

## **Determinants Of Sovereign Sukuk Issuance And Its Implementation On Tawhidi String Relation Perspective**

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### **ABSTRACT**

*The aims of this study to analyze how the macro economic indicators and sharia financial parameters to determine and how the significance of these exogenous variables influences the issuance of Sovereign Sukuk. This study also wants to see its implementation in the perspective of Tawhidi String Relations (TSR). This study is a development research of previous researchs which uses time series data with an Error Correction Model (ECM) method to see the significance of the long-term and short-term effects of the variables studied, using software of Eviews 8, using data from January 2012 to December 2018. In this study it was found that in the long run the growth of the Sovereign Sukuk Issuance (SSI) was significantly influenced by variables of Economic Growth (GDP), Inflation (INF), Indonesian Sharia Stock Index (ISSI) and the Yield of Sovereign Sukuk (YIELD) partially and simultaneously. Whereas in the short term the growth of the issuance of Sovereign Sukuk was significantly affected positively by the variables of Economic Growth, Sharia Stock Index and the average Sukuk Yield, but it was not significantly influenced negatively by the Inflation. This study also concluded that the Yield of Sovereign Sukuk partially had the most significant positive effect on the Sovereign Sukuk issuance, both in the long term and in the short term. This study are expected to be considerations for Ministry of Finance, Republic of Indonesia, in determining more appropriate issuance amount of Indonesia Sovereign Sukuk to supply the needs of sharia financial market and as one of the main sources to finance the deficit of State Budget. The issuance schemes for project-based Sukuk and infrastructure financing must be more widely issued with attractive returns for investors.*

**KEYWORDS:** *sovereign sukuk, economic growth, inflation, Indonesian sharia stock index, yield, sukuk issuance, tawhidi string relation.*

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### **I. Introduction**

Sukuk is the fastest growing Islamic capital market instrument and plays an important role as an alternative source of financing and investment in current economic growth (Financial Times Special Reports, 2010). According to the publication of Sukuk Review Report, Malaysia was the largest global Sukuk issuer in the world until mid of 2018. Around 38.7% of the total global sukuk issuance worth USD 50.3 billion was issued by corporations (72%) and the government (28%), so Malaysia is the largest Sukuk market in the world as a source of financing compared to banking and the stock market (RAM Ratings Services Berhad, 2018).

As of February 19, 2019, Indonesia became the first largest Global Sovereign Sukuk issuer with amounting of USD 15 billion in 11 times of issuance (Nasdaq - Dubai, 2019). This achievement is the largest since the data of June, 2015, where if calculated based on outstanding global Sovereign Sukuk, then Indonesia is the largest global issuer of Sovereign Sukuk in the world, above Malaysia and the United Arab Emirates (Hariyanto, 2015). This is one indicator that the issuance of Sukuk plays an important role in filling State Budget of the revenue side, in financing government programs in the field of infrastructure development as well as other routine expenditure of the State.

Indonesian Sovereign Sukuk market plays an important role as an alternative source of financing in current economic growth. Even the shock of the bond market due to the marked to market (valuation of bond prices in portfolios according to market prices) in 2005 in the Indonesian bond market has led to the development of bond and Sukuk market needs to reduce the vulnerability of exchange rate uncertainty and maturity (Manurung et.al. 2013).

Bond and Sukuk market, both issued by the Indonesian government and diversified and well-functioning corporations are the main supporting factors in the modern economy (World Bank, 2006). The issuance of Sovereign Sukuk as one of the instruments of the Government Securities is also needed to finance the deficit in the State Budget. Expenditure amount which is greater than revenue in State Budget, has made it always deficit and in the last 5 (five) years, there has been a deficit of around 2 percent of the Gross Domestic Product (GDP).

Indonesian Sukuk market began to develop after Government and parliament issued Law No. 19 – concerning SBSN, in May, 2008, where the Government began issuing Sovereign Sukuk to finance expenditure

side on State Budget with an initial issue of Rp. 4.69 trillion. Then the issuance of Retail Sovereign Sukuk in February 2009 was valued at Rp. 5.556 trillion and issuance of Global Sukuk in April 2009 valued at USD 650 million. In the development of ten years since it was first published, the contribution of Sovereign Sukuk is still low compared to the total issuance of Government Securities, which consists of Government Bonds and Sovereign Sukuk. The total outstanding of Sovereign Sukuk, both tradable and non-tradable, as of the end of December 2018 only reached Rp 646 trillion, where this amount is a percentage contribution compared to outstanding all Government Securities, in fact only 17.62 % of total outstanding Government Securities that reached Rp. 3,666 trillion. Nonetheless, the average annual issuance of Sovereign Sukuk is higher at 58% compared to the average annual issuance of all Government Securities which is only 19% (source: Ministry of Finance of the Republic of Indonesia).

## **II. Problem Of Research**

Data as of December 2018, the value of outstanding tradable Sovereign Sukuk is Rp. 392.9 trillion. When compared with the total outstanding of Government Securities in the same period of Rp. 2,368.4, the contribution of Sukuk issuance is only 16.5%. Ownership of State Sukuk with Rupiah denomination until December 2018, recorded conventional banks hold State Sukuk as much as 34%, while Islamic banking is only 11%, non-bank financial institutions by 48% consisting of Mutual Funds, Pension Funds, Insurance, foreign investors and individual financiers, the remainder is owned by Bank Indonesia and other investors.

The aforementioned phenomenon shows that although investors are interested as a halal and profitable investment alternative, and is one of the important Government financing instruments, the percentage contribution of the issuance of Sovereign Sukuk is still below 20% compared to the total issuance of Government Securities. This is because the Islamic financial market segment is still limited. This makes the volume of issuance of Sovereign Sukuk still difficult to compete with Government Debt Securities even though Sovereign Sukuk has experienced high growth from year to year.

