

CHAPTER II

LITERATURE REVIEW

A. Theories

1. Capital Market

The capital market is a place for parties, especially companies to sell shares (stocks) and bonds (bonds) which aims to obtain sales results to be used as additional funds or to strengthen company capital (Irham Fahmi, 2013). According to Law No. 8 of 1995 concerning Capital Market Article 1 Paragraph (12) is activities related to securities trading and public offerings, companies relating to their issued securities, as well as institutions and professions related to securities. The capital market is a meeting place for prospective investors (investors) with issuers who need long-term funds that are transferable (Suad Husnan, 1996).

New securities issued by the company are sold in the primary market. Newly sold securities can be in the form of an initial public offering (IPO) or additional new securities if the company has gone public (this additional security is often called seasoned new issues). Furthermore, securities that have been circulating are traded in the secondary market (secondary market). Other types of capital markets are the third market and the fourth market. The third market is the securities trading market when the second market closes. The third market is run by a broker who meets buyers and sellers when the second market closes. The fourth market is a capital market that is

carried out among large capacity institutions to avoid commissions for brokers (Jogiyanto, 1998: 13).

The role of the capital market is to provide facilities to move funds, especially for long-term financing, from those who have funds or lenders to companies that need funds or borrowers. Usually in carrying out capital market activities using brokerage services and underwriters (Munir Fuady, 2005: 52).

2. Sharia Capital Market

The Islamic capital or sharia capital market is a capital market that applies sharia law in economic transaction activities and regardless of things that are prohibited such as: usury, gambling, speculation and others. Islamic capital markets are in principle different from conventional capital markets. The Islamic capital market is a capital market whose entire mechanism of activity is mainly concerning issuers, the type of securities traded and the trading mechanism is in accordance with sharia principles (Soemitra, 2014: 111).

According to Law-Undang Capital Market No. 8 of 1995, capital markets are activities concerned with public offerings and securities trading, public companies relating to securities issued, and institutions and professions related to securities. The principle of Islamic capital market instruments is different from conventional capital markets. Stocks traded on the Islamic capital market must come from issuers that meet sharia criteria. The issued bonds must use sharia principles, such as mudharabah, musyarakah, ijarah, istishna ', salam, and murabahah. In addition to Islamic stocks and

bonds, which are traded on the Islamic capital market, Islamic mutual funds are a mixed investment facility that combines Islamic stocks and bonds in a single product managed by an investment manager.

3. Function of sharia capital market

According to M. Metwally as stated by Heri Sudarsono, mentioning there are five functions of the Islamic capital market. The five functions of the Islamic capital market are as follows (Sudarsono 2007: 186):

- a. Allows the community to participate in business activities by obtaining a share of the profits and risks.
- b. Allows shareholders to sell their shares to get liquidity.
- c. Allows companies to increase capital from outside to build and develop their production lines.
- d. Separating business operations from short-term fluctuations in stock prices which are a common feature of conventional capital markets.
- e. Enabling investment in the economy is determined by the performance of business activities as reflected in stock prices.

From the functions of the Islamic capital market above, it is known that the existence of the Islamic capital market is very useful in order to improve the economic activities of Muslims and can further improve their welfare.

4. Sharia Capital Market Instruments

In a transaction on the market there are usually goods or services that are traded. Likewise in the capital market, goods traded are called capital market instruments. Capital market instruments that are traded are in the form of securities that can be bought and sold back by their owners, both capital market instruments that are ownership or debt. Ownership capital market instruments in the form of shares and debt nature are bonds (Kasmir, 2004: 194-195).

The Islamic capital market instrument is different from conventional capital market instruments. A number of Islamic instruments in the capital market have been introduced to the public. Shares that meet the criteria of sharia are shares issued by companies engaged in businesses that are in accordance with sharia. The capital market instruments traded in the conventional capital market are securities such as stocks, bonds (Kasmir, 2004: 195-198). While the instruments that are marketed in the Islamic capital market are stocks, Islamic bonds and Islamic mutual funds (Sholahuddin, 2006: 163).

5. Sharia Obligations (SUKUK)

In the capital market, bonds are debt instruments for companies that want to obtain capital. The benefits of buying bonds are realized in the form of coupons. The difference between bonds and shares is that bond buyers have no rights to the management and wealth of the company.

