



UNIVERSITI TEKNOLOGI MARA

**THE IMPACT OF ECONOMIC VARIABLES ON
SUKUK MARKET DEVELOPMENT**

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Final Year Project submitted in fulfilment of
the requirements for degree of
Bachelor of Business Administration (Hons)
Investment Management

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

The purpose of this study aimed to explore the role of macroeconomic factors on the growth of the sukuk market. This study used panel data from the World Development Index as proxies for macroeconomic stability, such as GDP per capita, exchange rate, and inflation. The development of sukuk was measured by using a proxy for sukuk issuance in the International Islamic Financial Market (IIFM), from the year 2004 to 2020. Total of 3 countries which had the most Sukuk issuers have been chosen out of 32 countries namely: Malaysia, Kingdom of Saudi Arabia, and Indonesia. The data was analysed using Pooled Ordinary Least Square (POLS) and the results showed a significant impact on GDP per capita and Exchange Rate towards the Islamic instruments. However, the inflation found not to affect the sukuk market development.

Keywords: Macroeconomic growth, GDP per capita, Exchange rate, Inflation, IIFM

ACKNOWLEDGEMENT

First and foremost, I would like to express my gratitude to Allah S.W.T. for providing me with the chance to pursue my research studies and successfully finishing this long and difficult trip. Nonetheless, it would not have been accomplished without the kind support and assistance from many people. I'd would like to express my heartfelt gratitude to each one of them.

I would also like to express my gratitude towards my advisor, **Madam Rabiatul Alawiyah Binti Zainal Abidin**, and **Madam Yuslizawati Mohd Yusoff**, the programme coordinator, as I'd be lost without her constant supervision and advice. She has provided me with all the essential information on the methodology and any potential project errors.

Not to forget, my beloved family members, friends, and lecturers for their support, direct or indirectly in completing this research.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Sukuk is an Islamic financial instrument that aids in the growth of a country's economy. This product, which is comparable to a bond in Western finance, complies with Islamic law known as Sharia. Sukuk has a lot of potential to become a widespread investment choice for both Muslim and non-Muslim investors, as well as an alternative funding mechanism for enterprises and governments. According to Kesuma & Silver (2020) and Thomson Reuters (2018), the sukuk market represents the second-largest Islamic finance industry component after Islamic banking.

Sukuk offers a lot of benefits to both commercial and public businesses. It is a type of debt instrument used by international development organisations and governments to generate funds. Sukuk's funds try to raise money in conformity with Islamic legal pronouncements and maqasid al-shari'ah. Investor and originators gain access to capital market, alternative and diversified financing sources, risk reduction options and perhaps tax relief on capital from lower cost of funds due to higher ratings.

The growth of the sukuk market has been bolstered by the intervention of eight non-member countries of the Organization of Islamic Cooperation (OIC) that are interested in issuing sukuk in the global market: France, Germany, Luxembourg, the United Kingdom, Singapore, Hong Kong, and the United States (Smaoui & Ghouma, 2020).

To illustrate, the French government issued sukuk in December 2007 to boost the importance of Paris Euro place as a financial centre. They began by granting two positions that allow Shariah-compliant investment funds and sukuk listings to be listed. In addition, the University Bank, which was advised by Linklaters LLP, issued the first sukuk in the United States.