

The role of Islamic Sukuk in Absorption of Deficit Budget (Indonesia And Malaysia Cases)

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Abstract

The aim of this study is to identify the islamic sukuk and its development in recent last years, and its role in absorption budget deficit, this instruments are used in strengthen the infrastructure also they have an effectiveness contribution to reduce the budget deficit.

Indonesia and Malaysia are considered among the pioneering countries in using sukuk to absorb the public budget deficit, as it has become one of the monetary policy tools to control the amount of cash circulating in society.

Keywords: Islamic Sukuk ; Budget deficit ; development of sukuk ; Indonesia experience ; Malaysia experience.

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Résumé

Le but de cette étude est d'identifier le sukuk islamique et son développement au cours des dernières années, et son rôle dans l'absorption du déficit budgétaire, ces instruments sont utilisés pour renforcer l'infrastructure également ils ont une contribution efficace pour réduire le déficit budgétaire.

L'Indonésie et la Malaisie sont considérées parmi les pays pionniers dans l'utilisation du sukuk pour absorber le déficit budgétaire public, car il est devenu l'un des outils de politique monétaire pour contrôler la quantité de liquidités circulant dans la société.

Mots clés Sukuk Islamique; déficit budgétaire; développement du sukuk; le cas de l'Indonésie ;le cas de la Malaisie.

ملخص

تهدف هذه الدراسة إلى التطرق إلى الصكوك الإسلامية و تطورها خلال السنوات الأخيرة، و دورها في التقليل من عجز الموازنة العامة للدولة، فبالإضافة إلى استخدام الصكوك في تعزيز البنية التحتية أصبحت أحد أهم الأدوات التمويلية التي تستخدمها الحكومات لتمويل عجز ميزانيتها.

تعتبر كل من إندونيسيا و ماليزيا من الدول الرائدة في استخدام الصكوك لامتناس عجز الموازنة العامة حيث أصبحت تعتبر من أدوات السياسة النقدية للتحكم في كمية النقد المتداولة في المجتمع، و تعتبر تجربتي إندونيسيا و ماليزيا من التجارب الرائدة للدول التي استخدمت الصكوك الإسلامية في تمويل عجز الموازنة العامة لها.

الكلمات المفتاحية: صكوك إسلامية ؛ تطور الصكوك الإسلامية ؛ عجز الموازنة العامة، تجربة إندونيسيا، تجربة ماليزيا.

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I. Introduction

Budget deficit is one of the major macroeconomic and development challenges confronting developing nation (Abubakar & Daud, 2019, p 146), for this a lot of countries try to find an other method to minimize this rate of deficit.

Islamic law forbids the exchanging of short term debt tool than intrinsic value, or from drawing upon the traditional interbank money markets since these exchanges comprise of interest (Riba) and uncertainty (Gharar). This implies that Islamic financial institutions have a tendency to have profoundly liquid balance sheets with restricted opportunities for the placement of funds. Therefore, Sukuk as an asset-backed trust certificate is a great opportunity for short and medium term placement of such finances in a Shariah compliant manner (Ghafoor, Saba, & Kouser, 2018, p 159). Based on Islamic economics and finance, Al Quran and Sunnah are to be normative rule while the law will be practical legal guide; citing the objective of Islamic economics from Umer Chapra's book, Islamic economics aims to achieve "FALAH", (red: the welfare is in the world and the day after) (Al Parisi & Rusydiana, p 108). Looking the reference for Sukuk, the main source of Islamic Finance begins with the Quran followed by the rules for Prophet Sunneh and Islamic tradition. Based on the results of these principles is Islamic Economics which gives prominence to profit-loss sharing rather than the interests gained from capital accumulation and investments (Keskin & Kantarci, 2015, p1897).

Islamic securities are specially tailored financial products that conform to a given set of legal- common- law- based (shari'ah) financial transaction principles, which are deemed strictly applied when designing financial contracting terms covering such products.

Until now sukuk has become a significant role in supporting of many countries real sector growth, the issuing of sukuk has provides alternative funding for ongoing government's economic development, and the demand for sukuk has grown exponentially since the issuance of financial instruments under Shari'ah was first upheld by the Fourth Annual Plenary Session of the Islamic Jurisprudence Council held in Jeddah, Saudi Arabia in 1988 (Abdel-Khaleq & Richardson, 2007, P 413).

The emergence of the Islamic banking and finance industry in modern economies, particularly in the Arab Gulf and some Southeast Asian states reflects an attempt to create a semi- independent financial system under the prevailing system. This feature has also characterized the creation of the Islamic capital markets within the prevailing conventional capital markets (Alam, Hassan, & Haque, 2013, p 22). In other hand african countries interested in this Islamic instruments like Sudan and Nigeria to reduce there budget deficit because financing fiscal deficit with SBSN or bonds including through the issuance of sukuk to be an alternative for majority of developing countries today (Amaliah & Aspiranti, 2017, p23)

Sukuk also proved to be implemented during the economic downturn, or seeks to develop an economy. For example sukuk or Islamic bond is issued by the World Bank in 2005 for the redevelopment of Aceh following the tsunami and The Kuala Lumpur International Airport in Sepang, Malaysia through which many foreign delegates arrived here today, was financed by sukuk in 1996 (Mohd Zin, et al., 2011, p 472).

II. Background about Sukuk

Sukuk (Islamic securities) are considered as Islamic financial instruments created for middle and long term financing due to some limitations existing in Islamic financial system, resulting in lack of use of common bonds (Zolfaghari, 2017, p 04). The foundation principles for sukuk have developed in conformity with Islamic legal principles based on Qu'anic commandments as elaborated in shari'ah provisions over centuries of development as handed down since the Islamic scripture (Ariff, Safari, & Shamsheer, 2012, p 11), and the first bonds were successfully introduced by Malaysian government in 1983 with the introduction of Malaysian Investment issue (Khosro, Kazi, Ahmedani, Ahmed, Ahmed, & Khoso, 2016, p 07).

