

What Determines Factors that May Cause Sukuk Issuance growth?

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ABSTRACT

Due to their underdeveloped or limited capital markets, the majority of the countries continued to rely largely on the banking sector, making the region constantly exposed to financial crises. The sukuk market is significantly impacted negatively by financial crises. In this study, the author employed a GMM technique to investigate the factors that affected the issuance of sukuk in 15 selected Islamic countries between years 2013-2021. This study proposes the relationships of sukuk with some new possible determining factors along with some other factors which have not received enough attention in the literature. according to the estimation results, net foreign assets, gross domestic product growth, and budget deficit have a significantly and negative influence on the growth of the sukuk market. While, exports of goods and services, real effective exchange rate and foreign direct investment have a positive and significantly influence on the growth of the sukuk market. Our findings reveal that Sukuk market will have a strong potential of growth worldwide in the next years.

KEYWORDS: Sukuk Market Development, GMM Estimation, Net Foreign Assets, Government Budget.

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1. Introduction

sukuk is one of the debt securities in the capital market that adheres to sharia standards (Purniaji and Sunarsih, 2022) and this have great potential to become an alternative funding instrument for corporate and state entities, as well as being the choice of a broader base of investors from both Muslim and non-Muslim communities (Basyariah et al., 2021). The market for worldwide sukuk has rapidly expanded in recent years, rising from USD 135.9 billion in 2013 to USD 196.5 billion in 2021. Despite 2020 being a difficult year, the sukuk market not only maintained its positive growth trajectory but also had the best year for sukuk issuances (Sirojiddin, 2023). This clearly establishes Sukuk as one of the key driving engines of the business. The abrupt shock brought on by the extensive COVID-19 epidemic and the instability in the world's oil price and output have greatly dampened the excitement, even if the sukuk market started with a relatively greater sukuk issuance in 2020 compared to 2019.

The pandemic has, however, given governments the chance to use sukuk as a substitute funding option to deal with a budget deficit. Multilateral financial institutions have taken the lead in this area, and the Islamic Development Bank (IsDB) has successfully issued its sustainability sukuk. Fitch Ratings says, Global sukuk issuance are likely to rise at a slow pace in 2023 amid market volatilities and remain a key funding source in core Islamic finance markets. Sukuk issuance from the core markets (including multilaterals) in 2022 fell 7.9% to USD 244.3 billion versus a year ago. This Challenges was due to higher oil prices (2023 forecast: USD85/barrel), rising rates (US policy rate 2023 forecast: 5%), geopolitical drivers and lower global investor interest in emerging-market debt, and political risk. However, it outpaced bond issuance in core markets, which fell 22.1% in the same period. The medium-to-long term outlook is positive amid intact Islamic investor demand, issuer refinancing needs, and government support in core markets. Despite the fact that a sizable body of study has concentrated on what drives the growth of the bond market, most prior studies on sukuk are theoretical and concentrate on their structures. This report makes an effective effort to explore the variables influencing the global sukuk market's explosive expansion. This research is the first to examine how the structure of sukuk is affected by the elementes of net foreign assets, Foreign direct investment and government budget. Additionally, this research is anticipated to serve as a resource for governments acting as regulators in initiatives to develop the Islamic economy and finance by raising the number of sukuk in various nations.