The company that issued the bonds only acknowledged having a debt to the bondholders as much as the bonds they had. Thus, bonds are included in the category of foreign capital or long-term debt. The debt will be paid at a predetermined time.

Capital traded in the capital market is capital which when measured in terms of time is long-term capital. Therefore, for an issuer it is very profitable because the payback period is very long, both ownership capital and debt. Ownership capital returns are relatively longer than debt capital. The first type of capital is the period of return until the company concerned is closed (Kasmir, 2004: 194).

The owner of this type of capital can sell it to other parties if he needs funds or has no longer wanted to be a shareholder. Whereas debt capital, the time period is faster or limited in a certain time. This share owner can also sell it back to other parties if he needs funds or has no longer wanted to be a shareholder (Kasmir, 2004: 194).

Bonds in the Islamic capital market are different from bonds in conventional capital markets. Bonds in conventional capital markets are a type of financial product that is not justified by Islam because it uses the interest system. According to Muhammad al-Amin stated by Sholahuddin, that Islamic bond instruments can be issued using the principles of mudharabah, musyarakah, ijarah, istishna ', salam, and murabahah. By using these principles, Islamic bonds become dependent on which principles the issuer uses (Sholahuddin, 2006: 163).

6. Sukuk Characteristic

According to Fatah (2011), there are several characteristics of sukuk, namely:

- a. Sukuk is proof of ownership of an intangible asset or beneficial title.
- b. Income in the form of rewards (coupons), margins, and profit sharing, according to the type of contract used.
- c. Free from the elements of usury, gharar, and maysir.

- d. Issuance through special purpose vehicle (SPV).
- e. Requires an underlying asset.
- f. The use of proceeds must be in accordance with sharia principles.

According to Sudaryanti et al (2011), in the supervision system sukuk is not only supervised by the Trustee but also supervised by the Sharia Supervisory Board under the auspices of the Indonesian Ulema Council. The supervision is carried out from the beginning of the publication until the end of the publishing period. With the implementation of the monitoring system, the principle of prudence and the principle of protection to sukuk investors will be more secure.

When compared to conventional bonds, sukuk requires an instrument of participation in assets, while bonds are a contract for debt where the issuer must pay the bond holder at a certain time, at the same time with interest and principal. The differences that arise between sukuk and conventional bonds on the underlying asset are used. In sukuk, underlying assets are needed as a guarantee that sukuk issuance is based on the same value as available assets. The table below shows the difference between sukuk and conventional bonds (Sudarsono, 2008: 298).

According to Adam and Thomas (2004), sukuk have general characteristics that make it have the same quality as other conventional financial products, namely:

- a. Can be traded (Tradable). Sukuk represents the actual owner of a clear asset, asset benefits, or business activities, and can be traded according to market prices.
- b. Can be rated (Rateable). Sukuk can be rated by rating agencies, both regional and international.
- c. Enhanceable. In addition to underlying assets or business activities, sukuk can be guaranteed by other guarantees based on sharia principles.
- d. Legal Flexibility. Sukuk can be structured and offered nationally and globally with different tax treatment.
- e. Can be redeemed (Reedamable). The structure of the sukuk allows it to be redeemed.

7. Types of Sukuk

- a. In terms of the Contract Aspect

According to Sudarsono (2008: 301), based on the Shariah Standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), sukuk are divided into nine types, namely:

- I. Sukuk Ijarah. Sukuk Ijarah is the contract of transfer of usufructuary rights to goods or services, without being followed by the transfer of ownership of goods or services themselves. Sukuk Ijarah is a sukuk issued based on the ijarah agreement.

Sukuk Ijarah consists of; sukuk ownership of tangible assets leased, sukuk ownership benefits and sukuk ownership services.