Sukuk is the plural word for the word "Sak" which means financial certificate in Arabic, the Latin equivalent of "sukuk" which is "çek" as referred to by Muslim traders from the Middle Ages-shopping and other commercial activities has been used as a paper depicting financial obligations (Keskin & Kantarci, 2015, 1898).

The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) Shari'ah Standard No.17 (2) defines sukuk as: " Certificates of equal value

representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity" (Baita & Daud, 2019, p147). There are three requirements for a sukuk to be considered in compliance with Shari'ah law:

First, the certificates must represent ownership in tangible assets, usufructs or services from revenue-generating firms;

Second, payments to the investor come from after-tax profits;

Third, the value repaid at maturity date should follow the current market price of underlying asset and not original invested amount (Zolfaghari, 2017, p05).

Sukuk can be defined as "Sukuk, in Islamic finance parlance, refer to the ownership of claims against certain assets or a pool of assets. Technically, Sukuk are certificates of equal value that represent units (undivided shares) in ownership of tangible assets, usufructs (Manfa'ah), and services".

Generally a special purpose vehicle (SPV or issuer) issues sukuk which are trust certificates. The proceeds of sukuk are lent to a corporation, financial institution, insurance company, the government to raise funds in a Sharia'ah compliant manner (Ghafoor, Saba, & Kouser, 2018, p 159).

A sukuk contract may thus be defined simply as a funding (Debt) arrangement agreed to between a party providing the funds (investor) and the counterparty (a government or a firm or an individual) borrowing the funds for the purpose of using the funds to engage only in permissible economic production/services (Ariff, Safari, & Shamsher, 2012, p14).

International Islamic Financial Market (IIFM) defines sukuk as a "commercial paper that provides an investor with ownership in an underlying asset" this definition for paper can be extended to any finite period sukuk (Ariff, Safari, & Shamsher, 2012, p 19).

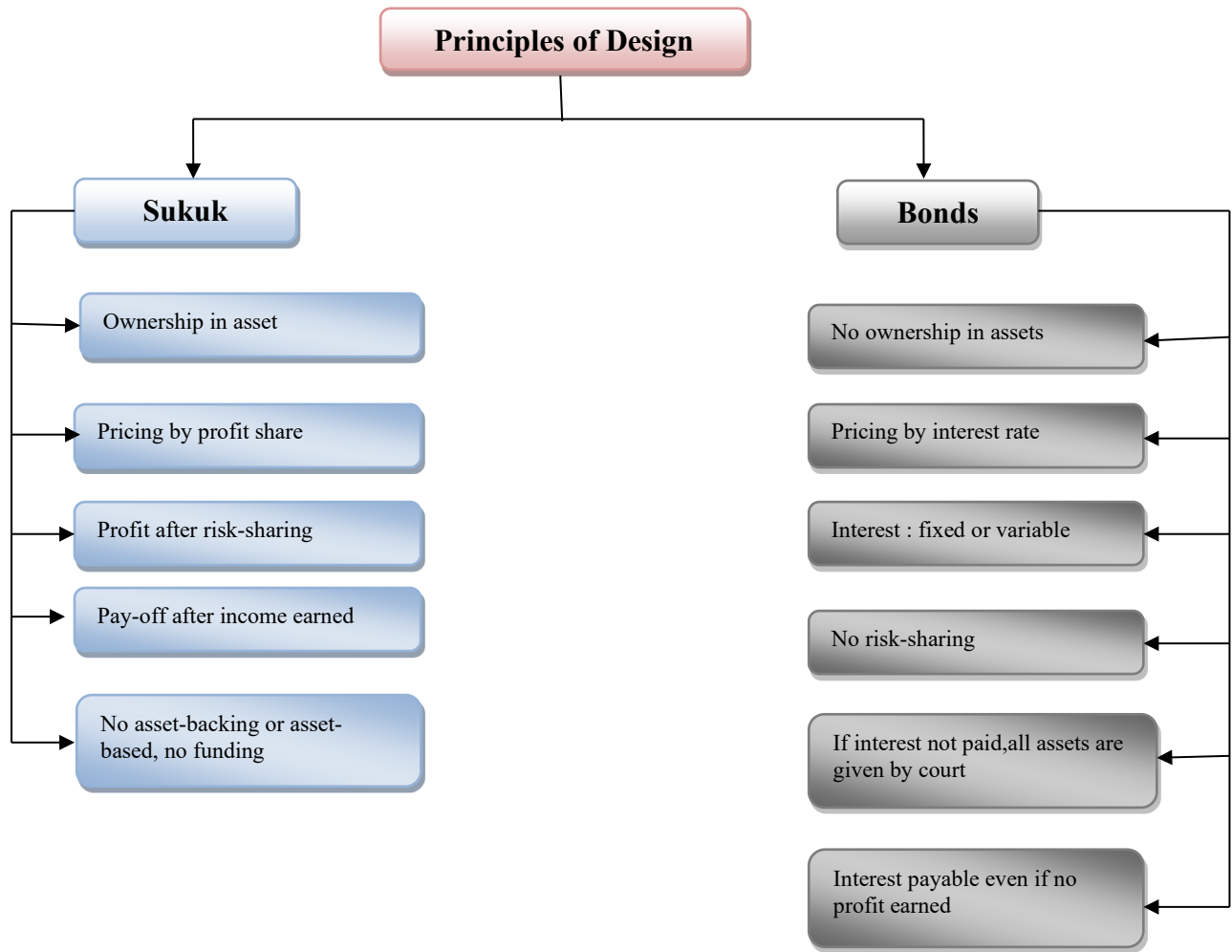
In other part the increasing use of sukuk to raise capital is proven to have a positive effect on the Islamic capital market and overall the fund management industry, but its effect on shareholder's wealth is unclear especially during volatile global financial market (Alam, Hassan, & Haque, 2013, p23).

