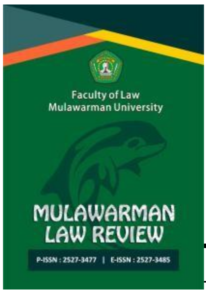

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Reformulation of Secured Creditors' Execution Rights in Bankruptcy: Economic and Justice Perspectives

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ABSTRACT

"The stability of the banking sector is crucial for economic development, yet resolving Non-Performing Loans (NPL) often faces severe legal hurdles during corporate bankruptcy. This article analyzes the normative conflict in Indonesia's legal framework, specifically between collateral laws that guarantee immediate execution rights (parate executie) and Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations. The objective of this study is to critically evaluate the rationality and proportionality of Articles 56 and 59 of the Bankruptcy Law, which impose a 90-day stay period and a two-month execution limit, to determine whether these restrictions genuinely balance the competing interests of the debtor and the secured creditors. This research uses a normative legal method with statute and case approaches, analyzed through the Economic Analysis of Law and John Rawls's Theory of Justice. The findings indicate that while the stay period theoretically provides a necessary breathing space for corporate restructuring, its empirical application, combined with the strict execution limit, disproportionately harms secured creditors. The collateral often suffers from physical depreciation during the stay period, and its forced surrender to the receiver (kurator) results in auction proceeds being significantly absorbed by bankruptcy costs. This legal uncertainty slows down credit distribution and increases systemic financial risks. The article concludes that reformulating the bankruptcy legal framework is necessary to restore a truly balanced approach that accommodates both the debtor's right to a rescue mechanism and the secured creditor's right to equitable asset protection."

Keywords: *Bankruptcy Law; Economic Analysis; Justice; Non-Performing Loan; Secured Creditors.*

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INTRODUCTION

The foundational vision of the Indonesian state, as mandated in the Preamble to the 1945 Constitution, is to realize a nation that is independent, united, sovereign, just, and prosperous. This grand vision is further translated into the National Long-Term Development Plan for 2025–2045 (Law Number 59 of 2024), which aims to achieve the "Golden Indonesia 2045" through comprehensive economic transformation. Within this macro-economic architecture, financial institutions, particularly banks and non-bank financing entities, play an indispensable and pivotal role as intermediation institutions. By gathering public funds and channeling them into credit for investments and infrastructure projects, banks act as the lifeblood of economic growth and job creation. However, this vital intermediation function requires a remarkably healthy banking sector, primarily measured by its ability to manage and suppress Non-Performing Loans (NPLs).

A high NPL ratio not only erodes a bank's profitability through lost interest income and increased provisioning costs but also severely weakens its capital structure and solvency.[1] If left unresolved, toxic assets restrict a bank's capacity to disburse new loans, triggering a systemic credit crunch that stalls economic recovery. To mitigate this existential risk, the Indonesian legal system provides a robust protective mechanism for creditors through collateral laws. Based on the fundamental principle that creditors with legitimate reasons are entitled to preferential treatment over concurrent creditors, the law recognizes institutions such as Pledge, Mortgage (Hipotek), Mortgage Rights over Land, and Fiduciary Security.[2] These collateral institutions equip secured creditors (separatist creditors) with a highly effective and efficient loss-recovery tool known as parate executie.[3] Enshrined in Articles 1155 and 1178 of the Indonesian Civil Code, Article 6 of Law Number 4 of 1996 on Mortgage Rights, and Article 29 of Law Number 42 of 1999 on Fiduciary Guarantees, parate executie grants creditors the inherent statutory right to independently sell the debtor's collateral through public auction upon default, without the necessity of a court order. This mechanism is widely regarded as the optimal strategy for maximizing the recovery rate of bad debts.

Nevertheless, a severe legal and operational paradox arises when a defaulting debtor is declared bankrupt by the Commercial Court. The execution of collateral, which is supposed to be straightforward, is abruptly hindered by Law Number 37 of 2004

[1] Arief Wibisono, *Hukum Perbankan Di Indonesia Dan Respon Kebijakan Dalam Tiga Krisis Besar* (Jakarta: Sinar Grafika, 2025).,69-70.

