

CHAPTER I

INTRODUCTION

A. Background

In Indonesia there is a capital market explained in the Capital Market Law no. 8 of 1995: "Capital markets are activities in which there are public offers and securities trading, issuance of securities from public companies and institutions and professions related to securities." Capital markets have two functions, namely, economic and financial functions. It can be said to function economically because in the capital market is a place where two interested parties meet, namely parties that need funds (issuers) and parties that have excess funds (investors).

In the capital market there are various securities traded, including: stocks, letters of recognition of debt, bonds, proof of debt, warrant, and various other effects. One of the effects on the capital market that attracts the attention of investors is Sharia-based bonds or Sukuk.

Sukuk or sharia bonds are long-term securities based on sharia principles issued by issuers to sukuk holders that require issuers to pay income to sukuk holders in the form of profit sharing / fees and repay bonds at maturity (Fatwa National Sharia Council Indonesian Religious Leader No : 32 / DSN-MUI / IX / 2002 concerning Sharia Bonds).

The word Sukuk comes from Arabic "shukuk" which is the plural form of the word "sakk" which has the same meaning as a certificate or note and in economic terminology means legal instrument, deed, or check (Sutedi, 2009:95).

The difference between sukuk and conventional bonds lies in the use of the concept of margin and profit sharing instead of interest. Also the existence of an underlying transaction in the form of a number of assets that form the basis of sukuk issuance and the existence of contracts or agreements between parties which are arranged based on the principles sharia. In addition, sukuk must also be free from usury, gharar and maysir (Sudarsono, 2008: 298).

TABLE 1.1

Desctiption	Syariah Obligation (Sukuk)	Conventional Obligation
Issuance	Government and Corporation	Government and Corporation
Characteristic	Asset / Investment Ownership / Investment	debt securities
Earnings	Rewards / Profit Sharing / Margin	Interest / Cupon / Capital Gain
Range	Short-Medium	Medium-Long Term
Underlying	Needed	No Needed
Price	Market Price	Market Price
Variety	Syariah & Conventional	Conventional
Related Parties	Obligor, SPV, Investor dan Trustee	Obligor dan Investor
Use of Funds	Based on Sharia Concept	Free

Source: Fatwa Dewan Syari`ah Nasional No: 32/DS-MUI/IX/2002.

The development of sukuk in the world began with the issuance of state sukuk, but in the following years the corporate sukuk dominated more. The state sukuk is usually used for public financing purposes such as the construction of dams, ports, airports, hospitals and toll roads. Meanwhile, corporate sukuk issuance is used for business expansion, especially for large companies.(Endri,2009).

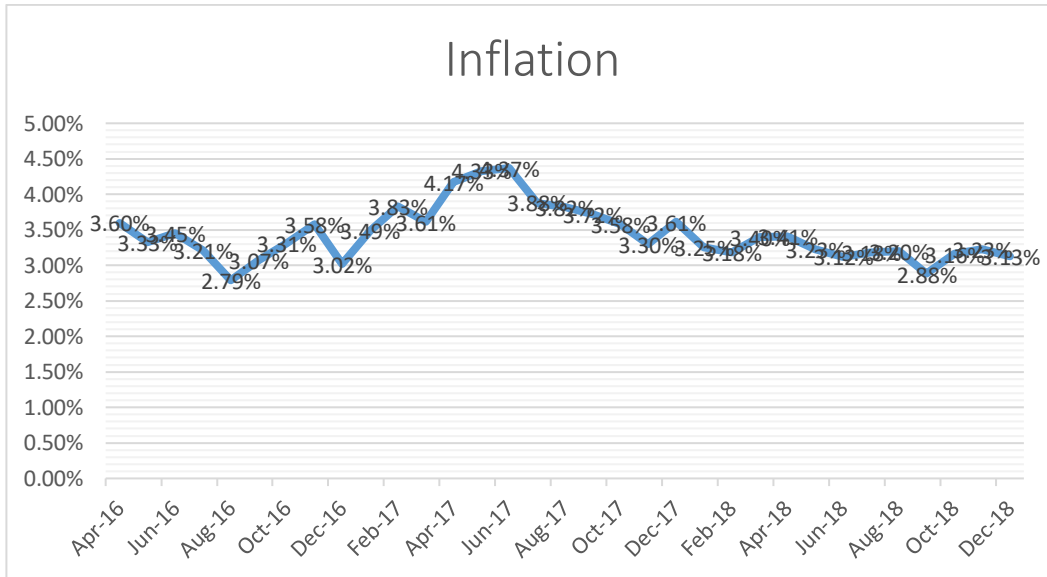
The first sukuk issuance in Indonesia was carried out by PT. Indosat Tbk in 2002. The issuance of the SBSN Law itself was only carried out in 2008, and until now the issuance of State Sukuk was carried out regularly both in the domestic market

The development of corporate sukuk is quite slow compared to the development of corporate bonds where the base of sharia investors is still very small so that many corporations feel they will not get a significant profit. Several factors such as the higher coupon level that caused a surge in COF (Cosit of Funding), lack of understanding of the corporation against the underlying assets and regulations of the sukuk itself, also made the emissions from corporate sukuk less than optimal.

The next thing that becomes the background is 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, 1998).

Inflation is a measure of economic activity that is also often used to describe national economic conditions. More clearly inflation can be defined as an economic

measure that gives an idea of the increase in the average price of goods or services produced by an economic system.