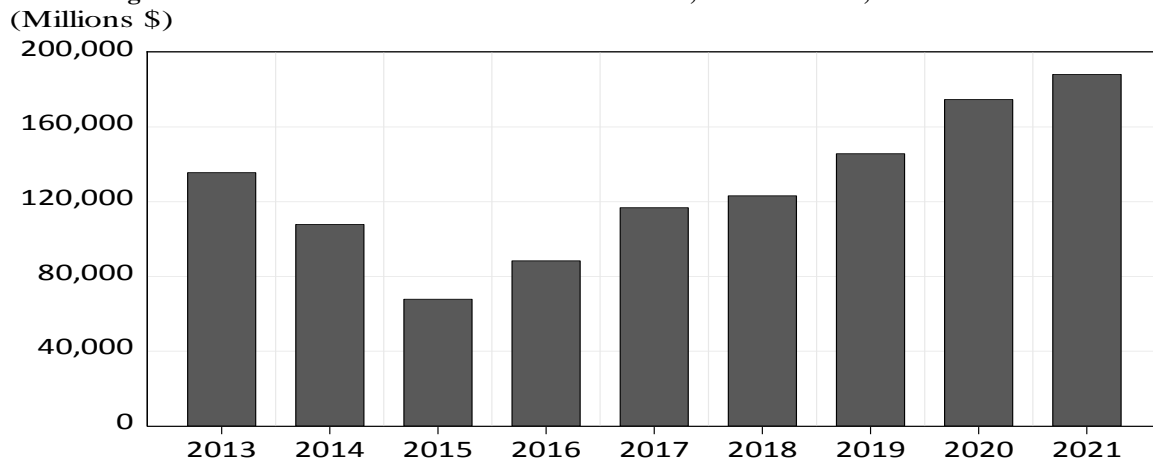
2. Literature Review

2.1 Islamic Instruments (Sukuk)

Sukuk are typically structured as asset-based securities rather than asset-backed securities. Due to their uniqueness as a participatory finance mechanism wholly backed by real assets and free of any speculation, sukuk are regarded as the finest vehicles for the development of the real economy. The industry has been utilised for both public and commercial projects, playing a significant role in the financing of infrastructure (Roslen, 2022). Sukuk is regarded as a

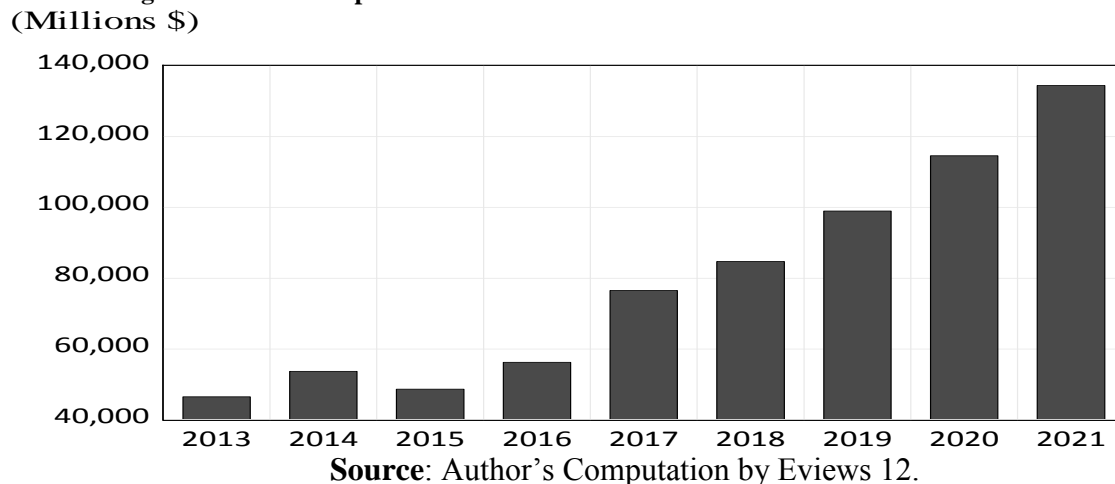
significant method for raising funds globally, in both Islamic and non-Islamic nations. The total global issuance of sukuk (long- and short-term) has increased by a single-digit amount, from USD 174.641 billion in 2020 to USD 196.5 billion in 2021, as shown in Figure 1. The centrepiece instrument of the Islamic capital market and one of the Islamic finance sector's fastest-expanding subsectors is the sukuk. Growth has been primarily fueled by increased issuance of sukuk for both funding governments' budget deficits and managing liquidity in various jurisdictions, in addition to the favourable financing conditions that have sustained the market. The creation of sukuk has also shown the sukuk sector's capacity for swift innovation and the creation of new prospects. The market for sukuk is predicted to rise dramatically, especially in light of the need for Islamic financial products from organisations and nations that are not Islamic, which will further the sector's expansion.

Figure 1. Total Global Sukuk Issuances - all Tenors, all Currencies, in USD Millions



In Figure 2 demonstrates that the core markets of Malaysia, Saudi Arabia, and the United Arab Emirates, as well as developing countries like Turkey and Indonesia, have been the main drivers of recent expansion in issuance. Sukuk has undoubtedly been the financial instrument that has helped the Islamic finance sector succeed.