[2] Sutan Remy Sjahdeini, *Hukum Kepailitan: Memahami Undang-Undang No. 37 Tahun 2004 Tentang Kepailitan* (Jakarta: Pustaka Utama Grafiti, 2010). 298.

[3] Herowati Poesoko, *Parate Executie (Inkonsistensi, Konflik Norma Dan Kesesatan Penalaran Dalam UUHT)* (Yogyakarta: Laks Bang Pressindo, 2007). 184-185.

concerning Bankruptcy and Suspension of Debt Payment Obligations (hereinafter referred to as the Bankruptcy Law). Although Article 55 of the Bankruptcy Law theoretically states that separatist creditors may execute their rights as if no bankruptcy occurred, this right is systematically amputated by subsequent provisions. Article 56 imposes a strict 90-day stay period (penangguhan) starting from the bankruptcy declaration, explicitly intended to optimize bankruptcy assets or increase the likelihood of a settlement.[4]

The situation for secured creditors is further aggravated by Article 59 of the Bankruptcy Law, which curtails the execution right to a mere two-month window post-insolvency. Given the bureaucratic complexities of the auction preparation process including independent asset valuation, registration with the State Wealth and Auction Service Office (KPKNL), and mandatory dual public announcements this two-month limit is highly unrealistic. If the creditor fails to execute the sale within this narrow timeframe, the collateral must be surrendered to the receiver (kurator).[5] Consequently, the execution proceeds managed by the receiver are significantly diluted, as they are first utilized to cover bankruptcy costs, receiver fees, and potentially other preferential debts, ultimately defeating the core purpose of holding collateral.

Several previous studies have attempted to address the predicament of secured creditors. Titik Tejaningsih (2016) explored the legal protection of separatist creditors in the management and settlement of bankruptcy assets, while Bachtiar Marbun (2025) and Melinda Sabela Putri (2024) specifically examined the reconstruction of Mortgage Rights execution following a bankruptcy declaration.[6] However, a critical literature gap remains. Previous scholarship predominantly focuses on dogmatic legal protection without adequately addressing the systemic economic impact on the banking sector or formulating a balanced justice model that accommodates both the debtor's rescue mechanisms and the creditor's financial sustainability.

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[4] Remy Sjahdeini, *Hukum Kepailitan: Memahami Undang-Undang No. 37 Tahun 2004 Tentang Kepailitan*. 304.

[5] Susanti Adi Nugroho, *Hukum Kepailitan Di Indonesia, Dalam Teori Dan Praktik Serta Penerapan Hukumnya* (Jakarta: Prenadamedia Group, 2018). 340.

[6] Bachtiar Marbun TejaningsihTitik, “Perlindungan Hukum Terhadap Kreditor Separatis Dalam Pengurusan Dan Pemberesan Harta Pailit, Rekonstruksi Eksekusi Hak Tanggungan Berdasarkan Prinsip Keadilan Bagi Kreditur” (Universitas Islam Indonesia, Universitas Diponegoro, n.d.).

Therefore, this article seeks to address this gap by analyzing the normative conflict between collateral laws and the Bankruptcy Law through a multidimensional lens. Employing Richard A. Posner's Economic Analysis of Law, this study scrutinizes the economic inefficiency and systemic risks generated by the current bankruptcy regime. Simultaneously, utilizing John Rawls's Theory of Justice, particularly the principle of distributive justice, this paper evaluates the proportionality of rights between the receiver and the secured creditor. Specifically, the primary objective of this study is to formulate a proportional and equitable legal reformulation of Articles 56 and 59 of the Bankruptcy Law. Rather than solely amplifying creditor protection, this proposed reformulation aims to construct a balanced 'middle-ground' mechanism. It seeks to ensure that the debtor is granted a genuine and adequate opportunity for corporate restructuring (going concern) during the bankruptcy process, while simultaneously guaranteeing that the secured creditors' collateral and execution rights are safeguarded from excessive asset depreciation and unjust administrative bankruptcy deductions.