III. The difference between sukuk bonds and other classical bonds

The most basic feature of Sukuk is assets used under Sukuk can also be used for special projects and private investment. While these assets can be used in the secondary market, they also provide fixed or variable returns to investors (Keskin & Kantarci, 2015, 1898), there is an important differences exist between the islamic sukuk and classical bonds, these differences arise out of the fact that (secured or risk-free) lending at interest differs in fundamental ways from investment that requires the entrepreneur to take risk in order to earn profit. The significance of differences between sukuk and bonds goes beyond the structure of each instrument. The ways in which sukuk and bonds enable issuers to raise funds, and the ways in which the providers of these funds are rewarded for their respective contributions, have far reaching implications on society in general, and on how members of given community will relate to one another in particular (Abdullah, 2014, pp 03-04).

We can distinguish these differences between sukuk and classical bonds by this figure:

Figure1: Fundamental principles of sukuk security compared to conventional debt security



Source: Mohamed Ariff, Meysam Safari, Shamsheer Mohamed; Sukuk securitirs,their definitions, classification and pricing issues, January 2014, <https://www.researchgate.net/publication/259694801>, visited: 01.09.2020

The precedent figure provides a comparison of the fundamental principles underlying the contract specifications of sukuk funding against conventional debt funding contracts. Sukuk are, therefore, securities that are structured like conventional bonds, but with the distinction that they comply with the principles of Islamic Shariah, including the prohibition of interest, gharar, and investment in illicit activities. Table 1 below provides a brief comparison between sukuk and conventional bonds. (Chermi & Jerbi, 2015, p03).

Table 1. Comparison between sukuk and Bonds

SUKUK	BONDS
Sukuk represent ownership stakes in existing and/or well-defined assets;	Bonds represent pure debt obligations due from the issuer;
The underlying assets secured in a sukuk issuance must comply with Shariah and respect Islamic prohibitions;	Bonds , can be issued to finance almost any purpose which is legal in its jurisdiction;
Sukuk holders are related to the costs and risks associated with the underlying assets, and their rewards are not fixed;	Bond holders are not concerned with the expenses and risks of the the issuer’s

	underlying assets and receive a fixed interest rate;
Sukuk prices depend on the market value of the underlying assets;	Bonds depend solely on the credit worthiness of the issuer;
Neither capital nor performance can be contractually guaranteed;	Capital and performance are contractually guaranteed;
The sale of sukuk is generally the sale of a portion of an asset.	The sale of a bond is essentially the sale of a debt.

Source: Hajer Chermi, Yacin Jerbi, Sukuk as an Attractive Alternative of Funding and Investment in Tunisia, *Journal of Emerging Economies and Islamic Research* 2015, Vol. 3, No.1, p 03.

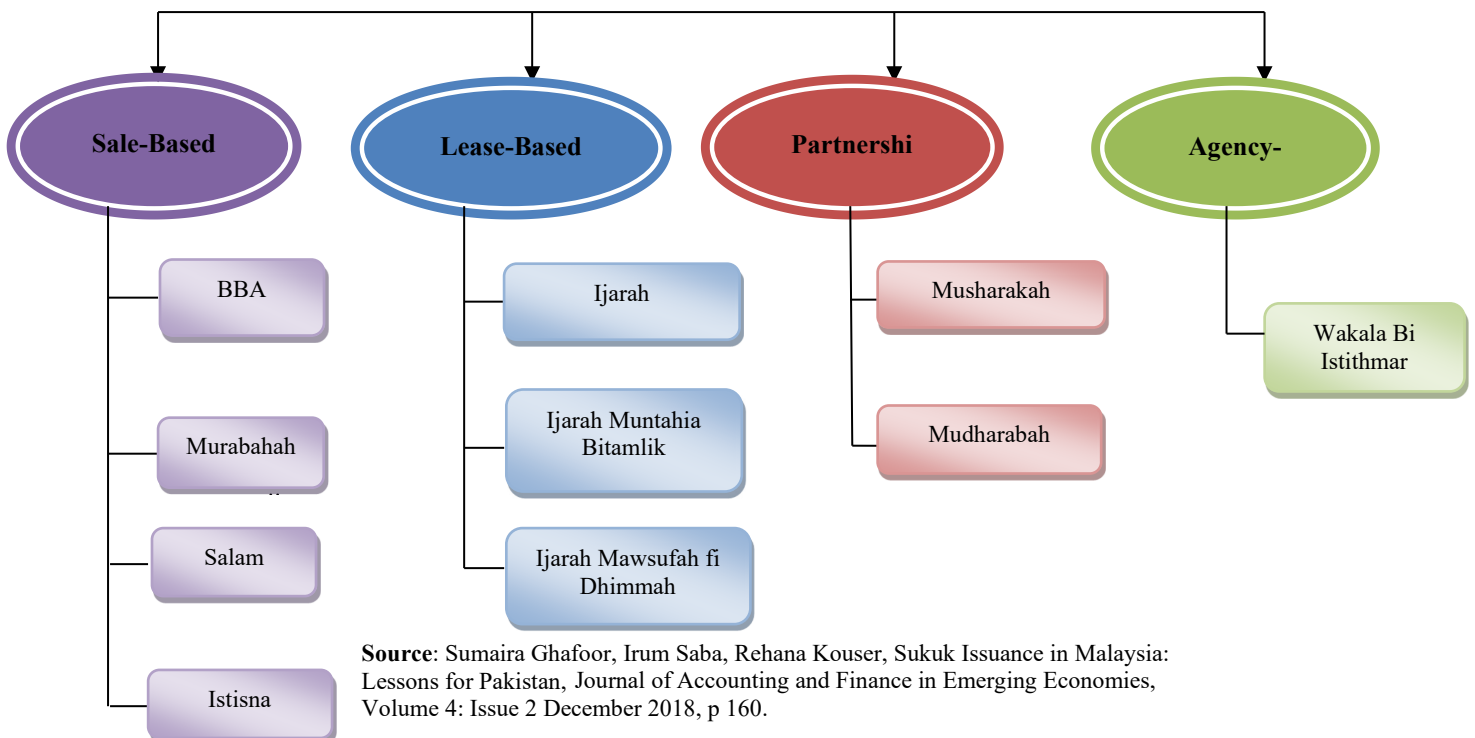
Table 2. summarizes the major differences between sukuk, bonds, and shares

COMPARISON	SUKUK	BONDS	SHARES
Type of security	Share of revenue stream	Debt	Ownership in a corporation
Type of return	Profit sharing	Coupon	Dividends
Maturity date	Specified	Specified	Unspecified
Priority in paying principle	First in priority	First in priority	Less in priority
Risk	Lower	Lower	Higher
Voting rights	Not entitled	Not entitled	Entitled

Sukuk Structures based on Islamic Contracts

Sukuk gives the ownership rights in specific assets to some extent as opposed to debt. Sukuk is issued in a manner corresponding to the principles of Musharakah, Mudharabah, Murabahah, Ijarah, Istisna, and other modes of finance, structure of sukuk based on Islamic contracts is shown in the following diagram (figure 2) (Ghafoor, Saba, & Kouser, 2018, p 160).