The Potential of Sovereign Sukuk in development financing must be balanced with an efficient Sukuk market. An efficient Sukuk Market will guarantee the availability of sufficient information for the issuer (in this case the Government) to determine how much is the most optimal amount of the Sovereign Sukuk Emission. The efficient Sukuk market is also influenced by the role of conventional institutional investors, as research by Nienhou and Karatas (2016), that the participation of conventional market players is very significant in primary and secondary Sukuk markets and they trade Sukuk more often than Islamic market players. The ownership of Sukuk by conventional investors is also higher compared to Islamic Financial Institutions so they can dominate price formation.

In a study by Rini and Beik (2012), concluded that in the long run, the issuance of Sukuk in Indonesia is influenced by macroeconomic indicators namely economic growth and the money supply with a positive relationship, as well as open unemployment and inflation with a negative relationship. Other findings, economic growth encourages the issuance of Sovereign Sukuk and on the other hand, issuance of Sovereign Sukuk also encourages economic growth (there is a causal relationship). These results are also consistent with the research of Said and Grassa (2013, a) who concluded that GDP has a significant influence on the growth of Sukuk. Several other studies that have been conducted and underlie the writing of this dissertation, including by Ardiansyah and Lubis (2017) which show, that the variable money supply, industrial production index, and inflation have a positive (significant) effect on the growth of corporate Sukuk. This result is different from research conducted by Elkarim (2012, a) which states that inflation has a negative and significant effect on the growth of corporate sukuk.

Salem and Hachicha (2016) mentioned the results of their research which show indicators of Islamic Sukuk funding contribute significantly to overall economic growth. Meanwhile, Smaoui and Nechi (2017, a) concluded that the volume and intensity of Sukuk had a positive effect on economic growth. The issuance of sovereign Sukuk also has a positive effect on economic growth. From the conclusions of the above studies, there are gaps in the study of the effects and significance between economic growth and inflation with the issuance of Sovereign Sukuk.

The problem which want to be answered in this study is the macroeconomic indicators and parameters of Islamic finance which is the determinant of the issuance of Sovereign Sukuk and how it is significant in the long term and short term and how it is implemented in the perspective of the Tawhidi String Relations (TSR). The benefits that can be obtained from this research, especially for the Government, are providing benefits for the management of Government Debt Securities in the Directorate General of Financing and Risk Management - Ministry of Finance of the Republic of Indonesia, in the form of knowledge and strategies in analyzing the

determinants that influence the volume of the issuance of SovereignSukuk which is one of the important revenue sources in State Budget.

The results of this study are also expected to be a reference in the policy making process in the monetary and fiscal sector by using macroeconomic indicators and the proxy of Sharia financial parameter in considering the volume of the issuance of SovereignSukuk for the needs of liquidity of the SovereignSukuk in the secondary market and financing needs for deficit in State Budget.

### **III. Metodology**

In contrast to previous studies, this study besides trying to analyze exogenous variables consisting of macroeconomic indicators, namely Economic Growth (GDP), Exchange Rates, Inflation, and Foreign Debt but also the proxy of sharia financial parameters, namely Third Party Funds Islamic banking, SBI Sharia Rate, the Indonesian Sharia Stock Index (ISSI) and the Yield of Sovereign Sukuk, as a determinant of the SovereignSukuk Issuance (SSI) with a longer research period, since the commencement of the calculation of yields to maturity (YTM) from a tradable Sovereign Sukuk by an Indonesian Bond Price Agency (IBPA).

This study uses time-series data with the study period January 2012 - December 2018, and the approach of the Error Correction Model (ECM) analysis method to analyze and identify the factors that determine the issuance of SovereignSukuk, both macroeconomic indicators and proxy parameters of Islamic finance. The ECM is one dynamic model that is widely applied in economic analysis. The ECM model overcomes long-term balance information by combining first difference and various levels of lag of cointegrated variables (Hakim, 2014). ECM is a time series data analysis that is used for variables that have dependencies which are often called cointegration.

This research will also use descriptive analysis with the Tawhidi String Relations (TSR) method, a concept that tries to explain the continuous relationship starting from the source of knowledge, namely the Qur'an, passed down to humans through a shuraticprocess - symbolized by  $X(\theta)$ , which enables humans and society to create a world order based on the Qur'an and Sunnah and the knowledge they possess through the Interaction and Integration Interaction process (IIE process) that slowly emerges Social Well-being Function or symbolized  $W(\theta, X(\theta))$ , i.e. the function of mashlahat, and the subsequent development process that creates new or new knowledge ( $\theta$ ). The continuation of the process of this letter occurs continuously until the hereafter. (Mariyanti and Affandi, 2016, a).

### **IV. Study And Review Previous Research**

Sukuk market growth is influenced by macroeconomic factors, as in the research of Said and Grassa (2013, b) which states that macroeconomic factors such as GDP per capita, economic size, have a positive impact on Sukuk market growth. Sukirno (2003) in his book explained, economic stability that is desired by every country is generally defined as an economic situation where economic growth increases, income per capita increases, the level of prices does not show significant changes, the exchange rate is strong and the level low benchmark interest rates. The research by of Manab and Agus(2016) showed a significant influence of macroeconomic stability on the issuance of SovereignSukuk in Indonesia, Malaysia and Brunei Darussalam, in the period 2008 to 2014.