- II. Mudharabah Sukuk. Sukuk Mudharabah is a sukuk issued based on an agreement or mudharabah agreement where one party provides capital (rab al-maal) and the other party provides energy and expertise (mudharib), the benefits of such cooperation will be divided based on previously agreed comparisons. Losses incurred will be borne entirely by those who are providers of capital.
- III. Sukuk Salam. Salam sukuk is a sukuk issued with the aim of obtaining funds for capital in the greeting contract, so that the goods to be provided through the salam contract are the property of the sukuk holder.
- IV. Musyarakah Sukuk. Sukuk Musyarakah is sukuk which is issued based on a musyarakah agreement or contract where two or more parties work together to combine capital to build a new project, develop an existing project, or finance business activities. Gains and losses incurred are borne together in accordance with the amount of capital participation of each party.
- V. Sukuk Istishna. Istishna Sukuk is a sukuk issued under an agreement or contract wherein the parties agree to buy and sell in the context of financing a project / item. The price, delivery

time, and specifications of the project / item are determined in advance based on the agreement.

- VI. Murabaha Sukuk. Murabaha Sukuk is sukuk which is issued based on the principle of buying and selling, the issuer of the sukuk certificate is a commodity seller, while the investor is the buyer of the commodity.
- VII. Sukuk Wakalah. Sukuk Wakalah is a sukuk that represents a project or business activity managed under a wakalah contract, by appointing a certain agent (representative) to manage the business on behalf of the sukuk holder.
- VIII. Sukuk Muzara'ah. Sukuk Muzara'ah is a sukuk issued with the aim of obtaining funds to finance agricultural activities based on the muzara'ah contract, so that sukuk holders are entitled to a portion of the harvest according to the provisions of the agreement.
- IX. Sukuk Musaqah. Musaqah Sukuk is a sukuk issued with the aim of using sukuk issuance funds to carry out irrigation activities on fruiting plants, paying for the operational and maintenance costs of the plant based on the musaqah agreement, thus sukuk holders are entitled to the portion of the harvest according to agreement.

b. In terms of issuance sided

Based on the source of its issuance, sukuk is divided into two types, namely:

- I. Corporate sukuk is a type of Islamic bond issued by a company that complies with sharia principles. In the issuance of corporate sukuk there are several parties involved, namely:
- II. Obligor is an issuer that is responsible for the payment of compensation and nominal value of sukuk issued until the sukuk is due.
- III. Trustee to represent the interests of investors.
- IV. Investors as sukuk holders have the right to compensation, margin and nominal value of sukuk according to their respective participation.
- V. State Sharia Securities (SBSN). State Sharia Securities, here in after abbreviated as SBSN, or can be called state sukuk, are state securities issued based on sharia principles, as proof of the share of SBSN assets, both in rupiah and foreign currencies.

c. In terms of revenue sharing

Based on the distribution or income of the results, there are three types of sukuk, namely as follows (Nafik, 2009: 246):

- I. Margin sukuk, which is a sukuk whose payment of income comes from the profit margin of the sale and purchase contract,

this sukuk consists of sukuk murabahah, sukuk salam, istishna sukuk.

- II. Sukuk fee, which is a sukuk whose payment of income is fixed because it comes from fixed income from rent or fee, namely sukuk ijarah.
- III. Profit sharing sukuk, which is sukuk, whose payment of income is based on profit sharing from the results obtained in carrying out the funded business, namely sukuk mudharabah and sukuk musyarakah..

d. In terms of the share of assets

Based on the asset base, there are two types of sukuk, namely:

- I. Sukuk assets, namely financing based on assets, including sukuk salam such as in financing agricultural production, istishna sukuk 'such as building and housing construction projects or other infrastructure, sukuk murabahah such as trade business financing, financing of raw materials for production and sukuk ijarah, for example leasing.
- II. Sukuk equity or sukuk equity, namely financing based on equity participation. Sukuk which are included in the sukuk equity are mudharabah sukuk or better known as business financing or sukuk musyarakah or known as joint venture.

8. Inflation

Inflation is the tendency of general prices to rise continuously. The price increase of just one or two items is not called inflation, except if the increase extends to (resulting in an increase) most of the price of other goods (Boediono, 1997: 97).

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The following are some notions of inflation from several reference sources:

- a. According to Sukirno (2004: 333), inflation is an increase in the price of goods and services, which occurs because demand increases larger than the supply of goods on the market.
- b. According to Khalwati (2000: 5), inflation is a situation where there is a sharp increase in prices (absolute) which takes place continuously in a long enough period of time followed by a decline in the real value (intrinsic currency of a country).
- c. According to Asfia Murni (2006: 202), inflation is an event that shows an increase in the price level in general and continues over time.
- d. According to Putong (2003: 147), inflation is a rise in prices in general due to the synchrony between the commodity procurement

program (production, price determinant, money printer, etc.) and the level of income owned by the community.