Figure (2): Sukuk Structures based on Islamic Contracts



Source: Sumaira Ghafoor, Irum Saba, Rehana Kouser, Sukuk Issuance in Malaysia: Lessons for Pakistan, *Journal of Accounting and Finance in Emerging Economies*, Volume 4: Issue 2 December 2018, p 160.

As illustrated in Figure 2, there are four major categories of sukuk : (1) Sale-based , (2) Lease-based, (3) Partnership-based, (4) Agency-based. Various countries are using sukuk for managing capital needs including: Bahrain, Brunei, Egypt, Gambia, Indonesia, Iran, Malaysia, Kazakhstan, Kuwait, Pakistan, Qatar, Saudi Arabia, Singapore, Somalia, Turkey, United Arab Emirates, United Kingdom and Hong Kong (Ghafoor, Saba, & Kouser, 2018, p 160).

Benefits of sukuk

- Islamic sukuk can reduce the fiscal deficit even if revenue receipts decline and expenditures increase. The revenue generating sukuk, such as transportation, IPP and others can be financed without burden to Government
- Financing by sukuk is tied to real and permissible Assets/Projects, thus it increases development and economic activities (Adeola, 2009, p 17);
- Sukuk is tradable capital market product providing medium to long-term fixed or variable rates of return;
- It is assessed and rated by international rating agencies, which investors use as a guideline to assess risk/return parameters of a sukuk issue (Zolfaghari, 2017, p06).
- Sukuk can be traded in the secondary market in accordance with the market price so that investors have the opportunity to obtain capital gains;
- Giving people an opportunity to participate in national development;
- the investment is safe because state sukuk pays remuneration and its nominal value is guaranteed by law (Amaliah & Aspiranti, 2017, p23).

IV. Development of sukuk in the world

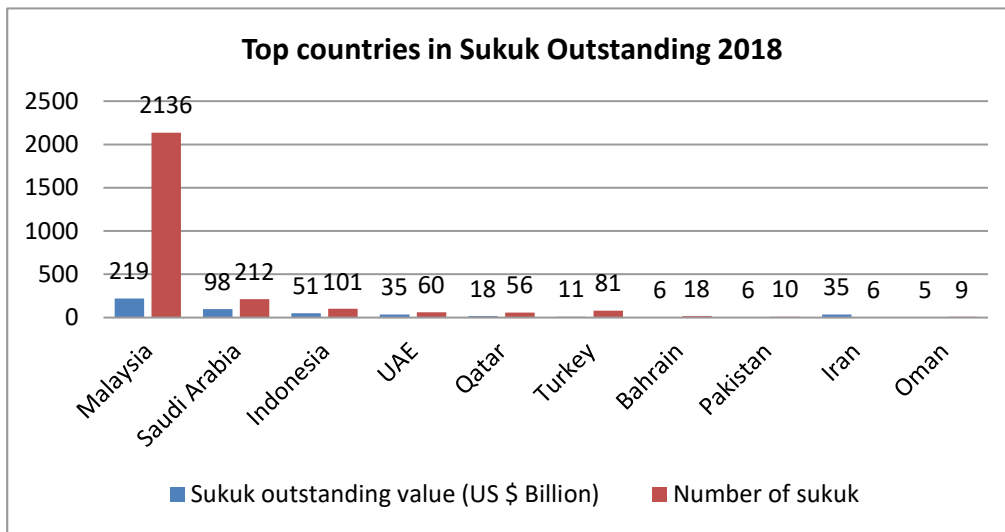
Sukuk has remained the highest mobilizer of funds for investment and real sector's development, especially in developing economies like Malaysia, Saudi Arabia, Qatar, Indonesia, Pakistan, South Africa , and Sudan among others. Interestingly studies have shown that Malaysia remains the leading and biggest sukuk issuer with Saudi Arabia coming next (Figure 03).

Realizing the success of sukuk in Germany issued euro-denominated Ijajrah sukuk in July 2004 while East Cameron Cas Company in the United States issued sukuk in June 2006, other non-Muslim countries later joined Germany include the UK, Japan, China, Singapore, Hong Kong, Australia, Russia and a host of others.

In the African continent, countries like South Africa, Kenya, Tanzania, Tunisia, Egypt, Sudan, Senegal, Gambia, and Nigeria are now members of the Global Sukuk club (Baita & Daud, 2019, p 148).

Data from the Islamic Finance Information Services (IFIS) indicate that corporate sukuk quickly gained a dominant market share on the sukuk market relative to sovereign sukuk. Corporate sukuk broaden the firm's financing base away from traditional sources of fund (such as bank loans and lines of credit that are saved for other strategic investments), and extend their maturity beyond the short-term horizon usually granted by banks. Further, corporate sukuk issues increase public recognition of the company and raise its profile in the market (Godlewski, Turk-Ariss, & Weill, 2013, 747).