Inflation by definition is a condition where the demand is greater than the supply of goods as a whole in an economy so that there is a continuous increase in prices. Fluctuating inflation will affect investment in various other securities including bonds. Uncontrolled inflation will cause an increase in prices of goods in general so that it will affect the risk of investment in investment instruments in the capital market, such as bonds and or Sukuk. An expectation of yield or yield is adjusted by investors who want a higher yield. Thenmozi and Nair (2014) explained that inflation had a negative effect on bond yields in all countries except the US, which turned out to be positive. Then on the sharia side, the value of inflation will affect the interest of investors or the public to invest in the capital market, especially to invest in sukuk. Research by Elkarim (2012, b) states that inflation has a significant negative effect on sukuk growth. However, Adelegan and Radzewicz (2009) stated that inflation does not have a big influence on the growth of Sukuk in general.

Aloui et.al. (2015, a), examined the co movement between Islamic stocks and Sukuk in the Gulf Cooperation Council (GCC) countries using the wavelet squared coherency approach. They found a strong dependency between Shariah stocks and Sukuk indices in these countries. Aloui et.al. (2015, b) also investigated the volatility of spillovers between Islamic stocks and Sukuk in GCC countries, using the DCC-GARCH model. They found a negative correlation that varied between Sukuk indices and Shariah shares in these countries. Different results were shown by Naifar and Mseddi (2013) also analyzing the relationship between Sukuk yields, stock market conditions and macroeconomic variables, using linear regression. They found that the

Sukuk spread yield reacted positively to the stock market, which meant that an increase in stock index return would be followed by an increase in Sukuk yield.

Grassa&Miniaoui, (2018) conducted a study entitled Corporate Choice between Conventional Bond and Sukuk Issuance Evidence from GCC Countries. This study discusses the comparison of Yield to Maturity and Current yields with the significance test of the t-test sample correlation, the results of this study are that there are significant differences between conventional bonds and Islamic bonds based on current yields. Qoyum (2009) conducted a study on a comparative analysis of the performance of conventional bond groups and sharia bond groups showing that there were significant differences between sharia bonds and conventional bonds based on current yields.

Research conducted by Rahmawaty&Fahrimalb, (2016) who conducted a study entitled analysis of bond performance and SukukIjarah companies listed on the Indonesia Stock Exchange which explained that there were no significant differences between bonds and Sukuk based on current yield. Research by Sihombing et.al. (2013) concerning the determinants of government bond yields concluded that the yield curve development on government bonds experienced fluctuating movements that were influenced by liquidity/solvency factors, macroeconomic fundamentals, external factors (external shocks) and market risk factors.

Research conducted by Said and Grassa (2013, c) in several countries to see the determinants of Sukuk, shows that economic growth has a positive effect on the development of the Sukuk market. On the other hand Smaoui and Nechi (2017, b) examine the effect of the development of the Sukuk market on long-term economic growth. Their results showed that the development of the Sukuk market had a positive effect on economic growth. This indicates a two-way relationship between the Sukuk market and economic growth.

Yield and bond price are two important factors and measures in bond transactions for investors. Investors always ask the yield obtained when buying bonds at a certain price. The yield referred to here is the yield to maturity (YTM), which is the level of how much a bond or Sukuk gives a return by considering the period of time to maturity and the price of bonds or Sukuk in the secondary market. In theory, bond prices and yields are interrelated, the relationship is inversely related or negative, which means that bond yields have increased, bond prices have decreased and vice versa. Research on the influence of the average yield of SovereignSukuk with the volume of SovereignSukuk Issuance as far as the Author's knowledge has never been done, except research by Harahap (2018) regarding the relationship between yields and Sukukprices which explains that yield has a negative effect on Retail Sukuk prices in 2011 - 2014.

## **V. Results And Analysis Of Study**

### **5.1. The Concept ofTawhidi String Relation (TSR)**

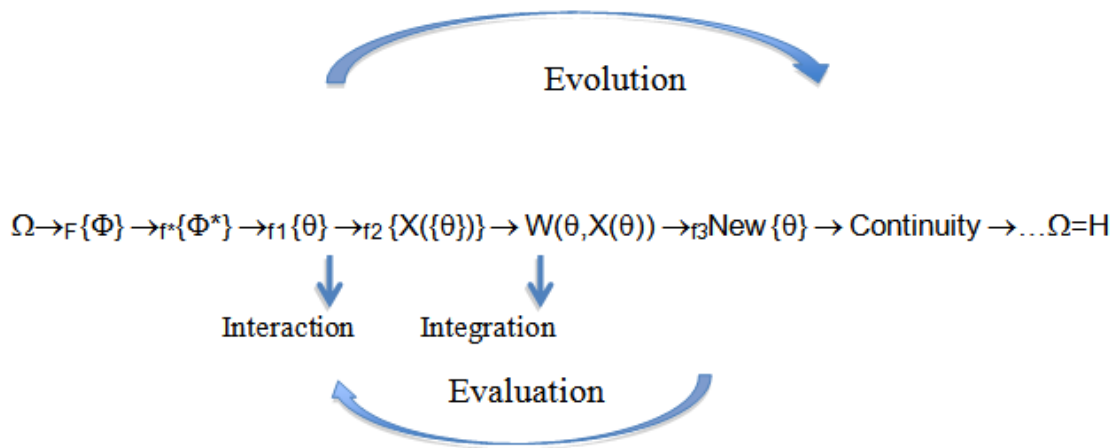
According to Choudhury (in Mariyanti and Affandi, 2016), in Tawhidi String Relation (TSR), the source of knowledge is the Al-Qur'an where the Qur'an is a holy book/ revelation that explains knowledge about the Oneness of Allah which is named as Tawhidi. So the explanation and discussion of TSR is inseparable from the epistemology of Divine Unity, which is the study of Divine Laws contained in the Qur'an as a source of science and law. In addition to explaining the Oneness of Allah, epistemology of Tawhidi also explains how the source of knowledge was passed down to humans and its consequences with respect to these Divine laws. Divine laws are also explained through the Sunnah of the Messenger of Allah, namely the words, deeds and silence of the Prophet Muhammad, which refers to the revelations he received from Allah SWT. Al-Qur'an is given to humans so that humans make this epistemological order, which is symbolized by  $\Omega$  (omega).