METHOD

This study is categorized as a normative legal research, which conceptualizes law as a unique (sui generis) system of norms composed of principles, rules, and dogmas. Operating under a post-positivist paradigm, this research positions the authors both as doctrinal participants examining legal texts and as objective observers analyzing court judgments. To dissect the central issues comprehensively, the study employs multiple legal approaches, primarily the statute approach and the case approach.

The statute approach is utilized to critically analyze the horizontal and vertical normative conflicts between the Indonesian Bankruptcy Law (Law No. 37 of 2004) and various collateral security laws, including the Civil Code, the Mortgage Law, and the Fiduciary Law. Meanwhile, the case approach is applied to observe the empirical reality and judicial reasoning in actual bankruptcy settlements, specifically examining Supreme Court decisions regarding the execution of secured assets by receivers (kurator). Furthermore, a comparative approach is lightly integrated to observe how other legal systems balance creditor rights and bankruptcy proceedings.

The research relies heavily on primary legal materials comprising relevant legislation and binding court verdicts and secondary legal materials consisting of authoritative legal literature, academic journals, and philosophical texts. The collected legal materials were then qualitatively analyzed using systematic, historical, and grammatical interpretation methods. Ultimately, the analysis was synthesized using the theoretical frameworks of Richard A. Posner's Economic Analysis of Law and John Rawls's Theory of Justice to formulate a precise, equitable, and economically sound legal recommendation.

DISCUSSION

NORMATIVE CONFLICT BETWEEN COLLATERAL AND BANKRUPTCY LAWS

The Indonesian legal framework exhibits a profound normative conflict regarding the execution rights of secured creditors, creating legal uncertainty in the settlement of non-performing loans. On one side of the spectrum, the material civil law and specific collateral regulations heavily protect the interests of creditors. According to Article 1155 of the Indonesian Civil Code (governing Pledges) and Article 1178 of the Civil Code (governing Hypothecs), a creditor has the inherent right to sell the collateral in public and take the proceeds to settle the debtor's outstanding debt if the debtor defaults.[7] This principle is further reinforced in modern Indonesian collateral laws, specifically Article 6 of Law Number 4 of 1996 concerning Mortgage Rights and Article 29 of Law Number 42 of 1999 concerning Fiduciary Guarantees.[8]

These provisions explicitly grant the creditor the right of parate execution and the absolute authority to sell the collateralized assets independently through a public auction without seeking prior judicial approval. However, a severe legal paradox emerges when the defaulting debtor is declared bankrupt, bringing the collateral under the jurisdiction of Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (the Bankruptcy Law). While Article 55 paragraph (1) of the Bankruptcy Law seemingly acknowledges the separatist creditor's right to execute their

[7] trans. R. Subekti and R. Tjitrosidibio, *Kitab Undang-Undang Hukum Perdata* (Jakarta: Balai Pustaka, 2013). 1155 & 1178.

[8] "Law No. 4 of 1996 Concerning Mortgage Rights, Art. 6; Law No. 42 of 1999 Concerning Fiduciary Guarantees, Art. 29." (n.d.).

collateral as if bankruptcy had not occurred, this right is systematically undermined by subsequent articles. Article 56 paragraph (1) imposes a mandatory suspension period (stay period) for a maximum of 90 days from the date the bankruptcy is declared.[9] During this period, the secured creditor is entirely prohibited from exercising their parate executie rights, ostensibly to provide the receiver (kurator) time to optimize the bankruptcy estate or facilitate a peace settlement (perdamaian). The conflict deepens with the enactment of Article 59 paragraph (1) of the Bankruptcy Law, which dictates that the secured creditor must execute their rights within a strict deadline of two months after the insolvency phase begins. From a practical standpoint, this two-month limitation is highly unrealistic given the lengthy administrative requirements of the state auction process. If the creditor fails to sell the collateral within this narrow window, Article 59 paragraph (2) mandates that the creditor must surrender the collateral to the receiver to be sold as part of the general bankruptcy estate.[10]