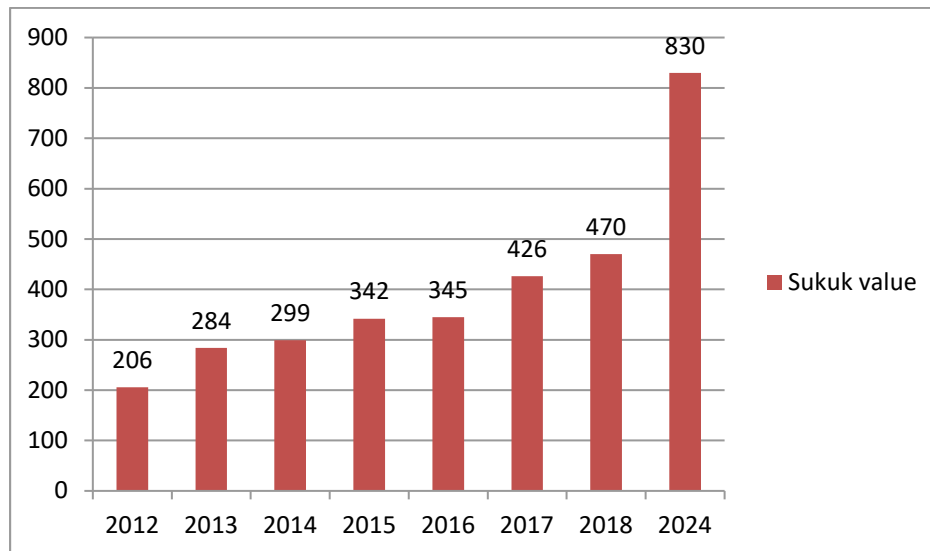
Figure (3): Sukuk Value Outstanding Growth 2012 - 2018 (US\$ Billion)



In 2018, cumulative issuance of sukuk crossed the US \$1 trillion mark since the first issuance in 1996. Almost half of these were within the last five years alone, showing just how strongly sukuk are growing in popularity. As of the end of 2018, outstanding sukuk were valued at US \$469.7 billion across 2,887 sukuk.

Sukuk issuances during the year reached US \$ 124.8 billion, a similar level to the previous year. However, issuances as of the third quarter of 2019 indicate growth has gained momentum, backed by an extensive government and corporate issuance pipeline from the GCC and Malaysia.

Figure (4): Top Countries in sukuk Outstanding



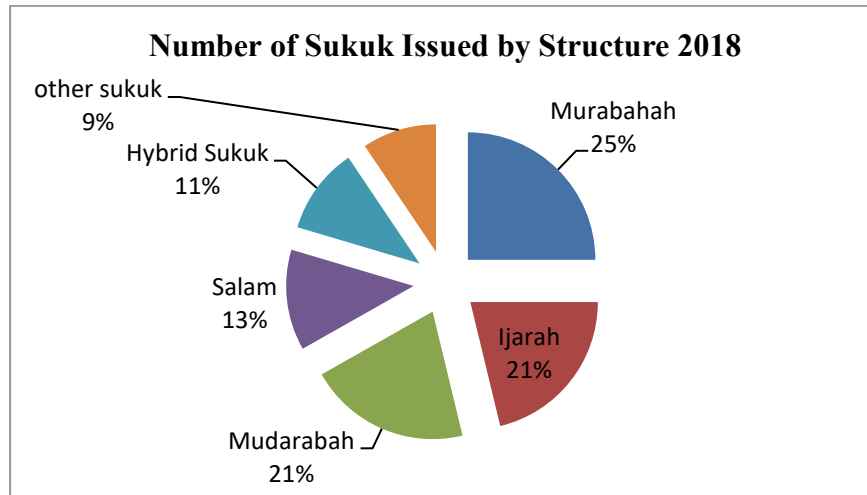
The Saudi and Malaysian governments were the largest issuers in 2018, at US\$ 17.1 billion and US\$13.9 billion, respectively.

Malaysia maintained its lead position in terms of issuances, boosted by the return of short-term Murabahah sukuk from Bank Negara Malaysia. The central bank resumed

sukuk issuances after a three-year hiatus. It issued US\$ 16.1 billion in short-term sukuk during the second half of 2018.

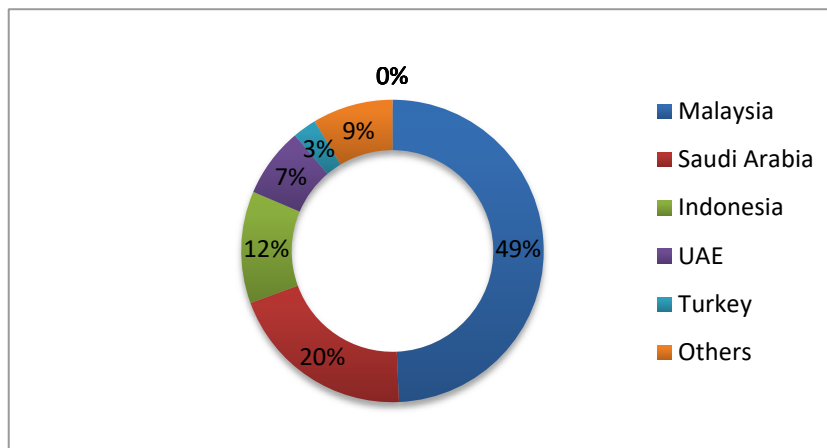
The Malaysian Islamic sukuk market represent one of successful global experiences, whether from the issuance quality or from sukuk using in financing different projects in various economic sector and it can be using to minimize budget deficit. From the figure (4) Malaysia ranked the first position in the process of issuing sukuk by 79.5% of the word's total sukuk in 2018.

Figure (5): Number of Sukuk Issued by Structure 2018



As illustrated in figure (5) Murabahah sukuk has the most important percent with 25% of total Islamic sukuk number issued in 2018, In second rank there are Mudarabah and Ijarah sukuk with 21% in third rank Salam sukuk with 13% of total Islamic sukuk .

Figure(6). Country wise breakdown of sukuk outstanding as of 31 Dec 2018



In the figure (6) we can distinguish the total volume of global Sukuk outstanding from a country perspective, 91.41% is represented by just 5 countries i.e. Malaysia 49.32%, Saudi Arabia 20.10%, Indonesia 11.98%, UAE 7.46% and Turkey 2.55%. Right behind them are Qatar 1.98%, Bahrain 1.58% and Pakistan 1.62% (report IIFM, 2019, p76).

