

Bulgaria Passes Landmark Personal Bankruptcy Law, Offering Debt Relief to Individuals

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On 19 June 2025, the Bulgarian Parliament passed a significant new piece of legislation — the Law on the Insolvency of Natural Persons (LINP)—introducing for the first time a legal framework that allows non-entrepreneurial individuals to be declared insolvent and, after fulfilling their obligations to creditors to the greatest extent possible, to obtain a full discharge from their remaining financial liabilities.

While the new law was promulgated in State Gazette Issue No. 54 as of July 4, 2025 and entered into force three days later, in practice, insolvency applications under the new regime will not be accepted until at least nine months following its entry into force. This delay is intended to allow for the technical implementation of a dedicated module for natural person insolvency proceedings within the unified Insolvency Register, the activation of which requires a formal order from the Minister of Justice.

Aimed at striking a balance between creditor recovery and debtor relief, the LINP provides a unified legal mechanism for the fair, efficient, and timely resolution of individual insolvency cases. It also introduces the possibility of full debt discharge for individuals who act in good faith and comply with procedural requirements, following a prescribed period and subject to judicial oversight.

Legal experts view the legislation as a crucial step toward aligning Bulgaria’s insolvency framework with broader European standards, offering a long-awaited legal pathway for individuals facing overwhelming personal debt to achieve financial rehabilitation.

Applicability and Principles

The new law only applies to **natural persons** who are not entrepreneurs as defined in art. 760a of the Law on Commerce. Pursuant to this provision, an entrepreneur is any natural person engaged in economic activity, craft, or liberal profession, insofar as the subject matter and scope of their enterprise does not require the conduct of business in a commercial manner. If a natural person meets the conditions for the opening of insolvency proceedings under the new law and the Commercial Law at the same time, the provisions of the Commercial Law shall prevail, i.e. the rules for the insolvency of a trader or entrepreneur shall apply.

The basic principle underlying the proceedings is the debtor's **good faith** — this principle includes the requirements that the debtors present accurate facts about their financial situation, i.e. those that they could have known if they had exercised due care, to cooperate

with the court and the trustee in the exercise of their powers, and not to jeopardise the interests of creditors. Failure to comply with these obligations may be grounds for termination of the insolvency proceedings. Further, termination of the insolvency proceedings due to established bad faith precludes the debtor from filing such application in the future and has no effect of releasing the debtor from his obligations, which is one of the ultimate goals of the proceedings if they are successfully concluded.

Other principles on which the proceedings are based are the discretionary principle (unlike other legislations, it is solely up to the debtor to decide whether to file a petition for such proceedings) and the principle of voluntary performance of obligations. For a number of reasons, the legislator has chosen to exclude the legal process of involuntary insolvency, whereby a creditor has the right to initiate insolvency proceedings against a debtor who owes them money. As a result, the procedural rights of the creditors are substantially limited under the newly introduced legal framework. The success or failure of this approach will only be revealed over time.

Alongside the above, as in ordinary insolvency proceedings, the *ex-officio* principle also applies, that means that the court can act on its own initiative, without a specific request from a party, to address certain matters, ensuring that public interests are preserved.

Two-instance proceedings with some exceptions

The law introduces a general principle that in insolvency proceedings, the decisions and rulings of the regional court may only be appealed within 14 days before the competent district court whose decision would be final. Appeals under the general procedure of the Civil Procedure Code, i.e. three-instance proceedings including the Supreme Court of Cassation, are provided for only in three cases: the decision rejecting the application for the opening of insolvency proceedings; the ruling terminating the proceedings on the grounds that, after the proceedings were opened, it was established that one of the conditions for opening the proceedings was not met or had ceased to exist, as well as the decision of the appellate court approving the list of accepted and rejected claims.

Initiation and Administration of the Procedure, Participants

Proceedings may only be initiated by a *debtor* who has monetary obligations and who is unable to fulfill those obligations in whole or in part for more than 12 months prior to the filing of the petition, with the total amount of the obligations exceeding 10 minimum monthly salaries, or BGN 10,770 at present (the current minimum monthly salary in Bulgaria is BGN 1,077).

Only the debtor acting in good faith may initiate insolvency proceedings and take advantage of the options offered by the new procedure. Basically, for the purposes of the new law,

debtors are deemed to act in good faith if they assume obligations in accordance with their financial situation and income and if their behavior does not harm the interests of their creditors. LINP defines the requirement of debtor's good faith through particular behavior of the debtor within a certain period prior to the filing of the petition or during the proceedings themselves - offenses committed by the debtor (including crimes and administrative violations related to undeclared income or property), failure to take action to earn income, active actions resulting in an unjustified reduction in their property (e.g., gratuitous transactions or breach of equivalence of performance), submission of false data, and others, lead to the conclusion of bad faith on the part of the debtor and, consequently, to the inapplicability of the proceedings.