According to the Qur'an, science is a revelation passed down to humans through a process called the shuratic process, which is a process that deals with humans and nature. In this system strong interactions will emerge. Through interaction emerges integration as a sign of a unified consensus. This integration, in turn, is followed by a process of epistemological evolution (Interaction, Integration, and Evolution Process - IIE Process), as referred to in Surah of AsySyuro: 49.

TSR is a concept that tries to explain the ongoing relationship starting from the source of knowledge, namely the Qur'an, passed down to humans through a process ofshuratic or syura' - symbolized by  $X(\theta)$ , which allows humans and society to create a world order based on the Qur'an and As Sunnah and the knowledge they possess through the process of Interaction Integration and Evolution (IIE process) which slowly emerges Social Well-being Function or symbolized  $W(\theta, X(\theta))$ , namely the function of benefit, and the subsequent development process that creates science new or new knowledge ( $\theta$ ). The continuation of the process of this letter occurs continuously until the end of time.

TSR methodology and concept formalized using mathematical notation or symbols to interacting elements ranging from epistemology to monotheism (source of knowledge), ontology (sunnatullah), creation of knowledge from the shuratic process, up to continuing the process of continually increasing knowledge until the hereafter, mathematically in Choudhury (2013) can be described as follows:





- Ω = Primal Stock of Knowledge (epistemology)
- $F \{ \Phi \} \rightarrow f^* \{ \Phi^* \}$  = Derivation of Primal of Knowledge-flows
- $f_1 \{ \theta \}$  = Process of deriving knowledge by discursion
- $f_2 \{ X(\{ \theta \}) \} \rightarrow W(\theta, X(\theta))$  = Consensus  $\rightarrow$  Post Evaluation of Wellbeing
- $f_3$  New  $\{ \theta \}$  = Evolution of Similar Process
- Ω=H = Closure in the very large scale universe

**Source :Choudhury (2013)**

The process in TSR or the formal concept of the unity of knowledge model, the IIE process and the shuratic process as described above, begins with the symbol Ω (omega), which shows the monotheistic epistemology of the Oneness of Allah and explains Al Qur'an as the source of all sources of knowledge and law. Thus it can be understood as the origin of knowledge that has no dimension but is able to create and give orders. Ω thus is the source of the Qur'an in the form of a very complete set of Divine knowledge (primal stock of knowledge) which in the Qur'an is referred to as *LauhulMahfuz*.

The symbol Φ indicates an ontology derived from Ω in the form of sunatullah or the complete and absolute sentence of Allah SWT in the Qur'an (divine laws). Meanwhile, F is a medium of spontaneous disclosure of all Divine knowledge and monotheism. The symbol Φ \* indicates a further ontological understanding derived from the sunnatullah in the form of the Sunnah of the Prophet Muhammad. While the medium that represents the laws of God experienced in life is symbolized by f \*.

{θ} or theta shows the symbol of the flow of knowledge derived from monotheistic epistemology based on the deliberations of Rasulullah friends and other great scholars (shuratic process). While f1 is a medium for discourse discussed. The origin and source of knowledge is Ω. The learning process from Ω to {θ} through media as mentioned in the explanation of the previous paragraph, is an ontology stage.

W (θ, X (θ)) shows an evaluation of the wellbeing function that is formed from the complementarity of the interaction and integration relationships between variables in the TSR methodology, or in the concept of Islamic theology is Maslahat. The process from Ω to the end of the post-evaluation using W (θ, X (θ)) in the first process in TSR (stage 1), marks the completion of one level of knowledge formation, from epistemological to ontic level through functional ontological media.

Evaluate W (θ, X (θ)), which is the benefit function which is the end of process 1 in the TSR. The end of process 1 is the beginning of process 2 and the continuation of the same process occurs and evolves to create new human knowledge or New {θ}. This process and cause-and-effect relationship occur continuously (continuous circular causation relation) until the end of time, where we must return to the source of knowledge, namely the Qur'an and Sunnah (Q, S).

The stages of the process in the TSR mentioned above are in accordance with the Firman Allah as explained in Surah An Naml: 64, Surah Al Ankabut: 19. Meanwhile, the affirmation of the circular causation process to the evolution process can be explained by the interpretation of Qur'an, Surah of Yusuf, verse : 4.

The end of the continuous process of knowledge flow is the return of Allah in Akhira as the Great Event (Nabaul-Azim). In this case the Qur'an states in Surah ofAn Naba, verses 1 and 2.

The implementation of the IIE process described above carried out in this study aims to see the significance of the influence of exogenous variables consisting of macroeconomic indicators, namely: Economic Growth (GDP) and Inflation (INF), and proxy for sharia financial parameters, namely: Indonesian Sharia Stock Index (ISSI) and the Yield of Sovereign Sukuk (YIELD) on its endogenous variables, namely the issuance of Sovereign Sukuk (SSI) are as follows:

In process 1,  $\Omega$  (omega) is a symbol that shows the monotheistic epistemology of the Oneness of Allah and explains the Qur'an as the source of all sources of knowledge and law. Through stages of ontology, the derivation of  $\Omega$  is sunnatullah in the form of a complete and absolute sentence of Allah SWT in the Qur'an (divine laws) and As Sunnah, which is symbolized by  $\Omega$  (Q, S). In the next process is a form of meeting between humans and knowledge through a shuratic process symbolized by X ( $\theta$ ).