V. Budget deficit in Indonesia And Malaysia countries

1. Budget deficit in Indonesia

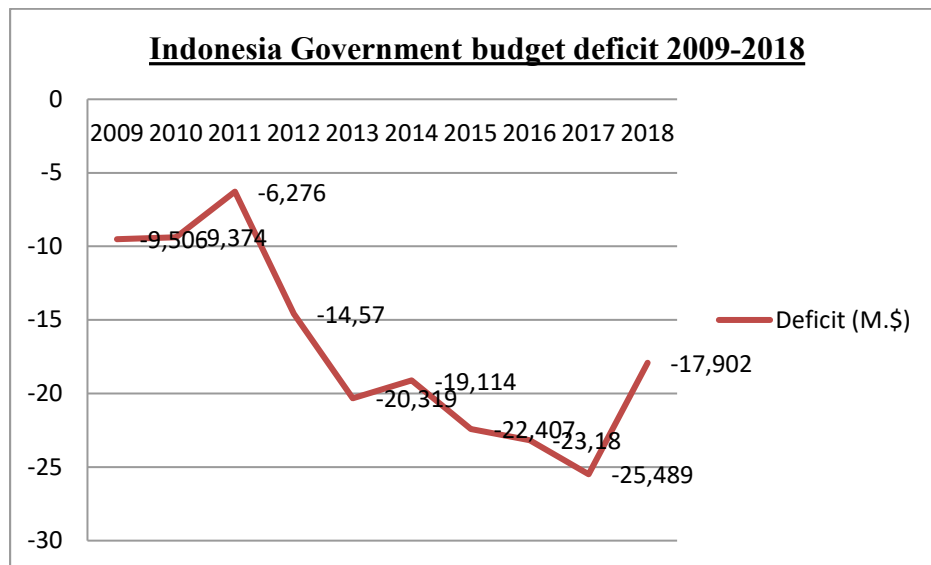
Economic crisis in 2007 created serious problems for Indonesia economics, for example, the balance of payments which was a deficit financing in quite large amount. It occurred because of the weakening of the rupiah exchange rate towards the US dollar has further impact on declining exports and rising foreign debt. One of the causes of declining export was the price of Indonesia's export products, which was not good enough because the very high price of imported raw material (Amaliah & Aspiranti, 2017, p21).

Table (3) Indonesia Government budget deficit 2009-2018

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Deficit (M.\$)	-9.506	-9.374	-6.276	-14.570	-20.319	-19.114	-22.407	-23.180	-25.489	-17.902
Deficit (% /GDP)	-1.64%	-1.24%	-0.7%	-1.59%	-2.22%	-2.15%	-2.60%	-2.49%	-2.51%	-1.75%

Source: <https://countryeconomy.com/deficit/indonesia>

Figure (7): Indonesia Government budget deficit 2009-2018



From the table (3) and its figure (6) we can see that Indonesia Budget deficit had many fluctuations during the period 2009- 2018, When Jokowi came into office in 2014, his administration inherited a debt of US\$122 billion from his predecessor, Susilo Bambang Yudhoyono (SBY). Four years later, this debt has risen by 48% to US\$181 billion. The increase is quite substantial as under SBY's five-year administration, from 2009 to 2013, the debt increased by 26% (Soesmanto & Tjoe, 2018), During the period 2009-2015 Indonesia's foreign debt had increased by 79.9% or an increase of 13.32% in each year. This indicates that reliance on overseas funding continues to grow. It also means that the Indonesian economy is highly vulnerable to external conditions (Amaliah & Aspiranti, 2017, p 25).

2. Budget deficit in Malaysia

Table (4) : Malaysia Government budget deficit 2009-2018

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Deficit (M.\$)	-12.472	-11.162	-10.783	-9.889	-11.404	-9.010	-7.671	-7.843	-7.671	-12.855
Deficit (% /GDP)	-5.88%	-4.32%	-3.57%	-3.10%	-3.48%	-2.63%	-2.55%	-2.60%	-2.41%	-3.31%

Source: <https://countrveconomy.com/deficit/malaysia>

The Malaysian economy contracted by 1.6% due to the world financial crisis that swept the US economy in late 2008. In 2010, the Malaysian economy bounced back to 7.2% and declined to 4.5% in 2018. In general, the country has grown rapidly by international standards.

The budget deficits run by the government around the world particularly since 2008 which tackle the effect of global economic crisis had accelerated the growth of government debt and accumulated the debt which had reached critical level (Aslam & Jaafar, 2020, p 02).

From the table (4) it can be seen the Malaysian budget deficit has reached the highest level in 2009 after the subprime financial crisis; in other hand the Malaysia federal government debt level has been increasing much faster than the GDP growth, the statutory borrowing ceiling has been raised by 15% of GDP within 6 years 2009-2017.

VI. Issuance sukuk to finance budget deficit in both Indonesia and Malaysia

1. Indonesia experience

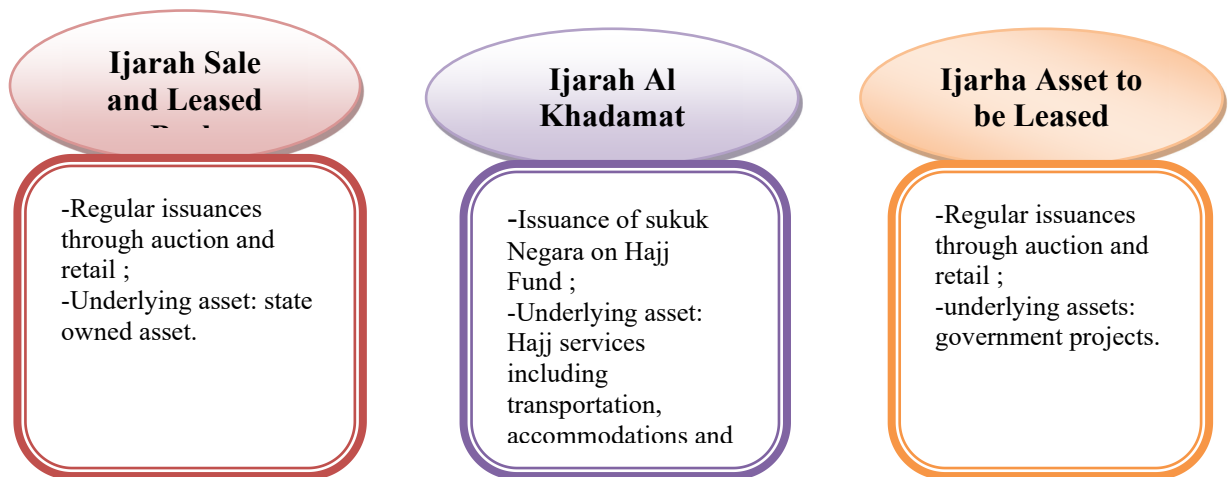
Issuance of Islamic bonds from year to year continues to increase significantly in Indonesia, this means the government has no alternative domestic funding that can be used to cover the budget deficit development. This condition should be continuously developed in term of Islamic bonds that have a very wide market it can be used not only to cover the budget deficit but also to finance the physical infrastructure (Amaliah & Aspiranti, 2017, pp 25-26).

