



**THE INFLUENCE OF MACROECONOMIC VARIABLES
TOWARDS THE ISSUANCE OF ISLAMIC DEBT SECURITIES**

**HAYATI BT. MORSHIDI
2000241554**

**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
(FINANCE)
FACULTY OF BUSINESS AND MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SAMARAHAN CAMPUS**

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ABSTRACT

The bond market is encouraged by the impending increase in Private Debt Securities (PDS) issuances especially the Islamic Debt Securities. Islamic Debt Securities (IDS) in general is known as Islamic bond. Macroeconomic variables (inflation rate, interest rate and GDP) are the factors that might influence the growth of IDS. Issuance of IDS means the total amount of Islamic bond approved by the Securities Commissions. This study is focusing on the influence of macroeconomic variables towards the issuance of IDS.

IDS is considered quite new in our bond market. The Malaysian Debt Market, stated that Malaysia's bond market has increasingly demonstrated growing liquidity, reflective of the development in the capital markets. Also, within Malaysia's debt capital market has been the advent of Islamic debt. The Malaysian bond market grew steadily prior to 1998.

With further support and encouragement expected from the Government in turning Malaysia into an Islamic capital market centre, the prospects for IDS growth in Malaysia remain bright by the Government's pump-priming efforts via increasing its development expenditure for infrastructure and utilities.

It has been found that the GDP had the most influencing towards the issuance of IDS and followed by inflation rate. The interest rate was found to have the least influence towards the issuance of IDS. In other words, most of the element of the macroeconomic variables were having certain influence towards the issuance of IDS

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CHAPTER ONE

1.0 Introduction

The Islamic Capital Market

¹The Islamic Capital Market (ICM) is part of the Islamic financial system which includes Islamic banking and Islamic insurance or *takaful*" (*The Islamic Capital Market*, 2005). The development of the ICM further expands *Syariah*-based economic activities required to meet the increasing need of the Islamic community for *Syariah*-based products. The ICM in Malaysia today exists concurrently with the conventional capital market and uses the same market infrastructure.

The components and activities of the ICM are based on the Islamic law or *Syariah* which is derived from reliable sources recognized by the *fiqh ulama* (*Islamic Banking*, 2006). Components and activities - products, instruments and operations - of the ICM must be carried out in accordance with *Syariah* principles. To ensure the accordance with the *Syariah* principles, the role of *Syariah* advisers, such as the knowledgeable and experienced *ulama* in the field of *fiqh muamalat* (Islamic finance) is crucial for establishing a level of confidence among the market participants, especially amongst Muslims.

Malaysia offers a holistic set of ICM infrastructure ranging from products, stockbrokers, trust funds and debt securities (bonds). Presently, there is one full-fledged Islamic stockbroking company with 3 other conventional stockbroking companies that provide

¹ On the Islamic Capital Market Concept, see Securities Commission Report pp 14-18. (2003).