The increasing price of each item does not need to be the same (both absolute and percentage). Similarly, the timing of the increase does not need to be the same. What is important is the increase in the general price of these goods occurs continuously for a certain period. Price increases can be measured using a price index. Some price indices that are often used to measure inflation are the consumer price index, the wholesale price index, the GNP deflator (Nopirin, 2000: 25).

Based on the results of the price index measurement, inflation is divided into four levels, namely (Boediono, 1998: 162):

- a. Low inflation : < 10 % per year
- b. Mid inflation : 10 – 30 % per year
- c. Heavy inflation : 30 -100 % per year
- d. Hyperinflation : 2 100 % per year

9. Causes of Inflation

According to Bank Indonesia, inflation can be caused by the following three things:

- a. Attractive Demand (demand pull inflation). This inflation arises when aggregate demand increases faster than the productive potential of the economy

- b. Cost-push inflation. This inflation arises because of the exchange rate depreciation, the impact of foreign inflation, especially countries of trading partners, increases in prices - administered prices, and negative supply of shock due to natural disasters and disruption of distribution.
- c. Inflation Expectation. This inflation is influenced by the behavior of the community and economic actors whether it is more likely to be adaptive or forward looking. This is reflected in the behavior of price formation at the producer and trader level, especially in the lead up to religious holidays and the determination of regional minimum wages.

10. The Impact of Inflation

The impact or consequence of inflation is as follows (Asfia Murni, 2006: 206):

- a. Inflation will reduce the real income received by society and this is very detrimental to people who earn a fixed income.
- b. Inflation has a negative impact on the balance of payments, because declining exports and rising imports have caused an imbalance in the flow of funds into foreign countries.
- c. In times of uncertainty (inflation), the owners of capital are more likely to invest in the form of purchasing land, houses and buildings. This transfer of investment causes productive investment activities to decrease and economic activity to decline.

- d. When production costs increase due to inflation, this will be very detrimental to employers and this causes investment activities to shift to less activities to encourage national products.
- e. Inflation will reduce the value of wealth in the form of money. Like community savings in banks the real value will decrease.

11. Exchange Rate

The price of one currency against another is called the exchange rate or exchange rate. Exchange rates describe the price of a currency against another country's currency, also the price of an asset or asset price. Exchange rate is one of the important things in an open economy, because it has a very large influence on the current account balance and other macroeconomic variables.

The following are some of the meanings of exchange rates from several book sources:

- a. According to Nopirin (1996: 163), the exchange rate is the exchange between two different currencies, it will get a comparison of the value / price between the two currencies.
- b. According to Krugman (1999), the exchange rate or exchange rate is a currency of a country that is measured or expressed in other currencies.
- c. According to Todaro (2000), the exchange rate is a level, tariff, price at which the Central Bank is willing to exchange currencies from a country with currencies from other countries.

- d. According to Samuelson (2001: 620), foreign or foreign exchange rates are prices of foreign currencies in domestic currency units.

12. Type of Exchange Rate

Exchange rates or currency exchange rates in various transactions or buying and selling consist of four types, namely (Fischer, 1992):

- a. Selling Rate, which is the rate determined by a bank for the sale of certain foreign currencies at a certain time.
- b. Middle Rate, is the middle rate between the selling rate and the buying rate Foreign exchange against the national currency, which is determined by the central bank at any given time.
- c. Buying Rate, is the rate determined by a bank to purchase certain foreign currencies at a certain time.
- d. Flat Rate, is the exchange rate prevailing in the sale and purchase transactions of bank notes and traveler cheque, in which the rate of promotion and other costs are taken into account.