Indonesia launched the first waqf-linked sovereign sukuk in October 2018, raising US\$ 1.64 billion. The sukuk aims to mobilize cash funds from waqf (endowment) assets, which typically generate little or no income. The proceeds will be used to finance social assistance projects such as rebuilding affordable homes for victims of earthquakes. The structure of this sukuk stipulates that the principal investment will be returned to the waqf fund in full, and the profit payments will be reinvested to manage the waqf assets.

Indonesia also has a new US\$ 1.4 million waqf-linked sukuk issuance in the pipeline for 2019, targeting a wider investor base (both retail and institutional). Global waqf assets are estimated at US\$ 1 trillion in cash, real estate and commercial businesses. The benefit of this innovative use of sukuk is two-fold: low-cost financing for government social programs and efficient management of waqf funds. The replication of this model across other Islamic finance jurisdictions would help ease the burden of social development programs, especially those with low-income populations and high government debt and cost of borrowing.

Different from common practice in international market which uses one dedicated SPV for every single issuance, RoI uses single SPV named Perusahaan Penerbit SBSN Indonesia (PP SBSN Indonesia) for all its domestic issuances. Under this single SPV concept, PP SBSN Indonesia is allowed to issue multiple series and types of sukuk. Up to now, it has been issuing sukuk with various structures: ijarah sale and lease back, asset to be leased, and ijarah al-khadamat. Each structure utilizes different underlying asset for the transaction. Figure below shows types of Sukuk Negara has been issued by PP SBSN Indonesia for the interest of Indonesian government:

Figure (8): Perusahaan Penerbit SBSN Indonesia (SPV) for Sukuk Negara



Source:([https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/5Brosur/Investing%20in%20Sukuk%20Negara%20\(Indonesian%20Sovereign%20Sukuk\).pdf](https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/5Brosur/Investing%20in%20Sukuk%20Negara%20(Indonesian%20Sovereign%20Sukuk).pdf))

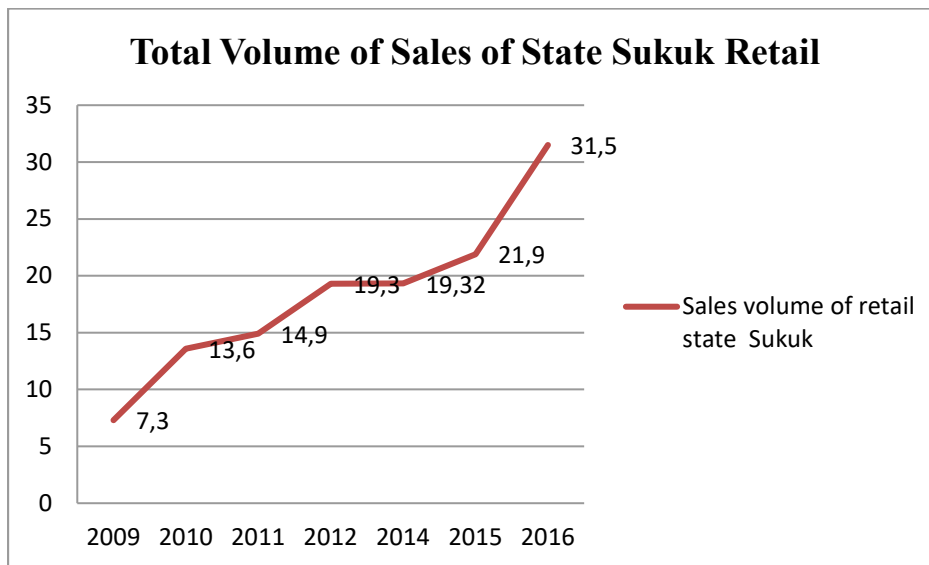
The objective of the PP SBSN Indonesia as issuer is to issue sharia compliant securities in order to finance Indonesian State Budget in accordance the prevailing laws and regulations

([https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/5Brosur/Investing%20in%20Sukuk%20Negara%20\(Indonesian%20Sovereign%20Sukuk\).pdf](https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/5Brosur/Investing%20in%20Sukuk%20Negara%20(Indonesian%20Sovereign%20Sukuk).pdf)) .

In terms of demand, Sukuk Negara is in great demand from investors. Since it was first launched, the Sukuk Negara recorded a record of potential investors who are far above the amount of sukuk to be issued by the government. This means the public sees the State Sukuk as a lucrative investment alternative, while the risks contained in the Sukuk Negara can be said to be zero (Nisful & Muslish, 2020 , p637).

Sukuk are considered as one of the alternative way to alternate the need of external debt. Theoretically, IS-LM model says that increased sukuk issuance can affect the growth of a country's GDP (Mankiw, 2008). For example, the Ministry of Finance issues sukuk to finance government projects. Then people buy sukuk issued by the ministry of finance. So that there is decreasing number of money supply resulted in a shift in the LM curve to the left. But then there is an increase spending by the finance ministry for financing their projects (Mitsaliyandito, Arundina, & Kasri , 2017, p 05).