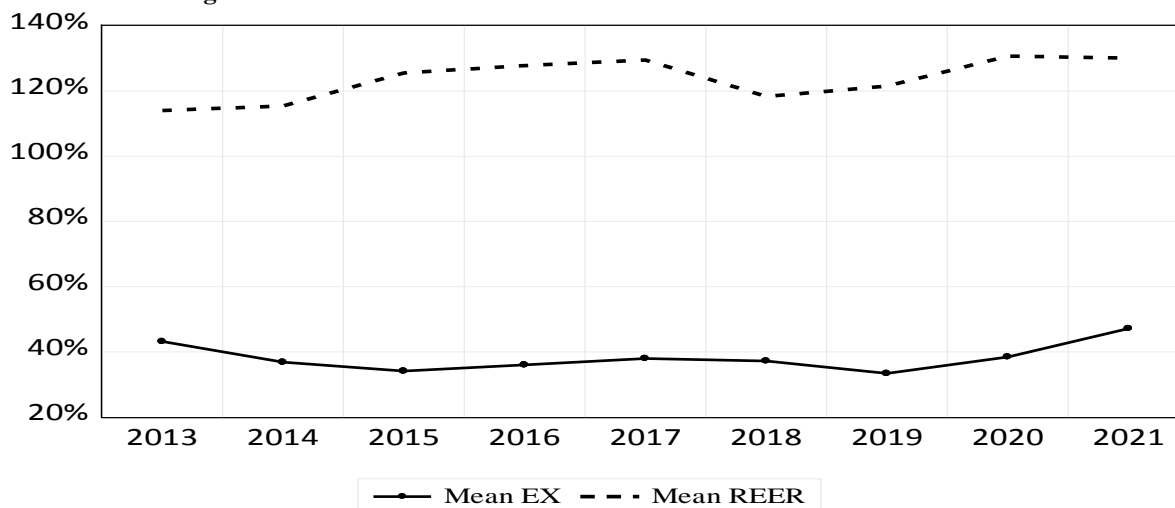
Figure 2. The Development of The Sukuk Issuance for 15 selected Countries in 2013-2021



2.2 Sukuk and exports of goods and services, foreign direct investment, real effective exchange rate

According to Rajan and Zingales (2003), banks would work to prevent the competition in the financial markets from eroding their market share. However, banks might not be able to stifle rival supply sources when the economy is exposed to more global competition through international trade. As a result, the ratio of exports to GDP may indicate that Sukuk markets develop more quickly in more open nations (Smaoui and Khawaja, 2017). Numerous studies have emphasised the significance of an economy's level of openness in affecting market development. The region is less dependent on the banking industry because of the capital market's larger investor base. Additionally, the ability for local and international investors to participate in bond financing is still available, which eliminates the issue of currency depreciation risk for the borrowers (Aman et al., 2019). The fact that the bond market is open does draw foreign investment, but there is no guarantee that the money will definitely be invested in bonds, which must be taken into account. The country's financial development is positively correlated with foreign investment. In particular, foreign investment inflows are strongly correlated with the growth of the bond market in the recipient nation (Bhattacharyay, 2013). Mishkin (1995) recognised the currency rate as one of the channels that are used as transmission mechanisms for monetary policy. Theoretically, exchange rates are one of the major elements influencing the sukuk market since they can alter aggregate supply and demand, which in turn affect the level of national output and prices. Due to the favourable firm valuation, an increase in overall output will have a beneficial influence on firm value and attract more businesses to issue Sukuk (Roslen et al., 2022). Figures 1 and 3's findings support Ahmad (2016)'s findings that more global sukuk issuance (in USD) in the years 2013 to 2021 is encouraged by higher REER values. Additionally, it can have an impact on the assets linked to the Sukuk issued. Figure 3 shows a favourable association between the development of the sukuk market and changes in exchange rates for the years 2013 to 2021.

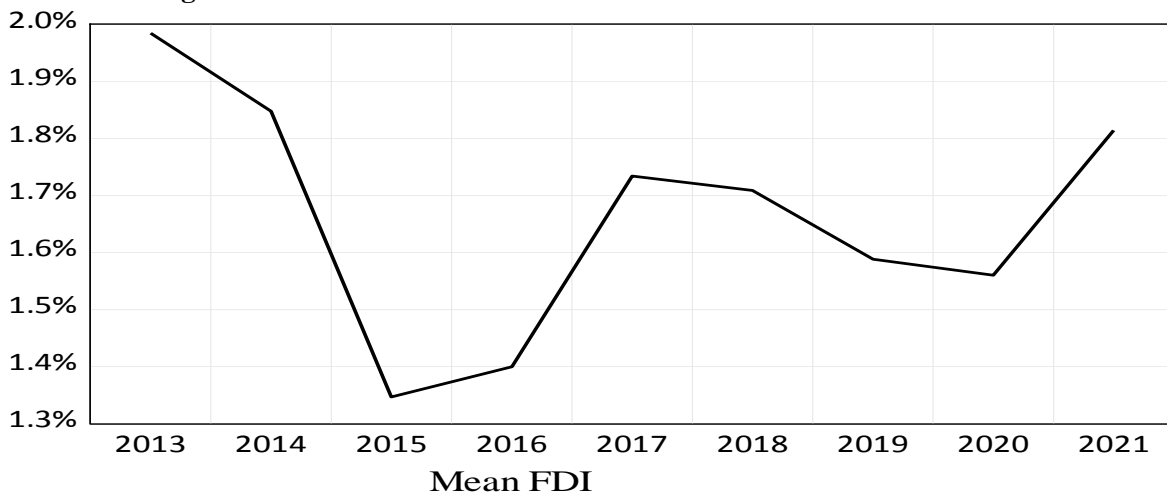
Figure 3. Trend line EX and REER for 15 selected Countries in 2013-2021.



