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Chaos Feared as Millions of Russians Gain Right to Go Bankrupt

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The new legislation allows Russians with total debt of more than 500,000 rubles ($7,600) and over three months of missed payments to file for bankruptcy from Oct. 1.

From Oct. 1, for the first time in the country's history, millions of Russians who cannot pay back their debts will be able to file for bankruptcy.

The measure is meant to ease the financial situation of people struggling with repayments amid a deep recession, and it brings Russian law into line with similar systems in many other countries, where bankruptcy law gives rights and protections to both borrowers and banks.

However, analysts warned that the introduction of the legislation could lead to a huge number of bankruptcy cases that will strain the court system and cause serious losses to banks.

"Some unscrupulous borrowers are not repaying their loans on purpose and waiting for the new law to enter into force to declare bankruptcy," Sergei Grigoryan, head of analysis at the

Association of Russian Banks, told The Moscow Times.

Before the amendments to the law, only legal entities could file for bankruptcy.

The new legislation allows Russians with total debt of more than 500,000 rubles ($7,600) and over three months of missed payments to file for bankruptcy from Oct. 1. It also imposes penalties on debtors who fail to register as bankrupt. Debtors owing less than 500,000 rubles can also file for bankruptcy if they can prove they are not able to pay the loans.

The procedure, which can be initiated either by the individual or a creditor, provides a framework for people with a stable income to restructure their loans, while those who are unable to repay due to low income or unemployment will see their assets sold and the money distributed among creditors.

Under the law, an individual can file for bankruptcy no more than once every five years.

System Breakdown

The move to introduce a personal bankruptcy law was triggered by a growing number of overdue loans as the economy began to slow in 2013.

It follows a boom in lending to individuals in recent years. Around 40 million people — or more than half the economically active population — have loans, the Vedomosti newspaper reported earlier this year, citing the data from the credit ratings agency Fitch. Many people have more than one.

And many of them are failing to repay. In May, the share of consumer loans overdue by more than three months reached 10 percent, up from 7.9 percent at the start of the year and a record high since 2008, the Interfax news agency reported, citing data from the Central Bank.

The total value of bank lending to individuals is around 10 trillion rubles ($150 billion), according to Central Bank data cited by Vedomosti, meaning that some 1 trillion rubles ($15 billion) is overdue.

Millions of people could use the new law. According to data from the United Credit Bureau, which monitors credit history, 580,000 Russians, or 1.5 percent of the total number of debt holders, will immediately qualify for bankruptcy on Oct. 1. The law could also potentially help another 6.5 million people who are now more than 90 days late on payments on smaller loans to ease their debt burden, the bureau said in a statement Tuesday.

The system may not be able to cope with those numbers, analysts said.

The bankruptcy procedure needs trained people who can manage a debtor's assets and repayments, and they don't appear to be being prepared, said Vasily Solodkov, director of the banking institute at Moscow's Higher School of Economics.

It also requires that the court appoint a mediator between the bank and the debtor during the bankruptcy process, which will be an additional burden on courts that are already overloaded, according to the Association of Russian Banks' Grigoryan.

The Finance Ministry has estimated that in Moscow alone, the courts will have to deal with about 4 million individual bankruptcy cases within the next year, Vedomosti reported Tuesday.

If that happens, the court system will simply choke, Solodkov said.

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