The **application for opening** shall be accompanied by a detailed declaration in which the debtor declares a series of circumstances – income, property, marital status, creditors, what payments he has made to them, as well as the relevant documents certifying them. A mandatory part of the appendices is also the debt repayment plan, the submission of which is a condition for the admissibility of the application. Unlike in general civil proceedings, the court may, at this early stage, already take a position on the evidence and, on its own initiative, instruct the debtor to submit additional evidence. A duly filed and accepted application shall be entered in a special register, which is yet to be created. The debtor may request to be exempted from the state fee, but the law does not allow him to be exempted from costs of the proceedings.

The *creditors* are a key player in the insolvency proceedings. All persons who have claims against the debtor, regardless of the type and timing of their occurrence, are considered creditors. The creditors retain their rights to existing security, while the rest are considered chirographic (unsecured) and being satisfied pro rata *vis-a-vis* other chirographic creditors. The creditors with accepted claims by the court, and – as an exception, a creditor with an unaccepted claim who has appealed the decision rejecting the claim, as well as a creditor with an accepted claim that has been challenged, if convincing written evidence has been presented in support of the claim, form the *creditors' meeting*, which has **two powers** - to adopt a plan for the repayment of receivables, possibly assigning control over its implementation to the trustee, and to decide on the disposal of unsaleable items, respectively to grant the debtor items and receivables of insignificant value and uncollectible receivables.

Another key player in the proceedings is the **trustee**, whose status and powers follow that of the trustee in the classic insolvency proceedings against a trader. With a view of the significant number of proceedings expected and in contrast to the trader insolvency, LINP provides a facultative option to the court to appoint as a trustee a state bailiff (private bailiffs are excluded from that possibility). The trustee is appointed by the court with the decision for

opening insolvency proceedings (in the cases where the debtor is insolvent and there are seizable property of the debtor). The tasks and powers of the trustee are to exercise control over the debtor's transactions, to search for and identify the debtor's assets, to request the termination of some of the debtor's contracts, to conduct proceedings on behalf of the debtor, to collect the debtor's monetary claims, and to deposit the proceeds in a special bank account. He identifies the debtor's creditors and verifies their claims, proposes a plan for the repayment of debts, and liquidates the assets from the insolvency estate.

The insolvency of natural persons is designed as entirely court-administered procedure where the **court** takes a central place.

Within 14 days of the announcement of the application, any creditor of the debtor may file a written objection, supported by written evidence, that the conditions for opening the proceedings are not met. The court examines the application in a closed session, summoning the applicant within one month of the expiry of the period for objections. In the absence of such an objection and where no further evidence needs to be gathered, the court shall examine the petition in a closed session.

Following the application, the court may either open insolvency proceedings if all requirements were met or reject the application. The decision granting the debtor's request is subject to appeal before the relevant court of second instance (district court) only upon appeal by the creditor, regardless of whether he has filed an objection to the request or not, and the decision of the appellate court shall be final. The decision to reject the application may be appealed only by the debtor, and the general procedure applies, i.e., under three-instance proceedings.

When there are no assets even for the initial costs of insolvency

When the conditions for initiating proceedings are met but there is no seizable property from which to cover the initial costs, proceedings are initiated by decision and suspended until funds are found, in which case no trustee is appointed. At the same time, a general seizure and prohibition on the debtor's property shall be imposed. This decision, which is borrowed from ordinary insolvency, is criticized by practitioners as, in the absence of a trustee, all transactions and payments by the debtor must be approved by the court, which, in a significant number of such suspended proceedings, could lead to delays and serious consequences for the debtor (e.g., when medication needs to be purchased). If no seizable funds are discovered within 1-year period, the court declares the state of insolvency and terminates the proceedings. During this period the proceedings may be resumed if the debtor proves that he has sufficient seizable property to cover the initial costs. A request for resumption may also be made by a creditor who deposits the necessary amount to cover the initial costs in advance. If no request for resumption is made within this period, the court

shall declare the debtor insolvent and terminate the proceedings. All consequences of the decision to open the proceedings shall cease to apply, and the limitation period suspended by the filing of the application to open the proceedings shall continue to run. The debtor may request the resumption of insolvency proceedings within three years of the decision to terminate the proceedings if he proves that he has sufficient seizable assets to cover the initial costs of the insolvency proceedings.

Consequences of the opening of insolvency proceedings

The most important consequences of initiated insolvency proceedings are:

(i) restrictions on the debtor's legal capacity - the conclusion of transactions involving management and disposal, as well as the making of payments, require the permission of the trustee or the court (in the case of suspended proceedings). The debtor is free to dispose only of his non-seizable income. Transactions carried out in violation of these measures are null and void and lead to a finding of bad faith on the part of the debtor and termination of the proceedings;

(ii) suspension of all court or arbitration proceedings, except those in which the debtor has filed a counterclaim or objection to set-off, or which concern claims secured by third-party property;

(iii) suspension of enforcement proceedings initiated and pending against the debtor, with certain exceptions relating to proceedings for the collection of public claims, as well as proceedings in which a public sale has been conducted, and a buyer has been announced.