Source: Author's Computation by Eviews 12

The effort put forth by different nations to entice FDI is because of the potential benefits to their economies. FDI would boost productivity, technological transfer, management skills, know-how, a worldwide production network, reduce unemployment, and provide access to markets outside of one's own country. FDI will continue to be important to developing nations until there are alternative sources of investment. The increase in productivity due to the effect on the price level will increase the real effective exchange rate and actually increase competitiveness that due to encourages greater Sukuk issuance. According to the Figure 4, FDI has been decreasing from 2013 to 2015 since the amount of Sukuk issued in those years has declined considerably and from 2015 to 2021, there has been an increasing trend in the selected countries. Which, according to Figure 2, indicates an increase in the issuance of sukuk.

Figure 4. Trend line FDI mean for 15 selected Countries in 2013-2021.



Source: Author's Computation by Eviews 12.

2.3 Sukuk and Gross Domestic Growth, Budget Deficit, Net Foreign Assets

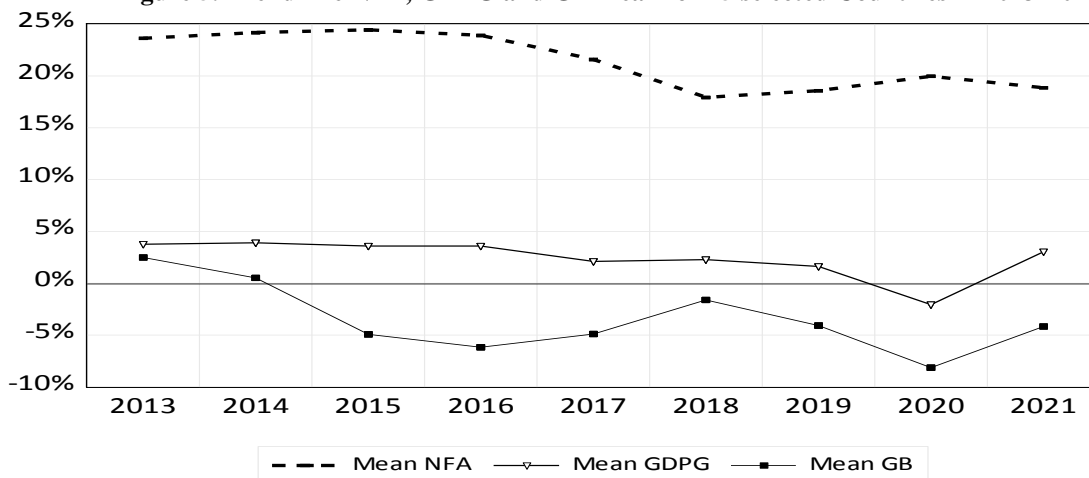
A certain improvement in economic growth will increase the interest of the public or investors in buying investment products in the capital market, according to Sukirno (2004), who also cites GDP annual growth as one of the macroeconomic indicators to determine the value of the output of goods and services produced by the country in one year (Roslen et al., 2022). The study Wardhana and Heru (2022) conducted on firm growth and the decision between a sukuk and bond perspective found that companies with strong growth rates rely more on external capital than they do on internal sources of funding. Factors that are inexpensive encourage businesses to borrow more money. The company will experience more unpredictability as a result of its rapid expansion rate. As a result, businesses will look for alternative sources of funding that carry less risk and expense. The corporation may choose to combine several financing sources in order to benefit from diversity. According to the findings of Basyariah et al. (2021), Khudari (2017), and Latifah et al. (2021), the gross domestic product significantly increased the demand for sukuk. It was observed that the expansion of Indonesia's sukuk market and economic expansion are causally related in both directions. In Malaysia, however, there is only a one-way relationship