With an understanding of this relationship humans and society create a world order based on the Qur'an and Sunnah and develop knowledge. Through interaction and integration therein and through the process of development slowly the Social Wellbeing Function appears, symbolized by W ( $\theta$ , X ( $\theta$ )) or benefit function. One of the benefits of this function is to improve community economic welfare through development financing and symbolize W ( $\theta$ , X ( $\theta$ )), where W ( $\theta$ ) is new knowledge from the interaction and integration of the processes of the macroeconomic factors under study, namely the growth of Domestic Products Gross (GDP) or Economic Growth and Inflation, as well as the proxy of Islamic financial parameters, namely the development of the Indonesian Sharia Stock Index (ISSI), and the average Yield of Sukuk Negara or ( $\theta$ ) with the function used in this model can influence the development of the Sovereign Sukuk Issuance (SSI).

The end of process 1 and the beginning of process 2 is the evolution in the TSR until the end of the age where we always return to the source of knowledge namely the Qur'an and Sunnah ( $\Omega$ ). To formulate new knowledge ( $\theta$ ) symbolized by New { $\theta$ }, humans must always go back to the previous process so that they can stay on the right path in accordance with the Qur'an and Sunnah and ultimately all matters return to Allah, as mentioned in Al Qur'an, Surah of AsySuro, verse: 53 (Mariyanti and Mahfudz, 2016, b).

In process 2 to improve the economic welfare of the community by financing development through the issuance of a Sovereign Sukuk, based on prior knowledge, there must be a similar process that goes back to the previous process where all matters concerning how to improve national economic progress are based on the principle that all matters submitted to Allah SWT.

## **5.2. Investment in Islamic Perspective**

Pardiansyah (2017) explains that investment is a recommended activity in the Islamic view. This is because investment activities have been carried out by Rasulullah SAW since his youth to near the apostolic period. Besides investment can realize the achievement of the problem multiplayer effect, including creating business and employment, avoiding funds to settle and so that the funds do not revolve among the rich alone (Qur'an, Surah of Al-Hasyr, verse: 7).

Firman of Allah SWT relating to investment recommendations and become the basis of Islamic law in investment include:

(Al-Baqarah, verse: 261):

"The parable of those who spend their wealth in the way of Allah is similar to a seed that grows seven heads, in each one hundred seeds. . "

This verse implicitly provides information on the importance of investing, wherein the verse conveys the number of people who spend their wealth in the way of Allah.

(An-Nissa, verse: 9):

"And let Allah fear those who if they leave behind them children who are weak, who they are worried about (their welfare). . "

This verse explicitly instructs humans not to leave offspring in a state of weakness, both morally and materially weak. Implicitly this verse commands the people to improve their economic life through long-term investment. This investment will bequeathed to his descendants to make ends meet until he is worthy of trying alone or independently.

(Yusuf, verse: 47):

"Yusuf said: "So that you plant seven years (as long) as usual; then what you harvest, you should let it turn aside except for a little for you to eat. "

(Yusuf, verse: 48):

"Then after that will come seven very difficult years, which spend what you save to deal with (difficult years), except for a few of the (wheat seeds) that you save."

(Yusuf, verse: 49):

"Then after that there will come a year when humans will be given enough rain and in that period they will squeeze wine."

The lesson (ibrah) and wisdom of the Surah of Yusuf verses 47 - 49 is that humans must be able to save some of their wealth to anticipate unexpected events in the future. Means, human beings can only assume and guess what will happen tomorrow, while certainly only Allah is omniscient. Therefore, the command of the Prophet Yusuf AS in the above verse to save some of it as a reserve for later consumption is a good thing. Likewise, investing a portion of the remaining consumption and other basic needs will produce benefits that are far broader than just saving.

Investment is part of the muamalahfiqh, so the rule applies that the law of origin is everything is permissible unless there is an argument forbidding it. It is in bermuamalah that rules must be made and agreed upon by each party who doing transactions in investment because the teachings of Islam safeguard the rights of all parties and avoid interfering with each other, as stated in Qur'an, Surah of An Nissa: 29.

Investment activities as described above, have broad benefits and impacts on a country's economy. However, in principle, Islam provides clear guidelines and limits on which sectors may and may not be entered by investment. Not all investments recognized by positive law are also recognized by Islamic law. Therefore, so that the investment does not conflict, it must pay attention and take into account various aspects, so that the results obtained are in accordance with sharia principles.

### 5.3. Analysis of Sovereign Sukuk Determinants and Its Implementation in Tawhidi String Relation (TSR)

The results of the study, it is obtained the estimation of long-term and short-term regression, feasibility test of model estimation, model interpretation, results of hypotheses, and its implementation from the perspective of Tawhidi String Relation (TSR) as follows:

**Table 1**

VARIABLE	COEFFICIENT	PROB.	HYPOTHESIS TEST
<b>LONG TERM – R Squared = 0,887688</b>			
GDP	3.67912	0,0000	(+) Sig.
INFLATION	-0.240084	0,0005	(-) Sig.
SHARIA INDEX	0.03854	0,0000	(+) Sig.
YIELD OF SUKUK	14.59367	0,0000	(+) Sig.
<b>SHORT TERM – R Squared = 0,972440</b>			
GDP	1.039594	0,0000	(+) Sig.
INFLATION	-0.000556	0,9683	(-) Tdk Sig.
SHARIA INDEX	0.008547	0,0000	(+) Sig.
YIELD OF SUKUK	7.653869	0,0000	(+) Sig.

