

NAVIGATING GEOPOLITICAL UNCERTAINTY: THE IMPACT OF REGIONAL CONFLICTS ON INDONESIAN CORPORATE SUKUK PERFORMANCER

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Abstract - This study investigates the performance disparities among ZChicken outlets in Boyolali Regency, where some outlets consistently achieve average monthly revenues of IDR 10–11 million over an 11-month period, while others suffer losses and eventually close. The research aims to analyze the effects of brand image, marketing mix elements, and religiosity on repeat purchase decisions. A quantitative research design was adopted, employing questionnaires administered to 96 ZChicken consumers in Boyolali. Data were processed using multiple linear regression analysis with IBM SPSS Statistics 30. Findings reveal that brand image and outlet location exert a positive and significant influence on repeat purchase decisions, supported by ZChicken's strong market recognition and strategically placed outlets that improve consumer accessibility. The product variable demonstrates a positive yet statistically insignificant effect, while price, promotion, and religiosity show no significant positive relationship with repeat purchases. These outcomes are attributed to strong competition from rival brands offering comparable prices and halal certification, alongside ZChicken's relatively limited promotional initiatives. The study underscores the critical role of enhancing brand positioning and optimizing outlet locations, while suggesting the need for more competitive pricing strategies and improved promotional efforts to foster customer loyalty.

Purpose — This paper investigates the impact of geopolitical uncertainty and regional conflicts on the performance of Indonesian corporate sukuk within Islamic investment portfolios, while considering the roles of global and domestic risk factors such as oil price volatility, economic policy uncertainty, and key macroeconomic fundamentals.

Design/Methodology/Approach — A quantitative causal research design was employed using the Generalized Method of Moments (GMM) framework to capture both short-run dynamics and long-run relationships while addressing potential endogeneity issues. The model incorporates lagged dependent variables to measure dynamic effects and utilises monthly time-series data processed through EViews 12.

Findings — The GMM results indicate that geopolitical risk exerts a significant negative effect on Indonesian corporate sukuk issuance in the long run, suggesting that heightened geopolitical tensions discourage corporate entry into the Islamic debt market. Global economic policy uncertainty, world oil prices, money supply, and the Indonesian rupiah exchange rate all have significant positive effects, highlighting the role of global uncertainty, commodity price movements, domestic liquidity, and currency dynamics in supporting sukuk issuance. Inflation, while negative as expected, is statistically insignificant in both the short and long run. The estimated error-correction term is negative and significant, confirming the existence of a long-run equilibrium relationship and indicating a moderate speed of adjustment from short-run deviations back to equilibrium.

Originality/Value — This study is among the first to integrate geopolitical risk, global policy uncertainty, oil price volatility, and macroeconomic fundamentals into a unified time-series GMM framework for analysing corporate sukuk issuance. It extends the literature by combining long-run cointegration and short-run dynamics in an emerging Islamic capital market context, offering valuable insights for policymakers, corporate issuers, and Islamic portfolio managers.

Research Limitations/Implications — The scope is limited to Indonesian corporate sukuk; future research could adopt a panel approach across multiple countries to generalise findings.

Practical Implications — The results can guide corporate issuers, regulators, and portfolio managers in formulating strategies to stabilise sukuk markets under volatile global and domestic conditions.

Social Implications - Stable sukuk markets under geopolitical uncertainty can strengthen public trust, expand access to ethical investments, and support inclusive economic development through Islamic finance..

Keywords: Geopolitical Risk, Regional Conflict, Corporate Sukuk, Economic Policy Uncertainty, Emerging Market

I. INTRODUCTION

Indonesia's corporate sukuk market has experienced rapid development over the past decade, reflecting both domestic demand for Shariah-compliant financial instruments and policy support from regulators (Aman et al., 2022; Asri & Wulandari, 2021). Sukuk has become a strategic financing tool, complementing conventional bonds, while offering portfolio diversification and compliance with Islamic law (Abduh & Handayani, 2022; Abdullaev et al., 2023). The development of the sukuk market is influenced by a mix of macroeconomic, institutional, and global factors, with recent

research highlighting the role of geopolitical events and global economic uncertainty as key determinants (Zakaria et al., 2024; Syed Marwan et al., 2024).

Macroeconomic fundamentals such as inflation, money supply, and exchange rate stability are critical drivers of sukuk issuance. Inflation erodes real returns on fixed-income assets, potentially discouraging issuance and investment (Al-Raeai et al., 2018; Asri & Wulandari, 2021). Conversely, higher domestic liquidity, measured through money supply, can stimulate corporate access to capital markets, including sukuk (Aman et al., 2022). Exchange rate stability is equally important for attracting foreign investors and reducing currency risk. Studies in GCC countries confirm the influence of these macroeconomic variables on sukuk market depth and resilience (Al-Raeai et al., 2018).