The strict two-month limit under Article 59 paragraph (1) of the Bankruptcy Law creates a critical ambiguity: there is a fundamental legal distinction between the obligation to commence the execution of rights and the obligation to complete the sale of the collateral. In practice, however, receivers frequently interpret this provision rigidly as the absolute deadline to finalize the transaction. From an empirical standpoint, successfully completing a public auction within a mere two-month window is highly unrealistic. Delays are caused not only by administrative bottlenecks such as the mandatory 14-day public announcement and the lengthy scheduling process at the State Wealth and Auction Service Office (KPKNL) but also by external market factors. For instance, conducting mandatory preliminary independent asset appraisals requires significant time, and it is highly common for the first round of auctions to fail entirely due to a lack of prospective buyers (no-bidders), inherently necessitating a second auction which extends the timeline further.

[9] "Law No. 37 of 2004 Concerning Bankruptcy and Suspension of Debt Payment Obligations, Art. 56." (n.d.).

[10] "Law No. 37 of 2004 Concerning Bankruptcy and Suspension of Debt Payment Obligations, Art. 59." (n.d.).

If the creditor fails to finalize the sale within this narrow timeframe due to these systemic and practical hurdles, the law mandates the surrender of the asset. Once the collateral falls into the hands of the receiver, the separatist creditor's preferential status is severely compromised. According to Article 191 of the Bankruptcy Law, all bankruptcy costs are burdened upon the bankruptcy assets. Consequently, the proceeds from the receiver's sale of the collateral are not wholly transferred to the secured creditor. Instead, the funds are significantly deducted to pay for the receiver's fees, bankruptcy administrative costs, outstanding taxes, and workers' unpaid wages, leaving the secured creditor with a fraction of their anticipated recovery.

This normative conflict is vividly reflected in the empirical practices of the Indonesian Commercial Courts. For instance, in the Supreme Court Decision Number 158 K/Pdt.Sus/2011, PT Bank OCBC NISP Tbk as a separatist creditor sued the receiver of PT Metalindo Perwita (in bankruptcy). The bank, which had an acknowledged claim of Rp 44,746,392,484.12, only received a meager distribution of Rp 1,520,236,774 from the sale of its own collateral.[11] The vast majority of the auction proceeds were absorbed by the receiver's fees, bankruptcy costs, and payments to preferred creditors. A similar injustice occurred in Supreme Court Decision Number 895 K/Pdt.Sus-Pailit/2016, where PT Bank CIMB Niaga filed a lawsuit against the receiver of PT Jaba Garmindo (in bankruptcy). The bank argued that the receiver violated the law by prioritizing the payment of bankruptcy costs, labor claims, litigation fees, and receiver fees over the secured creditor's legitimate claim to the collateral's proceeds.[12] These legal cases demonstrate that the Bankruptcy Law effectively strips secured creditors of their preferential rights, transforming an instrument designed for legal protection into a mechanism that forces creditors to subsidize the bankruptcy process.

ECONOMIC IMPACT OF RESTRICTING SECURED CREDITORS' RIGHTS

To fully comprehend the consequences of the normative conflict between collateral laws and the Bankruptcy Law, this issue must be evaluated through the lens of Richard

[11] "Supreme Court of the Republic of Indonesia, Decision Number 158 K/Pdt.Sus/2011." (n.d.).
[12] "Supreme Court of the Republic of Indonesia, Decision Number 895 K/Pdt.Sus-Pailit/2016." (n.d.).