#### The Influence of Economic Growth

The results of the t test and the coefficient of determination in the long-term regression model shows that the variable Economic Growth (GDP), has Prob. t-count is smaller than 0.05 ( $\alpha = 5\%$ ) so that it has a significant and positive effect on the variable Sovereign Sukuk Issuance (SSI). In other words, the GDP variable has a significant effect on the SSI variable at 88 percent confidence level.

Similarly, the results of the t test and the coefficient of determination in the short-term regression model shows that the exogenous variable GDP has a significant and positive effect on the SSI variable because it has a Prob.t-count value smaller than the critical value  $\alpha = 5\%$ , so in other words GDP has an effect significant to the SSI variable at 97 percent confidence level.

The results of this study are in line with research by Rini and Beik (2012, b), which concludes that economic growth encourages the issuance of SovereignSukuk. These results are also consistent with the research of Said and Grassa (2013, c), which states that GDP has a significant influence on the growth of Sukuk. The results of the study indicate that in the long term and short term economic growth affects positively and significantly the issuance of SovereignSukuk indicates that if economic growth is stable in the long run, then the amount of the SovereignSukuk emissions with medium and long term maturities must be issued bigger by the Government to cover the State Budget deficit and supply of sovereignsukuk liquidity in the secondary market.

Economic growth in an Islamic perspective emphasizes socio-economic justice in growth. Economic growth is an objective demand and must be done quickly and in large proportions. Without economic growth, justice can indeed be felt, but it is still difficult to realize prosperity and happiness, because the proportion of the economic cake distributed is still insufficient. It is in the framework of achieving socio-economic justice that can be happy that the realization of economic growth is indeed very necessary. But it still cannot be separated from the economic cake distribution system that has a dimension of justice, both for the present and future.

Chapra (in Agustianto, 2015) said that to realize equality, there are at least 5 (five) main elements that must be carried out. First, conduct training and provide job vacancies for job seekers, so that full employment can be realized. Second, provide an appropriate wage system for employees. Third, prepare compulsory insurance to reduce unemployment, workplace accidents, old age benefits and other benefits. Fourth, provide assistance to those who are mentally and physically handicapped, so that they live a decent life. Fifth, collect and utilize zakat, infaq, and sodaqoh, through laws as tax laws.

Humans are a basic element of every development program. They are both a goal and a development target. If they are not properly prepared to be able to make a positive contribution to development, it is not possible to succeed in actualizing the main objectives of Islam in development. Therefore, the most challenging task in front of every Muslim country is to motivate the human factor to carry out constructive activities for equitable development. Every individual must give their best by working hard and efficiently accompanied by integrity, honesty, discipline and ready to sacrifice to overcome obstacles in the course of development.

In TSR's perspective, high and equitable economic growth will provide prosperity and welfare (social wellbeing) or a better function of prosperity to the community as the goal of the maqashid of sharia. In addition, in the long run it will affect the ability of the State to finance its development, one of which is by issuing Sovereign Sukuk, through Islamic Securities instruments in the Capital Market, which are the result of the Ulama (National Sharia Council - Assembly Indonesian Ulama). Fatwa of Ulama regarding Sovereign Sukuk in the concept of Tawhidi (the unity of knowledge) is a representation of the process of  $\Omega$  (omega)  $\rightarrow \theta^*$  (theta star) based on the consideration of the Qur'an and As Sunnah, which then Fatwa produces a new knowledge, namely  $\theta$  (theta), which is a process of interaction between the Government and Ulama in making Islamic investment instruments and part of the shuratic process (deliberation) in ijihad of fiqh muamalah by Ulama. The shuratic process will continue to develop until the goal is achieved in realizing the concept of social wellbeing (W, X,  $\theta$ ).

### **The Influence of Inflation**

From the results of the t test and the coefficient of determination in the long-term regression model shows that the inflation variable, has a Prob. t-count is less than 0.05 ( $\alpha = 5\%$ ) so that it has a significant and negative effect on the variable Sovereign Sukuk Issuance (SSI). In other words the Inflation variable has a negative and significant effect on the SSI variable at a 88 percent confidence level. While the results of the t test and the coefficient of determination in the short-run regression model show that the exogenous variable Inflation has a negative effect but not significant on the SSI variable because it has a greater Prob. t-count value (0.9683) than the critical value  $\alpha = 5\%$ , at the level of 97 percent confidence.

The results of this study differ from the results of research by Ardiansyah and Lubis (2017, b) which show, that the Inflation variable has a positive and significant effect on the growth of corporate Sukuk. The results of the study by Elkirim (2012, c) concluded that inflation had a negative and significant effect on the growth of corporate sukuk. Research by Rahman et.al (2017) concluded that based on an analysis of five countries in Asia and the Middle East, using panel data from 2006 to 2013, showing the results of the study that only the level of inflation is able to explain the movement of Sukuk yields significantly so that Inflation influences issuance Sukuk through yield movements

The results of this study indicate that inflation has a negative effect on the issuance of Sovereign Sukuk in the long term and short term, indicating that inflation factors in the conventional economy affect the value of money (time value of money), due to price increases formed from the practice of ribawi transactions, remains to be determinants of investor investment policies in investing their funds in the Sukuk Negara, as long as there are no sharia financial parameters that have replaced the exogenous variables of inflation. If inflation is high, it will affect demand on the Sukuk Negara in the primary and secondary markets because investors will ask for high yields as well so that Sukuk prices will go down, and vice versa if inflation falls then investors will hold their Sukuk portfolios so that Sukuk prices rise.