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(one-directional causality), which means that economic progress leads to the creation of the sukuk market. The study's findings demonstrate a detrimental relationship between Malaysia's sukuk market expansion and national economic expansion, supporting the phenomenon known as the "flight to quality" in the Islamic financial sector. The financial market will become more volatile while the economy is in recession. In order to lower the risks involved, this will motivate investors to change their investments to safer products (Muharam et al., 2019). Investors frequently select investments with stable income in circumstances like this, such as bonds or sukuk. Research by Mustafa et al. (2015) and Durand et al. (2009) also supports this viewpoint. In many open-economy models of growth and business cycles, the level of net foreign assets is a crucial state variable (Lane and Milesi-Ferretti, 2001). The ratio of net foreign assets to GDP, also known as the net international investment position divided by GDP, is one of these metrics that is more important than others. Because the budget deficit will have a long-term effect on economic growth, the increase in net foreign assets also increases the monetary base and inflation, locks up a significant portion of bank resources, and increases the budget deficit (Esteve and Prats, 2022). As a result, issuing sukuk in conformity with Islamic law has had a good impact by helping to close a significant budget deficit, mobilising national savings, and funding infrastructure and investment projects, among other things (Hanane and Nouredine, 2021).

In Figure 5 plots the mean data of the countries (GB^1 , NFA^2 and $GDPG^3$) over GDP ratio in the period 2013-2021 and shows quite clearly a stylized fact: As a result, the economies' negative ratio of net foreign assets to GDP reduced over time. The nation's net lending position, the positive magnitude of valuation effects, and GDP growth supported these trends. Running current account surpluses for a considerable amount of time will be necessary to lower the negative net foreign assets to less susceptible levels.

Figure 5. Trend line NFA, GDPG and GB mean for 15 selected Countries in 2013-2021.



Source:

Author's Computation by Eviews 12

¹ Government Budget Deficit

² Net Foreign Assets

³ Gross Domestic Product Growth

2.4 Empirical Reviews

The sukuk market has continued to grow phenomenally, both in Muslim and non-Muslim countries. A few studies have contributed empirical data to the relevant literature. Ledhem (2022) will investigate the growth of the sukuk market and the financial soundness of Islamic banks. Is the outcome competitive or complementary? using the total number of sukuk holdings issued as a proxy for measuring sukuk market development in a dynamic panel system-generalised technique of Moment's model. Results indicate that the growth of the sukuk market has a favourable impact on the financial soundness of Islamic institutions.

In their study, Basyariah et al. (2021) looked at institutional approaches and macroeconomic stability. The study employs panel data for the years 2002 to 2017 and uses six institutional proxies, in addition to GDP per capita, exchange rate, and inflation as proxies for macroeconomic stability. The results of the data analysis utilising the gmm indicate that the development of sukuk is significantly influenced by GDP per capita and the presence of the rule of law.

Macroeconomic variables such as inflation, economic growth, money supply, foreign exchange rate, benchmark interest rate, and the evolution of the sukuk market were examined by Ependi and Thamrin (2020). According to the study's findings, the development of the sukuk market was unaffected by inflation, economic growth, the money supply, or benchmark interest rates. On the other hand, a substantial correlation between the foreign exchange rate and the expansion of the sukuk market was discovered.

Suciningtias (2019) used the Vector Error Correction Model (VECM) to analyse the effects of macroeconomic variables on the performance of sukuk in Indonesia between the years of 1998 and 2012. These variables included benchmark interest rates, inflation, exchange rates, changes in global gold and oil prices, and the exchange rate. The findings of this study show that variations in inflation, global gold prices, and currency rate fluctuations all have an impact on Indonesia's long-term change in sukuk return. While short-term factors such as past performance, the BI rate, currency rates, and gold prices affect sukuk performance, longer-term factors include other factors.

Smaoui and Khawaja (2017) conducted research on the institutional, financial, developmental, structural, and macroeconomic aspects that affect the development of the sukuk market. They discovered that these elements have a substantial impact on the development of the sukuk market.

3. Methodology and data

3.1 Data Types and Sources

The study collects annual data from 15 Sukuk issued countries of OIC member (Data are sourced from the World Development Indicators, Trading Economics, International Monetary Fund (IMF), and SESRIC databases for the countries of Bangladesh, Brunei, Indonesia, Iran, Jordan, Kuwait, Malaysia, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Turkey, and the United

Arab Emirates) for the years 2013–2021 (Table 1). It is noteworthy that the data on sukuk from annual statistics in this database have been available only since year 2013.

Table 1. Name of the Variables Applied, Descriptions and Data Sources.

