

The New Bulgarian Personal Insolvency Act

Tsvetelina Koleva explains Bulgaria's newly adopted Personal Insolvency Act, which introduces a judicial framework for individuals to restructure or discharge debts in line with EU Directive 2019/1023 and the country's Recovery and Resilience Plan commitments



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Bulgaria has recently adopted a legislative framework for personal insolvency in line with the requirements of Directive (EU) 2019/1023. Not only this Directive, but also Bulgaria's engagements under the Recovery and Resilience Plan (RRP), have necessitated the adoption of such a legislative act.

The Personal Insolvency Act (The Act) was promulgated in the State Gazette on 4 July 2025 and has already come into force. However, the Act provides 9 months for the authorities to implement the rules related to the Insolvency Register so that these kinds of proceedings can be entered.

- The **Minister of Justice** is required to issue an order to **commission a new module** within the **Insolvency Register**,¹ specifically tailored to proceedings involving natural persons. This digital infrastructure is vital for ensuring transparency, accessibility, and the proper tracking of individual insolvency cases.
- The **Supreme Judicial Council** must organize the **automatic transmission of data and documents** between the **Unified Court Information System** and the Insolvency Register. This measure aims to streamline procedural workflows, minimize delays, and uphold the efficiency requirements mandated by EU law.

These preparatory actions are essential to ensure that the courts, creditors, and debtors are



equipped with the necessary digital and procedural tools for the Act's effective implementation.

Outline of the Act

The Personal Insolvency Act introduces a structured, judicially supervised insolvency procedure for individuals who are unable to meet their financial obligations without this being the result of purposeful wrongdoing. The procedure is grounded on several key principles, such as the exclusive initiative of the debtor, creditor equality, voluntary fulfilment of obligations and good faith.

The framework for personal insolvency largely follows the model of commercial insolvency existing in the state. However, there are some significant differences between the two. For example, only the debtor – individual is entitled to initiate their personal insolvency proceedings. By way of contrast, proceedings against a company could be commenced also by its

creditors or the Labour Inspectorate (regarding unpaid employment dues). Another differentiation is "good faith" being introduced as a requirement that individual debtors must meet in order to be eligible for proceedings. This is not a prerequisite for a company seeking insolvency, but may be relevant to the possibility for a director's rehabilitation.

All obligations falling within the scope of the Personal Insolvency Act must not be of commercial essence (must not be incurred by entrepreneurs in the course of their trade, business, craft or profession).

Conditions for admissibility

The procedure may be initiated only upon application by a debtor in good faith before the competent district court. Filing the application is at the debtor's discretion, as they are not obliged to proceed with insolvency. The right moment for filing must be

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chosen wisely, as personal insolvency proceedings may be conducted to discharge a single person's debts only once.

Two essential criteria must be present for the application's approval by the court:

- **Insolvency:** this is the debtor's inability to meet one or more due monetary obligations to creditors in the total amount of at least 10 minimum wages² for a total period of at least 12 months. The court evaluates the debtor's assets, income, and obligations to determine whether insolvency exists.
- **Good Faith:** The debtor must have acted in good faith both prior to and during the insolvency proceedings. A good faith debtor is one who undertakes obligations corresponding to their financial abilities and income and who, by their conduct, does not prejudice the interests of their creditors. The Act lays out 11 hypotheses in which the debtor is presumed to have acted in bad faith, which excludes the possibility of insolvency proceedings taking place. Acts such as incurring excessive debt with no reasonable expectation of repayment or hiding assets or income result in the ineligibility of the debtor to initiate the procedure. The debtor must disclose to the court all relevant circumstances facing the risk of personal liability for damages caused by non-disclosure.

Key phases

The Act structures the insolvency process into several phases:

- **Initiation:** Before commencement of personal insolvency proceedings, the court assesses the admissibility of the debtor's application, including verification of insolvency and good faith. Prior to opening proceedings, the court may impose precautionary measures to preserve the debtor's assets.
- **Debt Repayment Plan or Asset Liquidation:** The court may approve either a repayment plan (proposed by the debtor and approved by creditors) or initiate the liquidation of any available assets. In both cases, the goal is partial satisfaction of creditors while allowing the debtor a path to discharge. The repayment plan may provide

Upon the debtor's request or upon its own motion, the court may order the suspension of enforcement proceedings initiated against the debtor prior to the application.

- **Court Proceedings:** The proceedings are commenced by a decision of the court. With the decision, all other court and enforcement proceedings against the debtor are suspended and an insolvency administrator is appointed to oversee the debtor's assets and ensure their preservation for the purpose of satisfying creditors. The insolvency administrator also supervises the contracts of the debtor and represents the latter in legal disputes. In case the court finds that the debtor does not own sufficient assets to cover the costs of the insolvency proceedings, the latter are suspended. The debtor then has a 3-year period to raise sufficient funds to cover the costs and resume the proceedings. If not resumed within that period, the proceedings are terminated and the debtor's obligations are discharged, except for obligations expressly provided for by law.

- **Creditors:** similarly to commercial insolvency proceedings, creditors must submit proofs of debt. The administrator publishes lists of creditors, with opposition to inclusion possible by affected creditors or the debtor. The court will finally approve the lists. A creditor with an accepted proof is entitled to vote on the proposed repayment plan.

for the deferment or rescheduling of payments for a period of up to three years, the partial or total cancellation of debts and the performance of other acts and transactions with the debtor's property aimed at satisfying the creditors. If the plan is not approved by the creditors and confirmed by the court, the latter issues a decision by which the debtor is declared insolvent and the liquidation of assets is initiated.

- **Termination and Effect:** Upon successful completion of the repayment plan, or where liquidation results in no remaining assets or viable income, the court issues a decision for the termination of insolvency proceedings. This results in the erasure of remaining debts, allowing the debtor a fresh start. However, certain obligations (e.g. fines, child support obligations, certain tax liabilities, secured debt and post-commencement debt) remain non-dischargeable under the Act. In addition, if there are guarantors/co-debtors of the insolvent debtor, these continue to be liable for the debt irrespective of the discharge in favour of the insolvent debtor.



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Summary

The Personal Insolvency Act fills a long-standing legislative gap, aligns national law with EU Directive 2019/1023, and fulfils a critical commitment under the Recovery and Resilience Plan. The expectation is that the Act will enable good faith individuals to resume their financial (and social, and personal) existence even if they have taken some steps in the wrong direction. The second chance, however, is provided only once, therefore it must be used wisely and the lessons must be learned for good. ■

Footnote:

1 See: <<https://aistn.mjs.bg/>>.

2 At the time of publication, the minimum wage in Bulgaria is EUR 551.