A. Posner's Economic Analysis of Law (EAL). According to Posner, the law should ideally function as a facilitator of economic efficiency, aiming to maximize societal welfare and utility.[13] From this economic perspective, a legal framework is deemed inefficient if it unnecessarily inflates transaction costs, creates market uncertainty, or disrupts the allocation of resources. The current Indonesian bankruptcy regime, which restricts and ultimately dilutes the execution rights of secured creditors, generates profound economic inefficiencies that reverberate throughout the banking sector and the national economy. The most immediate economic impact is the disruption of a bank's ability to effectively resolve Non-Performing Loans (NPLs). Collateral is fundamentally designed to act as an economic safety net, ensuring that banks can recover their disbursed funds if a debtor defaults.[14] The mechanism by which Article 59 directly suppresses the recovery rate is triggered the moment the two-month deadline expires. Upon expiration, the law mandates the transfer of the collateral to the receiver, stripping the asset of its exclusive protection and subjecting it to the general bankruptcy estate (boedel pailit) under Article 191. Consequently, the collateral's liquidation value is systematically diluted. Before any proceeds are distributed to the secured creditor, they are first heavily deducted to pay the receiver's fee, which is legally calculated as a substantial percentage of the asset's gross sale value, along with general bankruptcy overheads and preferred worker claims.

This mechanism inflicts a severe and quantifiable impact on the bank's financial condition. The resulting deficit between the expected collateral value and the actual net proceeds forces the bank to absorb a massive financial haircut. To comply with central bank macroprudential regulations, the bank must immediately increase its Loan Loss Provisions (Cadangan Kerugian Penurunan Nilai/CKPN) to cover the unrecovered margin. This mandatory provisioning directly erodes the bank's core capital, diminishes its net profitability, and ultimately restricts its liquidity and capacity to disburse new credit to the real sector. This micro-level inefficiency at the bank level quickly escalates into a macroeconomic hazard. When legal uncertainty surrounds the execution of

[13] Richard A. Posner, *Economic Analysis of Law, 7th Ed.* (New York: Aspen Publishers, 2007).

[14] Arief Wibisono, *Hukum Perbankan Di Indonesia Dan Respon Kebijakan Dalam Tiga Krisis Besar* (Jakarta: Sinar grafika, 2025). 69-70.

collateral, the inherent risks of lending skyrocket. To protect their capital against potential losses in future bankruptcy proceedings, banks are forced to adopt excessively conservative lending policies. This behavioral shift leads to a phenomenon known as a "credit crunch," where banks restrict the disbursement of new loans or impose significantly higher interest rates and stricter collateral requirements to offset the legal risks.[15]

The restriction of new credit directly paralyses the bank's intermediation function. As banks focus their resources on recovering toxic assets rather than funding new ventures, the real sector is deprived of the crucial capital needed for business expansion, investment, and job creation. Studies by the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) corroborate that unresolved high NPLs and restricted credit flows can halt normal financial system functions and delay post-crisis economic recovery.[16] While it may be premature to conclude that these individual bankruptcy constraints instantly trigger a systemic national financial crisis without broader macroeconomic empirical data, it is objectively evident that the continual amputation of secured creditors' rights creates significant friction within the banking sector. This legal uncertainty undoubtedly impairs the banking intermediation function, constraining optimal credit expansion and creating unnecessary hurdles for the real sector. Consequently, this localized inefficiency contradicts the state's overarching vision of accelerating economic transformation and achieving prosperity as outlined in the National Long-Term Development Plan.[17]

REFORMULATION OF BANKRUPTCY REGULATIONS

Before proposing a legislative reformulation, it is essential to evaluate whether existing legal mechanisms can resolve this impasse. In practice, aggrieved secured creditors often attempt to mitigate their losses by filing formal objections to the Supervisory Judge (Hakim Pengawas) or initiating civil lawsuits against the receiver's asset

[15] Budino Patrizia and Hyuncheol Yun, *Resolution of Non-Performing Loans Policy Options* (Financial Stability Institute, 2017). 25.

[16] Ibid.