Inflation in the perspective of sharia is not a major economic problem in the aggregate, because the currency is stable with the use of the dinar and dirham currency. A decline in value is still possible, namely when the value of gold that supports the nominal value of the dinar has decreased, among others due to the discovery of gold in large quantities, but this situation is very unlikely. According to Islamic economists, inflation is very bad for the economy because: It causes disruption to the function of money, especially to the savings function, the function of prepayments, and the function of the calculation unit. Weaken the spirit of saving and attitude towards saving from the community. Increase the tendency to shop, especially for non-primary and luxury goods. Directing investment in non-productive things, namely the accumulation of wealth such as: land, buildings, precious metals, foreign currencies at the expense of investment towards productive activities such as: agriculture, animal husbandry, mining, industrial, trade, transportation, services and others (Parakkasi, 2016).

In the Tawhidi concept, the argument used in the discussion of muamalah fiqh regarding inflation is when the



Prophet was not willing to set prices even though at that time prices were soaring high, based on the hadith narrated by Anas bin Malik ra:

"From Anas bin Malik, he said: The price of goods was once expensive during the time of the Prophet. Then people say: Yes Rasulullah prices become expensive, set price standards for us, then the Messenger of Allah said: verily Allah is the one who sets the price, which holds and distributes wealth, and in fact I hope that I can meet with Allah in there is no one among you who sues me for tyranny in the bloodshed (murderer) and treasure".

According to IbnTaymiyyah, the hadith revealed that the Prophet did not want to interfere in the issue of regulation of the prices of goods. However, this is caused by price increases triggered by objective conditions. In the perspective of monotheistic epistemology, the concept of inflation in sharia muamalah is a process of Islamic scientific induction ( $X, (\theta)$ ) taken from the content of the propositions of the Qur'an and Sunnah ( $\Omega, S$ ). Inflation in sharia perspective is not the result of *ikhhtikarso* that goods are difficult to find in the market, or efforts to raise prices by speculative, *tadlis*, and or fake offers (*bai al najas*). Islamic economics provides solutions as a substitute for the concept of time value of money with economic value of time, where time is what has economic value (Karim, 2007). This is in accordance with the maqashid of sharia in the case of iqtishodiah (economics) where Islam teaches the concept of working more productively and the function of money is what generates uses and money is not a tool of speculation or treats money like commodities for trading.

### **The Influence of Indonesia Sharia Stock Index**

From the results of the t test and the coefficient of determination in the long-term regression model shows that the Indonesian Syariah Stock Index (ISSI) variable, has Prob. t-count is smaller than 0.05 ( $\alpha = 5\%$ ) so it has a significant effect on SSI. ISSI also positively influences the variable Sukuk Issuance with a confidence level of 88 percent. T test results and the coefficient of determination of the long-term regression model also show that all exogenous variables have a significant effect on SSI. While the results of the t test and the coefficient of determination in the short-term regression model indicate that the exogenous ISSI variable has a positive and significant effect on the PSN variable with a 97 percent confidence level, only the remaining 3 percent is an influence outside the proposed variable. In the short term, Economic Growth, Sharia Stock Index and Sovereign Sukuk Yield have a positive and significant effect partially and simultaneously on the issuance of SovereignSukuk. Only Inflation has a negative but not significant influence on SSI.

The results of the study that the Indonesian Sharia Stock Index (ISSI) have a significant positive effect on the issuance of SovereignSukuk shows that if there is an increase in the average price of sharia shares on the Indonesia Stock Exchange which in capital market terminology is called bullish, then the issuance of other sharia securities in the capital market such as State Sukuk will also be excited and trigger SovereignSukuk issuance transactions and/or transactions on the secondary market for tradable Sukuk.

The Indonesian Sharia Stock Index (ISSI) is the result of a calculation of the weighted average of the capitalization of shares using the base year is the beginning of the issuance of Sharia Securities List, which is December 2007 and was launched on May 12, 2011. The basis of this Sharia Stock Index determination referring to Fatwa Number 80, National Sharia Council, 2011, concerning the Application of Sharia Principles in Equity Securities Trading Mechanisms in the Regular Stock Exchange Market. The Fatwa is the result of ijhtihad of the Ulama through the interpretation of the Qur'anic and Hadith argument, thus the Ulama Fatwa regarding the Sharia Stock Index is new knowledge ( $\theta^*$ ) from the source of knowledge ( $\Omega, S$ ) and is a continuous process through stages IIE thus creating a new Sharia Stock Index that complements the pre-existing Sharia Stock Index, the Jakarta Islamic Index (JII). The knowledge ( $\theta$ ) resulting from the Fatwa process can be implemented in the application of sharia principles in the Indonesian capital market ( $X, (\theta)$ ).

### **The Influence of Yield of Indonesian Sovereign Sukuk**

The results showed that the variable Yield of Sovereign Sukuk has a positive and most significant effect on the issuance of SovereignSukuk because both have Prob values. t-count is smaller than  $\alpha = 5$  percent, with a 88 percent confidence level in the long term and 97 percent confidence level in the short term. The results of this study conclude that the yield of SovereignSukuk has a positive and most significant effect on the issuance of SovereignSukuk shows that rational considerations to get a good return on investment is still a decisive measure for investors, including Islamic Financial Institutions that invest in SovereignSukuk portfolio. This means that the yields given by the Sovereign Sukuk must be satisfied with the interest coupon rate of the Ribawi-based Government Bonds. If it is not competitive, the SovereignSukuk will lose its interest because the biggest investors who buy the SovereignSukuk are conventional institutional investors such as banks, pension funds, mutual funds and foreign institutions included in the group of non-sharia fund managers.

In Tawhidi's perspective, the issuance of Sukuk on the basis of its underlying assets and contracts is the result of *ijtihad* of the National Sharia Council's Ulama to provide a solution for halal investment instruments in the capital market for Muslims, especially Islamic Financial Institutions and other investor communities. Sukuk are Islamic financial instruments in project financing and consumption in modern finance. Sukuk is an alternative to replace bonds or other debt based on interest rates.