Name	Definition	Source
EX	Exports of Goods and Services (% of GDP)	©IMF, 2022
GB	Government Budget Deficit (% of GDP)	Tread Economics: Summary
GDPG	Gross Domestic Product Growth (% of GDP)	WDI, 2022
REER	Real effective exchange rate (CPI-based)	©IMF, 2022
FDI	Foreign direct investment, net inflows (% of GDP)	©WDI, 2022
Sukuk (Sukuk Holdings)	Value of holdings of Islamic bonds, which represent shares in the ownership of tangible assets related to specific projects.	WWW.Sesric.org OICStat [2022]
NFA	Net Foreign Assets (% of GDP)	© WDI, 2022

3.2 Methodology

The analyze the data in this section is a dynamic model based on the method of generalized moments by Arellano and Bond (1991), which can eliminate the unobserved individual effect and then mitigate the possible endogeneity issue, serial correlation, and heteroskedasticity in residuals as stated by Bond (2002) and Roodman (2009). today it can be introduced as one of the widely used methods in the field of solving the problems of endogeneity of variables (Nichols and Schaffer, 2022). For the validity of the model estimated by the GMM method, conditions must be met: 1) the Sargan test using J-statistics is a crucial step in GMM testing (Yuan and Zeng, 2023). 2) Significance of first-order serial correlation of significant error sentences (AR (1) < 0.1) and absence of second-order serial correlation of error sentences (AR (2) > 0.1) (Babatunde and Olasunkanmi, 2023). the empirical model based on the dynamic panel data (including a lagged variable of the dependent) (Afonso et al, 2022). The following is the panel regression model used in this investigation:

$$SUKUK_{i,t} = \beta + \alpha_0SUKUK_{i,t-1} + \alpha_1GB_{i,t} + \alpha_2FDI_{i,t} + \alpha_3NFA_{i,t} + \alpha_4REER_{i,t} + \alpha_5RGDPG_{i,t} + \alpha_6EX_{i,t} + \varepsilon_{i,t}$$

Where $SUKUK_{i,t}$ is the Sukuk Market Development in percent of GDP as a dependent variable: Following Ledhem (2022), Yildirim et al. (2020), and Ledhem and Moussaoui (2021), this paper uses the total sukuk holdings as a variable for sukuk market development, $GB_{i,t}$ is the Budget Deficit in percent of GDP, $NFA_{i,t}$ is the Net Foreign Assets in percent of GDP, $FDI_{i,t}$ is the Foreign direct investment, net inflows in percent of GDP, $EX_{i,t}$ is Exports of Goods in percent

of GDP and Services and $GDPG_{i,t}$ is the Gross Domestic Product Growth in percent of GDP, $REER_{i,t}$ is the Real effective exchange rate (CPI-based); β is a constant, $\alpha_0 - \alpha_6$ is the coefficients of each independent variable, i, t denote time and country effects, respectively. It $\varepsilon_{i,t}$ is a disturbance term satisfying standard conditions of zero mean and constant variance.

4. Results and Discussion

4.1 Data Driven Stylized Facts

The results of descriptive statistics are displayed in the table 2 to provide details about the data utilised in this study: Within the research period (2013 to 2021) for the panel understudy, a maximum of 13.3% SUKUK, a minimum of 0.0009% SUKUK, and a -3.13% mean value of the budget balance are recorded. Additionally, the mean values of exports and FDI were 38% and 1.6%, respectively. GDPgrow varies between 11.35% and -8.85%, with a mean value of 2.42%. High kurtosis values (7.8, 17.8 and 9.6) for SUKUK, REER and GB respectively are indicative of the volatile nature to Selected Countries which motivates this study to explore the factors causing this volatility. The number of observations is data 135.

Table 2. Summary statistics Descriptive Statistics.

	SUKUK	REER	NFA	EX	GDPG	FDI	GB
Mean	1.8830	123.6279	21.44731	38.0712	2.4244	1.6641	-3.1319
Median	0.6514	119.9954	13.0537	34.0520	2.7585	1.3027	-3.7000
Maximum	13.3065	352.5945	103.1175	98.3424	11.3535	6.4927	33.8000
Minimum	0.0009	53.2085	-47.5595	0.45960	-8.8553	-2.7600	-22.5000
Std. Dev.	2.8748	34.7549	27.76821	25.9452	3.4449	1.6261	7.3017
Skewness	2.3104	2.8712	0.9447	0.617702	-0.4890	0.6084	1.5844
Kurtosis	7.8423	17.87165	3.9617	2.584485	3.1032	3.5075	9.6235
Sum	254.2065	16689.77	2895.387	5139.618	327.2960	224.7738	-422.8000
Sum Sq. Dev.	1107.404	161859.5	103323.9	90202.66	1590.314	354.3233	7144.093
Observations	135	135	135	135	135	135	135

Source: Author's Computation by Eviews 12

4.2 Correlation Matrix

The correlation coefficients for the explanatory variables utilised in our primary regression models are displayed in Table 3. all variables' variance inflation factors (VIF) values are below the benchmark value of five, indicating no multicollinearity issues (final column). Overall, these statistics indicate that the projected parameters would be accurate, reliable, and effective.