[17] "Law No. 59 of 2024 Concerning the National Long-Term Development Plan for 2025-2045, Art. 5." (n.d.).

distribution list. However, these procedural remedies consistently prove ineffective. The fundamental barrier is that the courts and supervisory judges are strictly bound by the positive legal text of the Bankruptcy Law. As long as Articles 59 and 191 explicitly mandate the transfer of collateral and the imposition of general bankruptcy costs on those assets, any procedural challenge by the creditor is structurally destined to fail. Because the root of the injustice lies within the substantive statutory conflict itself, legislative reformulation emerges not as a premature shortcut, but as the absolute ultimum remedium (last resort) to restore legal certainty. To resolve the normative conflict and its adverse economic impacts, a strategic reformulation of the Bankruptcy Law is imperative, guided by John Rawls's Theory of Justice and the welfare state paradigm. Rawls posits that a just social institution must distribute rights and duties fairly, and any socioeconomic inequalities must be arranged so that they reasonably benefit everyone.[18] In the context of bankruptcy, justice dictates that the distribution of a bankrupt debtor's assets must proportionally respect the distinct legal standing of different creditors.

Currently, the mandatory transfer of collateral to the receiver under Article 59 of the Bankruptcy Law, and the subsequent absorption of the proceeds by general bankruptcy costs under Article 191, forces the secured creditor to unjustly subsidize the entire bankruptcy process. This framework violates the core tenet of distributive justice, as the secured creditor is stripped of their preferential rights without equitable compensation. Furthermore, as established by the welfare state theory, the state has an active obligation to govern the economy through fair regulations that protect investments, maintain legal certainty, and ensure financial stability.[19] Therefore, a just reformulation of the Bankruptcy Law requires two primary legislative amendments to harmonize the legal substance. First, Article 59 must be revised to provide a more pragmatic and objectively determined timeframe for secured creditors to execute their parate executie rights. Rather than the unrealistic two-month limit, this study proposes extending the period to a maximum of six (6) months. The objective basis for this

[18] Posner, *Economic Analysis of Law, 7th Ed. A Theory of Justice, Trans.* 60.
[19] Jimly Asshiddiqie, *Konstitusi Ekonomi, Rev. Ed.* (Jakarta: Gramedia Pustaka Utama, 2022). xvii.

timeframe is derived from the standard empirical timeline of state-administered public auctions (KPKNL). Specifically, it typically requires one month for an independent asset appraisal, one month for administrative verification and mandatory public announcements, while leaving a proportional buffer to conduct at least one retrial auction if the first attempt fails due to a lack of bidders.

To ensure that this extension does not prolong the uncertainty of the bankruptcy process or unjustly harm concurrent creditors, this reformulation must be accompanied by a strict procedural safeguard. The secured creditor must submit a binding 'execution roadmap' to the Supervisory Judge (Hakim Pengawas) within the first 30 days of the execution period. If the creditor remains inactive or fails to finalize the sale within the rigid six-month window, the execution right is automatically forfeited, and the asset must be immediately transferred to the receiver without further delay or legal dispute. Second, the Bankruptcy Law must explicitly ring-fence the proceeds of collateral sales. If the collateral is ultimately managed and sold by the receiver, the law must guarantee that the proceeds are strictly prioritized for the separatist creditor. Any deductions should be strictly limited to the direct, proportionate administrative costs of that specific asset's sale.

The secured creditor must be explicitly exempted from bearing the general bankruptcy overhead, the receiver's overall success fees, and the debtor's unrelated tax or labor obligations. By reformulating these provisions, the Indonesian legal system can achieve a progressive and equitable balance. This reformulation respects the debtor's restructuring potential during the initial stay period while firmly restoring the secured creditor's preferential rights, ultimately fostering a fair, predictable, and resilient national economic environment.

