the economic potential of the entire nation.

● *deterioration of credit culture.* Systematic financial exclusion leads to a deterioration of credit culture in the lagging regions. When people do not have access to credit products, they may turn to unregulated lenders, increasing the risk of excessive indebtedness and creating conditions for additional social problems.

3. Opportunities for overcoming regional disparities in bank housing lending

There are various mechanisms for promoting balanced regional housing lending in Bulgaria. These concern both the activities of banks and those of government institutions and regulators. These opportunities can be defined in more detail below.

1) Opportunities related to the activity of banks and the financial sector:

● *Implementation of carefully developed lending models.* Instead of applying uniform criteria across all regions, banks should invest in research and models that take local specificities into account. For example, in a region with low incomes but stable employment, greater emphasis could be placed on the duration of employment rather than just the absolute level of income.

● *Introduction of "pilot" products in stable regions.* Banks should begin offering targeted products in selected smaller cities with strong economic indicators (e.g., industrial centers such as Stara Zagora, Devnya, etc.) under competitive conditions (slightly reduced interest rates, higher *LTV*) to create a "critical mass" and gain experience.

● *Partnerships with local brokers and appraisers.* To improve valuation accuracy and the speed of collateral liquidation, banks can form partnerships with trusted local specialists who have a better understanding of the market.

● *Development of digital channels and mobile banking.* To reduce operational costs in the provinces, banks should invest in advanced digital platforms that provide full-service remote banking including loan application and consultation facilities.

● *Introduction of "microloan" products for renovation and energy efficiency.* Instead of focusing solely on the purchase of new housing, banks could develop small-loan products intended for renovation of aging housing stock in provincial areas. This improves living conditions, creates business for local companies, and reduces household energy costs, thereby indirectly enhancing borrowers' repayment capacity.

● *Implementation of targeted programs to support young professionals in the provinces.* Banks, in cooperation with municipalities, should create programs aimed at young people who return to their hometowns when they complete their education or start work in local companies. Such programs could include relief on the initial down payment or municipal guarantees specifically designed for this target group.

2) Opportunities related to the activity of central and local government administrations:

● *Business incentives in less developed regions.* This is an important and fundamental measure. Without increasing incomes, all other measures remain superficial. Such a policy could include, for example: tax incentives for companies that create jobs in regions with high unemployment; investments in critical infrastructure (roads, internet, logistics parks) to make these regions more attractive for businesses; and the establishment of industrial and technology parks in regional centers such as Pleven, Veliko Tarnovo, and Shumen, which could serve as centers of economic growth alternative to Sofia.

● *Targeted government programs to support housing lending.* This refers to the possibility of a government guarantee on part of the loan. The government could guarantee between 10 and 20% of the loan principals in specific regions - a measure that is similar to the "Young Family" program. This would automatically reduce banks' LTV requirements and make the required down payment more affordable. Another option is to subsidize the interest rate during the first few years of the loan for borrowers in targeted regions.

● *Support for local real estate markets.* Municipalities can develop programs for the renovation of city centers and offer municipal land for construction at discounted prices provided that the resulting housing is sold below market prices.

3) Opportunities related to the activity of regulators (BNB, etc.):

● *Mandatory detailed statistical reporting.* The Bulgarian National Bank (BNB) should require banks to provide regular information on newly issued housing loans at NUTS-3 level (province). This should include data on the volume, number, and average size of loans, the average LTV ratio, and the average interest rate. Publishing such data would shed light on the problem and allow all stakeholders to make informed decisions.

● *Precise monitoring of systemic concentration risk.* The BNB should actively monitor the banking system's risk exposure in specific regions and, if necessary, apply macroprudential measures to prevent market bubbles (e.g., additional capital buffers for loans in markets that are "overheating").

● *Promotion of "responsible lending".* The regulator should encourage banks to apply principles of responsible lending, which include not only consumer protection but also careful assessment of regional risk rather than the mechanical application of uniform rules.

● *The increasingly relevant* ***E****nvironmental,* ***S****ocial &* ***G****overnance (ESG) framework* offers a new perspective for addressing the identified problems. The social component of the ESG approach directly reflects the need for fair access to financial services and the reduction of inequalities. Banks that apply ESG principles should consider the promotion of balanced regional development not only as risk exposures but also as opportunities, such as:

- *incentives for "green" housing lending in provincial areas.* Banks could develop products with preferential conditions for loans aimed at energy efficiency improvements or the construction of eco-homes in small settlements. This would create a market for "green" builders and craftsmen in regions that need economic stimulus. For example, a bank could offer a loan for replacing old windows or installing photovoltaic systems at an interest rate one percentage point lower than the regional standard.

- *integration of the social factor into credit risk assessment models* The evaluation of borrowers' creditworthiness could also include "positive" social factors, such as participation in local communities or plans to develop a small business in the region, which could offset lower income levels. This would require a mindset shift from assessing only the "negatives" (risks) to also evaluating the "positives" (potential) of a given location.

- *public accountability and transparency.* Within the governance component of ESG, banks could begin publishing data on their regional engagement, thereby demonstrating a commitment to sustainability and social responsibility. This could become part of their annual ESG reports, indicating the percentage of the credit portfolio directed toward economically less developed regions and the initiatives that are supported in them.

Conclusion

This study demonstrates that housing lending in Bulgaria is closely linked to regional economic realities. The current practice of the banking system, which leads to a concentration of loans in the capital and in the more prosperous regions, is understandable from the perspective of risk management. However, it has serious negative effects for the regional development and social cohesion in the country. The challenges are not only financial and economic in nature but also represent a socio-demographic threat to the country's territorial cohesion.

Clearly, the problem of regional disparities in housing lending cannot be solved by a single actor. Such a solution requires coordinated efforts both "top-down" (state, regulator) and "bottom-up" (banks, local communities). While banks need to become more innovative in managing regional risk, the state should create real economic conditions for the development of the province. Only in this way can the vicious cycle of inequality be broken and a more balanced and sustainable growth of housing lending and of the economy overall be achieved.

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