Source: BI (Data Processed)

Figure 1.1
Inflation Rate
Period 2016-2018

According to (Ardiansyah & Lubis, 2017), inflation can have a positive and negative impact on economic growth. The positive impact of inflation on economic growth is that it can encourage companies to increase production due to rising prices. The increase in production by companies will create many new jobs so that there is employment and reduce unemployment and will also increase national income which will also increase per capita income. With the increase in per capita income, public

money holds a lot of money or is circulating in the community to be many, which can later be used to invest. Even though this condition still has a negative impact, for example when the prices of goods and services increase, the community will reduce their consumption so that the performance of the company's production will be affected. Usually when people's consumption goes down, the salaries of mass employees are considered to be permanent, of course, here the company has experienced an uncertain deficit when employees ask for a salary increase because when inflation occurs daily needs will also increase. The company will reduce the number of its workforce or it can become a turnaround. Therefore, inflation greatly affects the investment climate where when a country is experiencing inflation, investors will think twice about investing their capital in Indonesia.

According to (Anandyarini, 2017) there is a negative relationship between inflation and the growth rate of corporate sukuk. This increase in inflation will reduce the growth rate of corporate sukuk. This is because when a company issues sukuk, it will certainly be adjusted to the macroeconomic conditions in Indonesia. When inflation is high it will cause public consumption to decrease and increase interest rates. The high interest rate will affect the company's financial performance. Strengthened by research (Rini, 2012) that inflation has a significant negative effect on sukuk issuance. When inflation increases, the issuance of sukuk will decline because the domestic macroeconomic conditions are not good. When there is an increase in the prices of goods and services (inflation), the purchasing power of the people decreases which in the end the domestic financial market conditions will deteriorate.

Looking at the positive trend in the development of corporate sukuk in Indonesia, it will certainly attract the attention of public investors to invest in Islamic investment, especially in corporate sukuk. Positive trends are also expected to be the basis for forecasting developments in the next few years. A good growth rate will run in proportion to the level of profit that is also good.

Besides calculating investment returns, investors also need to consider the level of risk as the basis for making investment decisions. The most common term in the investment world is "high profit high risk, low profit low risk". The risk of sukuk is the risk of being exposed to sukuk effects. Sukuk is believed to be a security with a lower level of risk compared to conventional bonds because of funding for prospective projects and underlying assets (Manan, 2007).

Then the condition of the exchange rate is also one of the macroeconomic indicators to determine the condition of sukuk emissions in a country. A good exchange rate is where the Rupiah strengthens against the US Dollar, which is when the Rupiah appreciates. It is an undeniable thing if the investment climate will get better when the rupiah value rises. This will certainly be a plus in the consideration of investors to invest their capital.

And we assume the money supply is also able to support total sukuk emissions. Because the money supply (M2) has increased from 2016-2018 with positive growth. Money growth will naturally increase economic activities so that the people's need for capital increases, this increases the intention of companies to seek funds in the capital market

TABLE 1.2
Exchange Rate and Money Supply (M2)
Period 2016-2018

Year	Macroeconomic Variables	
	Exchange Rate IDR/USD	Money Supply (M2)
2016	13.307,38	5.004.976.79
2017	13.384,13	5.419.165.05
2018	13.882, 62	5.760.046.2

Source: BI (Data Processed)

According to (Ardiansyah & Lubis, 2017), the variable exchange rate has a negative and significant effect on the growth of corporate sukuk in Indonesia. That is, if a country's currency appreciates against the US dollar, it will cause a decrease in demand for export products because the price is more expensive than other exporting countries. This will cause a capital outflow. Capital outflow will reduce investment and will have an impact on the decline in the growth of corporate sukuk in Indonesia. While other studies by (Anandyarini, 2017) variable exchange rates have a positive effect on the growth of corporate sukuk in Indonesia. The increase in exchange rates will also be followed by an increase in the rate of growth of corporate sukuk.

The money supply (M2) has increased from 2016-2018 with positive growth. On Jan 2016 Money Supply was Rp. 4,498.40 trillion and closed on Dec 2016 by total of r Rp. 5,003.30 trillion, then on the Jan 2017 it was decreased to Rp. 4,938.70 trillion but keep increasing until December 2017 and closed by total Rp. 5,418.50 trillion. Then at the beginning of Jan 2018 the money supply were at Rp 5,351.70 and again its keep increasing along the year and closed on December 2018 by total of Rp. 5,758.30 trillion. We can assume that good growth of money growth will increase economic activities so that the company's needs for capital will increase, this will theoretically make the capital market climate better.

Based on the background above, the researcher was interested in researching the development of corporate sukuk in Indonesia with research title of "**ANALYSIS OF FACTORS AFFECTING THE NUMBER OF CORPORATE SUKUK EMISSIONS**"

B. Research Problem and Formulation

Based on the background above, the formulation of this study is:

1. How does the influence of inflation on corporate sukuk emissions
2. How does the influence of the money supply on corporate sukuk emissions
3. How does the influence of the exchange rate on corporate sukuk emissions

C. Research Objective

Based on the formulation of the problem above, the purpose of this study is:

1. To determine the effect of inflation on corporate sukuk emissions

2. To determine of the money supply on corporate sukuk emissions
3. To determine the effect of the m2 on corporate sukuk emissions

D. Research Benefits

The benefits of this research are:

1. As information on what factors that could influence corporate sukuk emissions
2. As input for other researchers who want to research in the same field
3. To add an insight to general investors and the wider community who want to invest using sukuk
4. As a policy reference for the relevant government