The mechanism of applying Islamic principles in the Indonesian capital market, one of which is the issuance of Sukuk which is knowledge ( $\theta$ ) that is ready to be induced in the financial system in society so that it becomes an instrument of Islamic securities in the capital market ( $X, (\theta)$ ), which then through the process of Interaction, Integration, and Evolution (IIE process) became part of today's modern financial society. In line with the increase in *muamalahfiqh* science and the increasing problems of the community in sharia financial transactions, the IIE process continues until the social wellbeing ( $W, (X, \theta)$ ) or better benefit will ultimately manifest welfare Muslims and the whole community as *maqashidof sharia* on *muamalah* transactions on investment instruments and Islamic finance.

**The Interpretation of Regression Model Equation in Long Term and Short Term**

By using the statistical tool E-Views 8.0 in long-term regression modeling using the Ordinary Least Square (OLS) method, the following results are obtained as on Table 2, and based on that estimation results, the determinant equation for the Sovereign Sukuk Issuance in the long term with the ECM model can be made as follows:

$$SSI = 3.679120GDP - 0.240084INF + 0.038540ISSI + 14.59367YIELD - 30.01094$$

**Table 2**

VARIABLE	COEFFICIENT	t-STATISTIC	PROB.
C	-30.01094	-7.448401	0,0000
GDP	3.67912	6.635816	0,0000
INFLATION	-0.240084	-3.63729	0,0005
SHARIA INDEX	0.03854	4.999825	0,0000
YIELD	14.59367	11.15098	0,0000
F-statistic	156.0987		
Prob (F-statistic)	0,0000		

Regression coefficients of GDP, ISSI, and YIELD are positive means they have a direct relationship with SSI. If these variables increase, the SSI will develop as well. When GDP, ISSI and YIELD experience a slowdown, SSI will decrease or slow down as well. Conversely, a negative inflation regression coefficient means it has the opposite relationship to SSI. If inflation rises, the SSI will slow down or there will be a reduction in new emissions from the issuance of State Sukuk. A negative value of negative 30.01 means that if all exogenous variables have a zero value (0), the value of the endogenous SSI variable will decrease by 30 units.

While in the short-term regression modeling using the OLS method, the following results are obtained as on Table 3:

**Table 3**

VARIABLE	COEFFICIENT	t-STATISTIC	PROB.
C	-10.71681	-11.8524	0,0000
GDP	1.039594	8.296318	0,0000
INFLATION	-0.000556	-0.039925	0.9683
SHARIA INDEX	0.008547	5.816237	0,0000
YIELD	7.653869	23.94859	0,0000
RES(-1)	-1.063351	-2.751575	0.0075
F-statistic	515.1614		
Prob (F-statistic)	0,0000		

F-statistic probability value of 0.0000 is under alpha (0.05). The speed of adjustment (coefficient of res (-1)) is negative (-1.063351), which implies that the Error Correction Term (ECT) coefficient value in the ECM modeling is significant and negative for estimating the Sovereign Sukuk Issuance so that the method of analysis using ECM is valid.

Growth equation for the short-term issuance of the SovereignSukuk by the ECM model:

$$SSI = \beta_0 + \beta_1 D_{t-1} + 1.039594 GDP - 0.000556 INF + 0.008547 ISSI + 7.653869 YIELD - 1.063351 ECT$$

The above equation with a negative ECT coefficient (-1.063351) can be explained that the difference between the Issuance of State Sukuk with the balance value is 1.063351 which will be adjusted within 1 year.

## VI. The Conclusion And Implications

The results of the data processing and analysis of the Error Correction Model show that only 4 (four) variables continued the analysis in this study, namely Economic Growth (GDP), Inflation (INF), Indonesian Sharia Stock Index (ISSI) and SovereignSukuk Yield (YIELD). The influence of other exogenous variables on the Sovereign Sukuk Issuance (SSI), namely Exchange Rates, Foreign Debt, Sharia banking Third Party Funds, and SBI Sharia Rate (SBISR), no further testing was done, either the classic assumption test, the model feasibility test, and its interpretation after being released in its regression modeling because it produces a statistically insignificant problem for all eight exogenous variables.

This study found that Economic Growth, Indonesian Sharia Stock Index (ISSI) and Yield of Sovereign Sukuk had a positive and significant effect on the nominal value of SovereignSukuk emissions, both in the long term and in the short term partially and simultaneously. Compared with other underlying studies, this research found that the Yield of Sovereign Sukuk has the most significant positive influence as a determinant of the Sovereign Sukuk Issuance (SSI). This result shows that it can be proved directly that the size of the SovereignSukuk Yield is the main consideration of investors in investing in the SovereignSukuk which is one of the sharia investment instruments in the Capital Market.

The results of this study have the following managerial implications: 1) The government should be careful in considering the inflation factor because the findings in this study have a negative effect in the short term but not significant. But in the long run, the Inflation variable has a negative and significant influence on the success of the SovereignSukuk Issuance auction. 2) When the inflation rate is stable in the long run, the Government can auction SovereignSukuk that is greater than the previous emissions, thereby increasing the Government's ability to finance the State Budget sourced from this issuance of Sovereign Sukuk. Because if inflation tends to be high in the long run, investors will ask for higher returns, which will burden the Government in paying the Sukuk principal repayment and its profit sharing or ijarah fees. 3) Project-based Sukuk issuance schemes and infrastructure financing must be issued more with attractive returns for investors. Compared to conventional Government Securities, SovereignSukuk is still potential to be issued more because the proportion is still below 20% compared to the total outstanding all Government Securities.

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