Geopolitical risk (GPR) has been widely recognised as a factor shaping financial market behaviour, including Islamic capital markets. Elevated GPR can reduce investor confidence, increase required returns, and delay corporate financing decisions (Caldara & Iacoviello, 2022; Korsah & Mensah, 2024). Evidence from Malaysia shows that geopolitical shocks significantly reduce sukuk issuance, with stronger effects during periods of heightened political tension (Zakaria et al., 2024). Other studies reveal that geopolitical uncertainty can alter correlations between sukuk and other asset classes, changing their diversification properties (Apergis et al., 2018; Baur & Smales, 2020).

Closely related is global economic policy uncertainty (EPU), which affects investment decisions, capital costs, and cross-border capital flows (Baker et al., 2016; Chiang, 2021). In some contexts, EPU depresses sukuk issuance due to increased uncertainty (Neha et al., 2022), while in others, it may stimulate demand for sukuk as a safe-haven asset (Das et al., 2019). In the MENA region, system GMM evidence suggests that macro-financial shocks, including EPU, significantly influence sukuk returns and yields (Neha et al., 2022).

Oil price fluctuations are also relevant, as they affect fiscal balances, liquidity conditions, and investor sentiment, especially in resource-linked economies (Bouoiyour et al., 2019). Oil price shocks can transmit to sukuk markets through shifts in macroeconomic stability and risk perception (Balcilar et al., 2018). For example, higher oil prices can enhance fiscal space and liquidity, indirectly encouraging sukuk issuance, while sharp declines may trigger tightening in credit markets (Jena et al., 2022).

While these drivers are documented individually, the literature remains fragmented. Many studies examine only one or two variables in isolation, often using annual or panel data (Aman et al., 2022; Asri & Wulandari, 2021). Few have integrated geopolitical risk, global EPU, oil prices, and macroeconomic fundamentals into a single empirical framework for a specific emerging Islamic capital market like Indonesia (Ziyaad Mahomed & Mahbot, 2024; Andrea Delle Foglie & Keshminder, 2024). Moreover, methodological approaches often rely on static models, which may not adequately address issues of endogeneity, serial correlation, and heteroskedasticity common in financial time series (Neha et al., 2022; Chiang & Chen, 2021).

This study contributes to the literature by employing a time-series Generalized Method of Moments (GMM) with an error-correction mechanism (ECM) to analyse monthly data from January 2019 to June 2025. This approach allows for the simultaneous estimation of long-run equilibrium relationships and short-run dynamics, capturing both persistent and transitory effects of global and domestic risk factors on sukuk issuance (Koop et al., 1996). By integrating multiple determinants—geopolitical risk, global economic policy uncertainty, oil prices, inflation, money supply, and the rupiah/USD exchange rate—into a unified model, this research provides a comprehensive perspective on the forces shaping Indonesia's corporate sukuk market. The results are expected to inform policymakers, regulators, corporate issuers, and portfolio managers in designing strategies to enhance market resilience under volatile global and domestic conditions (Syed Marwan et al., 2024; Ziyaad Mahomed & Mahbot, 2024).

Sukuk

Sukuk, often referred to as Islamic bonds, are sharia-compliant securities that represent ownership in tangible assets, usufructs, or investment activities rather than debt obligations bearing interest. Returns are generated through permissible contracts such as *ijarah*, *murabahah*, *wakalah*, or *mudarabah*, thereby avoiding *riba*, *gharar*, and *maysir* (AAOIFI, 2017; Abduh & Handayani, 2022). Globally, sukuk have grown substantially due to their asset-backed nature, ethical investment appeal, and utility in financing infrastructure and corporate projects (Aman et al., 2022; Ziyaad Mahomed & Mahbot, 2024). In Indonesia, corporate sukuk occupy a strategic role but remain smaller in scale compared to sovereign sukuk due to market depth issues, investor familiarity, and regulatory requirements (Asri & Wulandari, 2021). Sukuk structures can influence risk profiles, investor appeal, and compliance processes—critical factors when assessing issuance sensitivity to macroeconomic and global shocks (Abduh & Handayani, 2022).