13. Exchange Rate System

According to Kuncoro (2001: 26-31), there are several exchange rate systems that apply in the international economy, namely:

- a. Floating rate system

This exchange rate system is determined by the market mechanism with or without stabilization efforts by the monetary authority. In the system of

floating exchange rates, there are two kinds of floating exchange rates, namely:

- I. Floating freely (pure) where the exchange rate is fully determined by the market mechanism without any government interference. This system is often called the clean floating exchange rate, in this system foreign exchange reserves are not needed because the monetary authority does not attempt to determine or manipulate the exchange rate.
- II. Floating controlled (managed or dirty floating exchange rate) where the monetary authority plays an active role in stabilizing the exchange rate at a certain level. Therefore, foreign exchange reserves are usually needed because the monetary authority needs to buy or sell foreign exchange to influence exchange rate movements.

b. Pegged exchange rate

In this system, a country associates the value of its currency with a currency of another country or a group of currencies, which is usually the currency of a trading partner whose main tether to a currency means that the value of the currency moves to the currency that is the anchor. So actually the tethered currency does not fluctuate but only fluctuates against other currencies following the currency that is the mooring.

c. Crawling pegs

In this system, a country carries out a slight change in the value of its currency periodically in order to move towards a certain value in a certain time period. The main advantage of this system is that a country can adjust its exchange rate adjustments over a longer period than the exchange rate system. Therefore, this system can avoid shocks to the economy due to sudden and sharp revaluations or devaluations.

c. Basket of currencies

Many countries, especially developing countries, determine the value of their currencies based on a basket of currencies. The advantage of this system is to offer stability in a country's currency because currency movements are spread in a basket of currencies. The selection of currencies entered in the basket is generally determined by its role in financing certain country's trade. Different currencies are given

different weights depending on the relative role of the country. So a basket of currencies for a country can consist of several different currencies with different weights.

d. Fixed exchange rate

A State announces a certain exchange rate in the name of its money and maintains this exchange rate by agreeing to sell or buy foreign currency in an unlimited amount at that rate. Exchange rates are usually fixed or allowed to fluctuate within very narrow limits.

14. Factors Causing Fluctuations in Exchange Rates

The ups and downs of exchange rates or foreign exchange rates can occur in various ways, which can be done officially by the government of a country that adheres to the managed floating exchange rate system, or it could be due to the attraction of supply and demand forces in the market (market mechanism) and generally changes in currency exchange rates can occur due to four things, namely:

- a. Depreciation, is the decline in the price of various national currencies against other foreign currencies, which occurs because of the attraction of the forces of supply and demand in the market (market mechanism).
- b. Appreciation (appreciation), is an increase in the price of the national currency against various other foreign currencies, which occurs because

of the attraction of the forces of supply and demand in the market (market mechanism).

- c. Devaluation is a decrease in the price of the national currency against various other foreign currencies which is officially carried out by the government of a country.
- d. Revaluation is an increase in the price of the national currency against various other foreign currencies that is officially carried out by the government of a country.

15. Money Supply

There are several definitions of the amount of money in circulation. In discussing the money contained in the economy it is very important to distinguish between the currency in circulation and the money supply. Currency in circulation is the entire amount of money that has been issued and circulated by the Central Bank. The currency consists of two types, namely coins and paper money. Thus the currency in circulation is the same as currency. While the money supply is all types of money in the economy, namely the amount of the currency in circulation plus the demand deposit in commercial banks. Money supply or money supply is divided into two senses, namely in the narrow sense and broad meaning.

Money Circulating in a Narrow Meaning (M1)

Money circulating in the narrow sense (M1) is defined as currency added with demand plus deposits.

$$M1 = C + DD$$

Where:

M1 = The money supply in a narrow sense

C = Currency (cartal money)

DD = Demand Deposits (demand deposits)

Charges (DD) here only cover the general / newspaper account / giro balance held in the bank. Whereas the bank account balance of the bank or the central bank (Bank Indonesia) or the bank account balance of the bank or central bank is not included in the definition of DD. One more important thing to note about this DD is that what is meant here is a balance or money belonging to the community that is still in the bank and has not been used by the owner to pay / shop.

The definition of money supply in the narrow sense (M1) that money is a purchasing power that can be used directly for payment, can be expanded and includes payment instruments that "approach" money, such as time deposits and savings deposits (saving deposits)) to banks. The money saved in the form of time deposits and savings is actually also a potential purchasing power for the owner, although it is not as easy as cash or checks to use it (Boediono, 1994).