Table 3. Correlation tests.

Variables	SUKUK	REER	NFA	EX	GDPG	FDI	GB	vif
SUKUK	1.0000	-0.1857	-0.2277	0.4120	-0.1260	-0.0635	0.1954	2.13
REER	-0.1857	1.0000	-0.0911	-0.3193	-0.0030	-0.2258	-0.0878	1.25
NFA	-0.2277	-0.0911	1.0000	0.3682	-0.2333	0.1746	-0.1227	2.06
EX	0.4120	-0.3193	0.3682	1.0000	-0.0991	0.3038	0.3296	2.51
GDPG	-0.1260	-0.0030	-0.2333	-0.0991	1.0000	-0.0005	0.0998	3.54
FDI	-0.0635	-0.2258	0.1746	0.3038	-0.0005	1.0000	-0.1539	3.21
Gb	0.1954	-0.0878	-0.1227	0.3296	0.0998	-0.1539	1.0000	1.26

Source: Author's Computation by Eviews 12

4.3 Unit Root Tests

Stable tests for the variables must be carried out prior to estimating the model. If the variables are non-stationary, spurious regression may happen (Das et al., 2023). To test the stationarity of the study variables, Levin-Lin-Chu unit root tests (Levin et al., 2002) were carried out.

Table 4. Levin-Lin-Chu Unit-Root Tests.

Variables	Statistic	Prob	Result
SUKUK	-6.1790	0.0000	I(0)
GB	-6.7015	0.0000	I(0)
FDI	-2.8312	0.0023	I(0)
REER	-11.1975	0.0000	I(0)
GDPG	-3.2123	0.0007	I(1)*
EX	-7.1962	0.0000	I(0)
NFA	-2.2189	0.0132	I(0)

Source: Author's Computation by Eviews 12. * at 1st Difference

Table 4's findings demonstrate that all of the variables under examination are non-stationary (with the exception of the gdp variable, which is stationary at the first difference). Thus, there is no systematic change in the mean and variance of variables across time.

5. Regression results

Table 5 shows that variables SUKUK (-1), GB, NFA, and FDI have P-values that are significant at the 1% level, while variables REER and EX have P-values that are significant at the 10% level. The P-value of GDPG is 0.0217, suggesting that it is significant at the 5% level.

Table 5. GMM results.

Variable	Coefficient	t-Statistic	Prob
SUKUK(-1) _{i,t-1}	0.59932*	10.9929	0.0000
GB _{i,t}	-0.08808*	-5.77779	0.0000
NFA _{i,t}	-0.06078*	-5.44225	0.0000
FDI _{i,t}	0.10594*	2.75576	0.0007
REER _{i,t}	0.00125***	1.90394	0.0599
EX _{i,t}	0.00833***	1.93154	0.0563
GDPG _{i,t}	-0.06061**	-2.33242	0.0217
J-statistic		8.990344	
Prob(J-statistic)		0.343111	
Instrument rank		15	

Note: *,**, and *** represent significance at 1%, 5% and 10% level, respectively

SURCE: Author's Computation by Eviews 12

According to the study's findings, the growth of the sukuk market is negatively impacted by the budget deficit. So, when the budget deficit rises by 1%, sukuk will fall by 0.08%. Different government policies have an impact on domestic investment decisions. If the budget deficit rises, it could have a negative impact on the economy, particularly if there is high inflation, a weak national currency, and rising interest rates. As a result, investments in sukuk securities may suffer, and the number of sukuk issues may decline. This outcome is in line with what Hanane and Nouredine (2021), Baita et al (2023), and Aman et al (2019) have discovered. According to Table 5's findings, variables NFA and GDPG have a negative impact on the growth of the sukuk market, decreasing sukuk by 0.06% for every 1% increase in these variables. Research by Muharam et al. (2019) and Wardhana and Heru (2022) is also in favour of this claim. On the other hand, studies by Smaoui and Khawaja (2017) and Said and Grassa (2013) demonstrated that economic growth has a favourable impact on the development of the sukuk market.