(iv) a general prohibition on bringing new cases against the debtor;

(v) claims not asserted in insolvency proceedings and rights not exercised shall be extinguished if they have not been duly asserted or exercised in accordance with the procedure provided for by law, except in the case of suspension due to lack of assets or termination due to lack of conditions for opening the proceedings.

Development of the Procedure

(i) Assertion of claims

Within 3 months of the announcement of the decision to open insolvency proceedings in the special register, all creditors of the debtor are required to file their claims with the insolvency court. After the expiry of this period, the trustee shall draw up lists of accepted, rejected, and claims that have arisen after the opening of the proceedings, which shall be published in the register and may be challenged by the interested parties (creditors and debtor) within 14 days of their announcement in the special register.

All objections are to be considered in a single court hearing where the court issues a decision approving the lists or making the relevant changes to them in accordance with the objections raised. The court's decision is subject to appeal before the second and third instances (the Supreme Court of Cassation) if the conditions are met. The final decision of the insolvency court has a declaratory effect with regard to the existence of the relevant claim and any privilege.

(ii) Repayment plan

Satisfying creditors is the core objective of the proceedings, and the main tool for achieving this is the debt repayment plan, which the debtor must submit together with the petition for the opening of insolvency proceedings. The plan may provide for deferral and rescheduling of debts for up to 3 years, partial or total debt discharge, as well as actions and transactions with the debtor's property aimed at satisfying creditors. Only the debtor, as well as the trustee upon debtor's agreement, have the right to propose such a plan. In these proceedings, unlike ordinary insolvency, creditors do not have the right to propose a repayment plan. A repayment plan may be submitted within one month of the announcement of the court's decision to approve the list of accepted claims. Within the same period, the debtor may update the plan initially proposed with the application for opening insolvency.

The court verifies whether the formal preconditions for the plan are met and, if so, it accepts it for review and approval by the creditors' meeting. The latter can either reject the plan or approve it, acting with 50% of the accepted claims and the claims that the court has allowed to vote. If approved, the creditors' meeting may decide that the trustee shall exercise control over the debtor's activities in connection with the performance of its obligations under the approved plan. Finally, the insolvency court approves the accepted plan if all statutory conditions are met.

If a plan is approved by the court, it also rules on termination of the proceedings as well as determines the property rights that the debtor may dispose of only with the permission of the trustee/court. The decision to approve the plan is subject to review only by the court of second instance, and if it is overturned, a new plan cannot be proposed. The plan, approved by a final court decision, has a transformative effect on creditors' claims. Furthermore, all actions related to opening and closing of payment accounts, concluding transactions, and performing actions that are not necessary to satisfy the vital needs of the debtor and those of the debtor's family members, as well as other actions, if provided for in the plan, are performed with the permission of the trustee/court. Failure to comply with the plan constitutes bad faith on the part of the debtor and entails termination of the proceedings.

Termination with liquidation of assets

When no repayment plan has been proposed within the period specified by law, or the proposed plan has not been admitted for consideration by the creditors' meeting or has not been approved, the debtor shall be declared insolvent. With this decision, the court also deprives the debtor of the right to manage and dispose of his property included in the insolvency estate and orders the commencement of liquidation and distribution.

All property rights of the debtor plus half of the rights held jointly with the spouse form the insolvency estate from which creditors are to be satisfied. Measures to replenish the insolvency estate may include termination by the trustee of contracts to which the debtor is a party, imposition of protective measures on existing assets to prevent their dissipation, sealing and inventory of assets, and others.

From the date of the decision to declare insolvency, all monetary and non-monetary obligations of the debtor become due and payable. Non-monetary obligations are converted into monetary obligations at their market value. Claims not asserted in the insolvency proceedings and unexercised rights are extinguished.

Special case of termination

An out-of-court settlement may be concluded at any stage of the proceedings. Though, since the law requires that it is agreed between the debtor and the creditors with accepted claims, this means that the list of accepted claims must be approved beforehand. The settlement must be in writing. All creditors must participate in the agreement and their claims must be undisputed. Culpable non-performance of the settlement renders the debtor in bad faith.

Effect of insolvency proceedings

One of the main goals of the proceedings is to ultimately release the debtor from obligations that they cannot fulfill. Therefore, the law provides that upon implementation of the plan, all obligations for which full or partial forgiveness is provided for in the plan are extinguished. And when no plan has been approved and the debtor's assets have been liquidated, the creditors' unsatisfied claims are extinguished upon the entry into force of the court's decision to terminate the proceedings due to the exhaustion of the insolvency estate.

When the debtor has no assets, a three-year period begins to run from the entry into force of the decision declaring the debtor insolvent. Only after its expiry are the debtor's obligations to all creditors included in the application for the opening of proceedings extinguished.

It is expressly provided that the following obligations could not be extinguished:

- those secured by a mortgage or pledge, insofar as the security has not been used to satisfy the creditor;
- fines;

- monetary obligations stemming from tort;
- alimony payments;
- arising after the opening of the insolvency proceedings;
- the obligations of guarantors and persons jointly and severally liable with the debtor;
- the claims of creditors not satisfied in the insolvency proceedings, secured by a pledge or mortgage from third parties.