Money Circulating in Broad Meaning (M2)

Under the Indonesian monetary system, M2 money is often referred to as economic liquidity. M2 is defined as M1 plus people's time deposits and savings balances for banks, because the development of M2 can also affect the development of prices, production and the general economic situation.

$$M2 = M1 + TD + SD$$

Where:

TD = time deposits

SD = savings deposits (savings balance)

There is no definition of M2 that is generally applicable to all countries, because things that are unique to each country need to be considered. In Indonesia, M2 includes all time deposits and savings balances in rupiahs with banks that do not depend on the size of deposits but do not include time deposits and savings balances in foreign currencies (Boediono, 1994).

Money Circulating in the Broader Meaning (M3)

The definition of money supply in the broader sense is M3, which includes all time deposits (TD) and savings balances (SD), small, rupiah or foreign currency owned by

residents at banks by non-bank financial institutions. All TD and SD are called quasi money or quasi money.

$$M3=M2+QM$$

Where:

QM = quasi money

In a country that adheres to a free foreign exchange system (meaning that anyone can freely own and trade foreign exchange), like Indonesia, there is very little difference between TD and SD in rupiah and TD and SD in dollars. Every time you need a dollar, you can sell it directly to the bank, or vice versa. In this case the difference between M2 and M3 becomes unclear. TD and SD dollars belonging to non-residents are not included in the definition of quasi money (Boediono, 1994).

B. Previous Research

The results of previous studies will be used as references and comparisons of this study. Various types of research related to investment which are closely related to sukuk have been collected. Previous research is as follows:

In a research conducted by Sanjaya (2016) with the title of "analysis of the effect of inflation and bank Indonesia certificate interest on the value of Islamic bonds from companies registered in Indonesian securities" This study used multiple linear regression in the form of studies that tested hypotheses to explain the effect of inflation and SBI between variable on the Islamic bond index. The results showed that inflation

had no significant effect on the index while the SBI interest in Islamic bonds had a significant effect on the Islamic bond index.

In a research conducted by Rahman, Paminto and Nadir (2016) with the title of "the effect of retail state sukuk ER-005 series, inflation rate and BI Rate on the level of demand for retail state sukuk ER-005 series" used is multiple linear regression analysis. The results showed that the retail state sukuk variable SR-005 and the inflation rate variable negatively affected SR-005 retail state sukuk demand but were not significant. While the BI rate variable has a negative and significant effect on the demand for SR-005 retail state sukuk.

In a research conducted by Andryardini (2017) with the title of "the effect of inflation, exchange rates and certifications of Islamic Indonesian banks on the growth of corporate sukuk for the 2011-2016 period" This study used a quantitative approach with the type of associative research. Sampling using nonprobability sampling technique. While the method uses saturated sampling. Saturated sampling is a sampling technique if all members of the population are used as samples. The type of data used in this study is secondary data obtained from Sharia Capital Market Statistics for the period 2011-2016. In this study using the method of multiple linear regression analysis. The results showed that inflation partially had a significant negative effect on the growth of corporate sukuk. The exchange rate also has a significant positive effect on the growth of corporate sukuk in the amount of. Whereas the Bank Indonesia Syariah Certificate (SBIS) does not affect the growth of corporate sukuk. However,

simultaneously showing that inflation, exchange rates, and Indonesian Islamic bank certificates (SBIS) have a significant effect on the growth of corporate sukuk.

In a research conducted by Ifana (2015) with the title "factors that influence investor interest in purchasing state sukuk." The variables used in this study are the independent variables using mudharabah deposits, the exchange rate and BI rated dependent variable using the amount of sukuk emissions country. The analytical tool used in this study is using the method of multiple regression analysis. The results indicate that partially variable mudharabah deposits have a positive and significant effect on state sukuk emissions. While the exchange rate and BI Rate variables have a positive and not significant effect on state sukuk emissions.

Research conducted by Rini (2012) with the title "analysis of Islamic bonds (sukuk) and Indonesian macroeconomic indicators: a vector error correction model (VECM) analysis." As for the variables used in this study the independent variable uses economic growth, the money supply, inflation, open unemployment, bonus certificates for Indonesian Islamic banks and the dependent variable using sukuk issuance. The analysis used in this study uses vector error correction model (VECM) analysis. From the results of these studies it can be seen that in the short term there is no significant independent variable on sukuk. In the long run, the relationship between the variables of inflation, unemployment rate, and bonus SBIS has a significant negative effect on sukuk issuance. While the variable money supply and economic growth have a positive significant effect on sukuk issuance.