THE REGULATORY TRAP: RECONCILING FINANCIAL AUTHORITY STANDARDS WITH BANKRUPTCY PROCEEDINGS

While the Bankruptcy Law and the macroprudential regulations enforced by the state's financial authorities govern distinctly different legal objects insolvency resolution versus institutional prudential health and thus do not constitute a theoretical conflict of norms, their intersection in practice creates a severe regulatory friction that traps secured creditors. To ensure national economic resilience and prevent systemic crises, Bank Indonesia (BI) and the Financial Services Authority (OJK) mandate financial institutions to maintain a strictly healthy credit portfolio. According to Bank Indonesia Regulation No. 06/10/PBI/2004 and OJK Regulation No. 40/POJK.03/2019 concerning Asset Quality Assessment for Commercial Banks, banks are legally required to keep their Non-Performing Loan (NPL) ratio below the 5% threshold to be classified as "healthy".[20] Similar rigorous provisions apply to non-bank financial institutions; for instance, Microfinance Institutions under OJK Regulation No. 41 of 2024 and pawn companies under OJK Regulation No. 39 of 2024 also impose a strict 5% maximum limit on non-performing financing.[21]

When a debtor defaults, banks are compelled by these supervisory standards to resolve the NPL. It must be explicitly acknowledged that OJK does not immediately mandate the execution of collateral upon default. Financial institutions are initially encouraged to attempt corporate rescue mechanisms, such as restructuring, rescheduling, or reconditioning the loan terms. Consequently, the regulatory friction with the Bankruptcy Law is not automatic. However, if these amicable rescue efforts ultimately fail, the bank's absolute last resort (ultimum remedium) to recover the funds and comply with the OJK's strict 5% NPL threshold is to execute the collateral through an auction. It is at this critical juncture, when the defaulting debtor is subjected to bankruptcy proceedings and the bank has exhausted all restructuring options, that the bank is caught in a legal 'regulatory trap'. On one hand, the financial authority demands the prompt resolution of the bad debt; on the other hand, Articles 56 and 59 of the Bankruptcy Law paralyze the bank's ability to execute the collateral independently, handing over the authority to the receiver.

Ultimately, this practical regulatory friction traps financial institutions in a profound compliance paradox. Because the receiver's takeover systematically dilutes the collateral's recovery value through general bankruptcy costs, the bank is structurally

[20] "Bank Indonesia Regulation No. 06/10/PBI/2004; Financial Services Authority Regulation (POJK) No. 40/POJK.03/2019." (n.d.).

[21] "Financial Services Authority Regulation (POJK) No. 41 of 2024; Financial Services Authority Regulation (POJK) No. 39 of 2024." (n.d.).

hindered from efficiently lowering its NPL ratio. Consequently, the bank is forced to perpetually allocate substantial capital for loan losses, a mandate that severely erodes its core capital and impairs its lending capacity. Therefore, the proposed reformulation of the Bankruptcy Law transcends a mere civil law dispute over parate executie. It is an imperative step toward cross-sectoral legal harmonization. The bankruptcy regime must be seamlessly synchronized with the prudential standards of BI and OJK, ensuring that corporate insolvency mechanisms do not inadvertently sabotage the banking sector's intermediation function and the state's broader agenda of financial stability.

CONCLUSION

The conflict between Indonesia's bankruptcy and collateral laws has weakened the execution rights of secured creditors, creating legal uncertainty and harming economic stability. Although collateral laws guarantee the right of *parate executie*, Articles 56 and 59 of the Bankruptcy Law restrict this right by imposing a two-month execution limit and requiring collateral to be transferred to the receiver. This contradiction makes it difficult for banks to reduce NPLs, despite regulatory requirements to keep NPLs below five percent. As a result, banks face significant losses, which may reduce lending and slow economic growth. To address this problem, the Bankruptcy Law should be revised to extend the execution period for secured creditors and protect the proceeds from collateral sales from bankruptcy-related costs. Aligning bankruptcy regulations with financial policies would strengthen creditors' rights, improve NPL resolution, and support Indonesia's long-term economic development.’

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