The additional findings, shown in Table 5, show that EX and FDI have a strong beneficial impact on the growth of sukuk, as shown by the positive coefficient values. Sukuk might rise by 0.10 percent for every unit increase in FDI. Results also indicate that EX significantly and favourably affects the growth of sukuk that a 1% increase in EX will increase sukuk by around 0.008%. Trade openness, according to Said and Grassa (2013), has a favourable and considerable impact on the growth of the sukuk market. These findings demonstrate that nations with lower levels of trade openness continue to be more reliant on established bond markets for their financial funding needs. An economy that tends to be more open will have a more developed stock market and sukuk market because an economy with a high level of openness will have easier access to

overseas finance from foreign investors. Accordingly, it will accelerate the growth of the sukuk market and the Islamic stock market, as demonstrated by earlier theoretical research by Adelegan and Radzewicz-Bak (2009) and Muharam et al. (2019). Accordingly, we predict that the sukuk market will expand more in an open economy. The real effective exchange rate is the other element that significantly influences the growth of sukuk issuance. This result is consistent with earlier studies by Suriani et al. (2021) and Roslen et al. (2022), who discovered a large unidirectional causality travelling from exchange rate to sukuk market. The findings add to the growing body of literature on Islamic finance, particularly with regard to the crucial elements involved in the growth of sukuk on the international market.

5.1 Sargan test

The Sargan test shown in Table 6, which further supports the conclusion that all instruments are exogenous (p-value is insignificant: $Pr > \chi^2 = 0.53$). As a result, all GMM instruments are valid in accordance with Arellano and Bond's (1991) criteria.

Table 6. Sargan test.

	Value
pval	0.52841

Source: Author's Computation by Eviews 12

5.2 Wald Test

The Wald test is a way to determine whether the explanatory variables in a model are significant, meaning that they add explanatory power to the model; variables with no explanatory power can be deleted without affecting the model in any meaningful way (Rajarithinam and Anju, 2023). According to the Wald test results presented in Table 7, the hypothesis that all coefficients are zero is rejected at a 1% significance level; thus, the validity of the significance of coefficients is confirmed, meaning that they add explanatory power to the model.

Table 7. Wald Test.

Test Statistic	Value	df	Probability
F-statistic	660273.7	(7, 98)	0.0000
Chi-square	4621916.	7	0.0000

Source: Author's Computation by Eviews 12

5.3 Arellano-Bond Serial Correlation Test

Table 8 shows the absence of panel serial correlation on the first-order AR (1) ($Pr > Z = 0.072$) and second-order AR (2) ($Pr > Z = 0.936$) based on the Arellano–Bond test.

Table 8. Arellano-Bond Serial Correlation Test.

Test order	m-Statistic	Prob
AR(1)	-1.795442	0.0726
AR(2)	-0.080114	0.9361

Source: Author's Computation by Eviews 12.

6. Conclusion

This study looks into the factors that affect the growth of the sukuk market for a sample of 15 Sukuk-issuing countries between 2013 and 2021. although, Sukuk issuance faces hurdles like higher issuance costs, time-to-market and complexity compared with bonds and bank loans, and standardisation gaps, but The global Sukuk market closed the year 2021 with a yet another new record issuances and the growth rate of long term issuances slightly exceeded the growth of short-term issuances. The year closed at an increase of around 7.72% (USD 188.12 billion) where the main factors for this growth trajectory were continuation of economic stimulus measures implemented by the governments. overall, the findings this paper indicate that the growth of the sukuk market is driven by a complex interplay of factors.

The empirical finding from the GMM model demonstrates that increasing sukuk levels in some nations are significantly impacted by REER, EX, FDI, and large GB, NFA, GDPG depreciation. Depreciation in the budget deficit causes governments to issue more sukuk as a result of a growth in the deficit, which has a significant impact on debt dynamics. Then, in a few nations, a falling trend in economic growth manifests itself as a large and unfavourable influence on the expansion of the sukuk market. The outcome of evaluating the effect of NFA depreciation on rising sukuk issuance in those nations demonstrates that the ratio of negative net foreign assets to GDP is one of the major economic vulnerabilities of those countries. While it will be necessary to lower the ratio of the nation's net foreign assets to GDP to less precarious levels, The real effective exchange rate and exports of goods and services also have a positive and significant impact on the countries' escalating sukuk issuance, which suggests that an increase in the real effective exchange rate index can be caused by a decrease in the value of the national currency or an increase in the nominal exchange rate. This will actually increase competitiveness, and exports were found to have a significant and positive influence. This result can be explained by the fact that Shari'a Law serves as the foundation for Islamic finance; as a result, governments that accept Shari'a Law are more motivated to growth the Islamic financial sector. In order to encourage the growth of the local sukuk market, the concerned policymakers will therefore need to create the ideal climate for the attraction of sufficient foreign capital. In a similar vein, the government and other relevant authorities will need to control economic and financial variables appropriately to create an environment that will support the expansion of the sukuk market.

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CONFLICT OF INTEREST

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