In a research conducted by Suriani, M. Shabri Abd. Majid, Raja Masbar, NazaruddinA. Wahid (2018) with the title "Macroeconomic Determinants of the Capital Market in Indonesia: A Comparative Analysis between Sukuk and Bonds Markets" This research focuses on the period from January 2010 to November 2017, various time series analysis methods (i.e., cointegration, vector error correction models (VECM), and the multivariate causality approach) are used to explore the determinants of Islamic and conventional bonds and their short and long-run equilibrium. This study stated that sukuk is only affected and caused by exchange rates, while the bond market is significantly affected by interest rates, exchange rates and price levels.

In a research conducted by Said and Grassa (2013) with the title "The Determinants of Sukuk Market Development: Does this Macroeconomic Factors Influence the Construction Structure of Certain Sukuk?" Analyze the influence of (i) Macroeconomic and economic factors, (ii) Global financial crisis (iii) Financial System (iv) Institutional Environment (v) Legal Origin and (vi) Religious and Community Factors in Sukuk Market Development. The study shows that macroeconomic factors such as GDP per capita, economic size, trade openness, and the percentage of Muslims have a positive influence on the growth of the Sukuk market. The financial crisis has a significant negative effect on the development of the Sukuk market because the number of Sukuk issued in these years has declined significantly. The quality of regulation has a significant influence on the development of the sukuk market. This implies that countries with higher rankings in the quality of regulation have a larger

sukuk yang market. This can be interpreted as the efficiency and reliability of regulations.

In a research conducted by Abdi and Masih (2017) with the title "Do the macroeconomic variables affect the correlation in the regional markets? evidence of the correlation between sukuk and Islamic stocks in GCC countries, with a concentration on macroeconomic factors that influence the joint movement of sukuk shares. The MGARCH dynamic conditional correlation (DCC) is estimated based on the Student-t distribution to obtain the required correlation and then we apply cointegration panel techniques such as DOLS and FMOLS for estimation analysis. The result is a rejection of the zero cointegration hypothesis which says there is no influence of macroeconomic variables on the correlation of stocks and sukuk. Industrial production and interest rates influence stock and sukuk correlations, but CPI has no effect on stock and sukuk correlations. Policy makers must consider the correlation and volatility of Islamic assets, and they must take into account the factors that influence the correlation of stocks and sukuk in the GCC.

In a research conducted by ElKharim (2012) with the title "sukuk and conventional bonds in Malaysia" influences This study attempts to investigate the influence of macroeconomic variables on Sukuk and conventional bond issuance during the period which included the period of the Malaysian economic crisis. This study examines three variables in relation to Sukuk and conventional bond issuance for the period 1990-2011: (i) gross domestic product (GDP), (ii) inflation rate, and (iii)

interest rate. The results of the regression analysis for Sukuk show that, there is a negative influence and a significant relationship between GDP, inflation rate and interest rate with the issuance of Sukuk. However, for conventional bonds, only GDP shows a significant negative effect on the relationship.

In a research was conducted by Smaoui and Khawaja (2015) with the research title "The Determinants of Sukuk Market Development." The purpose of this study was to investigate empirically the structural, financial, development, institutional, and macroeconomic determinants of developing sukuk markets for samples 13 country during the period 2001-2013. We use the GMM system procedure to overcome the endogenous problem of the lagging dependent variable, heteroscedasticity, and serial correlation in residues. Our results show that a combination of structural, financial and institutional factors seems to have a significant effect on the Sukuk market. Indeed, the larger economic size, higher proportion of Muslims in the population, better investment profile, and lower corruption are associated with larger Sukuk markets, while higher interest rate spreads are negatively related to the development of the sukuk market.

C. Hypothesis

Based on the objectives, theoretical basis and theoretical framework, the hypotheses proposed in this study are as follows:

H1: Inflation (X1) has a significant effect corporate sukuk emissions (Y)

H2: Exchange rate (X2) has a significant effect on corporate sukuk emissions (Y)

H3: M2 (X3) has a significant effect on corporate sukuk emissions (Y)

D. Theoretical Framework

$$Y = A + B_1X_1 + B_2X_2 + B_3X_3 + e$$