Figure(09): Total Volume of Sale of State Sukuk retail 2009-2016



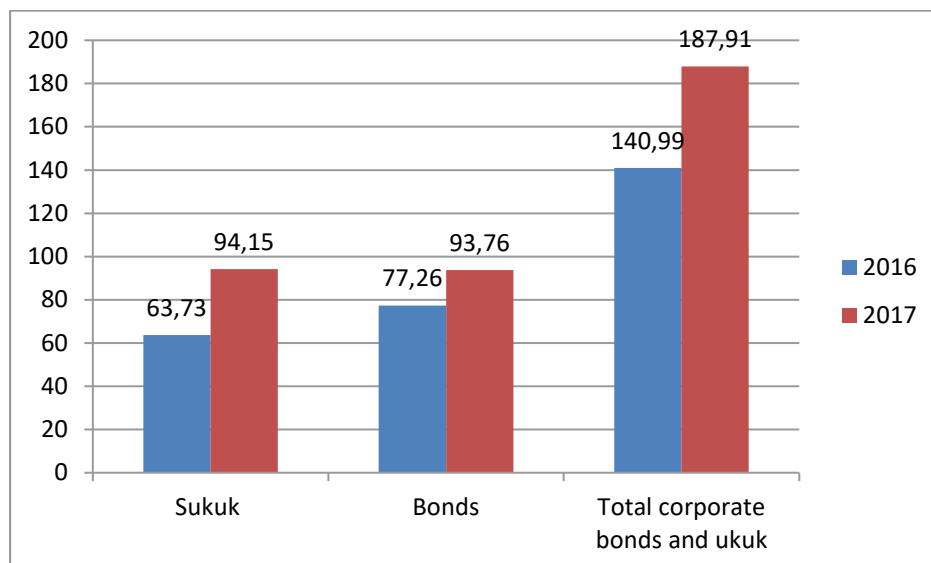
In figure(8) shown the total volume of sale of state sukuk retail during the period 2009-2016 Along with the more frequently the state government to issue sukuk both nominally large and retail, it has a quite a positive impact on increasing the frequency and volume of sukuk trade in the secondary market.

Project finance Sukuk policy is regarded as a positive move which serves in developing country’s infrastructure while providing additional Shari ‘ah compliant product to the market that offers longer maturity (Siamat, 2014, p 53).

2. Malaysia experience

In 2017, a total of 79 corporate bonds and sukuk were approved, authorised and lodged with the SC, amounting to RM187.92 billion of which 47 were sukuk valued at RM94.15 billion. The sukuk value represented 50.11% of the total new corporate bonds and sukuk approved and lodged (Securities Commission Malaysia, 2017 , p 156).

Figure(10): Corporate sukuk approved and lodged with the SC



The sukuk value represented 50.11% of the total new corporate bonds and sukuk approved and lodged. The market also saw the lodgement of the world's first green SRI sukuk in June, amounting to RM250 million.

Malaysia is issuing Sukuk dominantly on the basis of Murabaha Sukuk structure. However, the government of Malaysia is encouraging Sukuk issuers to issue Sukuk based on Wakalah and Ijarah Sukuk structures by giving incentives in the form of tax deductions (Thomson Reuters, 2017). Malaysia's Sukuk issuance by sector including financial service, infrastructure and utilities, diversified holdings, transportation, property and real estate, plantation and agriculture, asset-backed securities, mining and petroleum, industrial products, and consumer products. Quasi government and corporate Sukuk issuances are dominated by financial services and infrastructure and utilities sectors (Ghafoor, Saba, & Kouser, Sukuk Issuance in Malaysia: Lessons for Pakistan, 2018, pp 168-169).

Table (5).Government and corporate sukuk issuance in Malaysia 2016-2017

Total issuance (RM billion)	2016	2017
Sukuk issuance	129.45	168.68
Total bonds issuances	240.56	317.94
% of sukuk to total bonds issuances	53.81%	53.05%
Total sukuk outstanding (RM billion)	2016	2017
Sukuk outstanding	661.08	759.64
Total bonds outstanding	1.172.91	1.291.91
% of sukuk to total bonds outstanding	56.36%	58.80%

From the table (5) we can see the rise of sukuk issuance in Malaysia from 2016 to 2017, in other hand the total bonds issuances have a growth from 240.56 in 2016 to 317.94 in 2017. Too the sukuk outstanding to the total bonds outstanding increased with 1.64% from 2016 to 2017.

Table (6). The contribution of government sukuk in reduction of budget deficit in Malaysia (2010-2017)

year	Total deficit to GDP (%)	Exten (%)	Loan (%)	Domestic Finance (%)	Government sukuk	Contribution of sukuk(%)
2010	-43.3	3.7		36.5	118.73	53.6
2011	-42.5	0.5		45.1	167.73	54.01
2012	-42.0	-0.1		43.3	226.96	54.07
2013	-38.6	-0.2		39.5	255.71	61.36
2014	-37.4	-0.4		37.6	262.76	53.38
2015	-37.2	0.7		38.9	117.7	43.57
2016	-38.4	08		37.9	129.45	53.51
2017	-40.3	-0.3		40.8	168.68	53.05

Malaysia is issuing Sukuk dominantly on the basis of Murabaha Sukuk structure. However, the government of Malaysia is encouraging Sukuk issuers to issue Sukuk based on Wakalah and Ijarah Sukuk structures by giving incentives in the form of tax deductions (Ghafoor, Saba, & Kouser, 2018, p168), from the precedent table we

distinguished the development of budget deficit in Malaysia who had a fluctuation in this period, we also saw the high contribution of sukuk in the absorption of budget deficit who has reached to 61.36% in 2013.

VII. Conclusion

State sukuk has become one of the financial instruments that have a significant role in supporting national financing through real sector growth in a lot of countries, also with this instrument we can finance budget deficit.

From this study we conclude that Islamic sukuk have a remarkable development in many countries like Malaysia, Saudi Arabia, EAU, Indonesia and others; these countries benefited from Islamic sukuk to support infrastructure on the one hand, and also to finance the budget deficit on the other hand.

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