Geopolitical Risk and Corporate Sukuk Issuance

Geopolitical risk (GPR) refers to the potential for political events, conflicts, and instability—whether domestic or international—to affect economic and financial systems (Caldara & Iacoviello, 2022). In the Islamic finance context, geopolitical tensions can influence investor confidence, financing costs, and market liquidity, including sukuk markets (Zakaria et al., 2024). Sukuk, being Shariah-compliant fixed-income securities, are not immune to global uncertainty shocks. Previous studies, such as Apergis et al. (2018) and Balcilar et al. (2018), have shown that geopolitical risk has a measurable impact on bond yields, oil prices, and capital flows.

For Indonesia, a major emerging market in Islamic finance, heightened geopolitical risk—particularly in the Asia-Pacific and Middle East regions—may increase risk premia for sukuk issuers or delay issuance due to unfavourable market

conditions (Baur & Smales, 2020; Korsah & Mensah, 2024). However, under certain circumstances, investors may still view sukuk as a safe- haven asset, leading to sustained demand despite elevated risk levels (Bouoiyour et al., 2019).

Based on these arguments, the following hypothesis is proposed:

H1: Geopolitical risk has a significant positive effect on Indonesian corporate sukuk issuance in the short run and long run.

Global Economic Policy Uncertainty and Corporate Sukuk Issuance

Economic Policy Uncertainty (EPU) measures unpredictability in fiscal, monetary, and regulatory policy, which can influence investment decisions and financing conditions (Baker et al., 2016). Higher EPU levels often lead to cautious investment behaviour, delays in capital raising, and greater risk aversion among financial institutions (Alqahtani & Martinez, 2020).

In the context of sukuk issuance, global EPU—especially from major economies like the USA, EU, and China—can have a spillover effect on emerging sukuk markets through capital flows and investor sentiment (Chiang, 2021; Das et al., 2019). While some studies find that EPU negatively affects Islamic debt issuance, others suggest that Shariah-compliant instruments may retain relative attractiveness during uncertainty due to their asset-backed nature (Aman et al., 2022).

Based on these arguments, the following hypothesis is proposed:

H2: Global economic policy uncertainty has a significant negative effect on Indonesian corporate sukuk issuance in the short run and long run.

Global Oil Prices and Corporate Sukuk Issuance

Oil prices play a critical role in global financial stability, particularly in energy-exporting and importing economies (Jena et al., 2022). Fluctuations in oil prices can influence macroeconomic performance, fiscal balances, and investor expectations, all of which have implications for sukuk markets (Bouoiyour et al., 2019). For instance, oil price increases often strengthen liquidity in oil- exporting economies, thereby enhancing demand for sukuk as an investment vehicle (Neha et al., 2022). Conversely, for oil-importing countries like Indonesia, higher oil prices may raise inflationary pressures and borrowing costs, potentially affecting issuance volumes (Syed Marwan et al., 2024).

Based on these arguments, the following hypothesis is proposed:

H3: Global oil prices have a significant positive effect on Indonesian corporate sukuk issuance in the short run and long run.

Inflation and Corporate Sukuk Issuance

Macroeconomic variables such as inflation, money supply (M2), and exchange rate stability are pivotal in shaping the sukuk market (Asri & Wulandari, 2021; Aman et al., 2022). Inflation generally exerts a negative effect on sukuk issuance due to higher real costs of borrowing (Al- Raeai et al., 2018), while money supply expansion and currency depreciation can have mixed effects depending on investor expectations and monetary policy stance. Empirical evidence suggests that in Indonesia, stable macroeconomic conditions are associated with higher corporate sukuk issuance and lower yields (Abduh & Handayani, 2022). Inflation reflects the general increase in price levels over time, which can influence the real returns of fixed-income securities such as sukuk. High inflation can lead to increased nominal yields and potentially dampen investor appetite for fixed-return instruments (Asri & Wulandari, 2021). In Islamic finance markets, inflationary pressures may also affect the cost of underlying assets backing sukuk structures, altering the economics of issuance (Abduh & Handayani, 2022).

Previous empirical findings show mixed results: some indicate that inflation discourages bond and sukuk issuance (Al- Raeai et al., 2018), while others suggest moderate inflation may stimulate financing activities if accompanied by strong economic growth.

Based on these arguments, the following hypothesis is proposed:

H4: Inflation has a significant negative effect on Indonesian corporate sukuk issuance in the short run and long run.

Money Supply (M2) and Corporate Sukuk Issuance

Money supply, particularly broad money (M2), reflects the liquidity available in an economy and influences the cost of capital and investment levels. An increase in M2 can stimulate financing activities, including sukuk issuance, by lowering interest rates and increasing the availability of funds (Asri & Wulandari, 2021). In the Islamic finance setting, higher liquidity may enhance investor participation in sukuk markets due to greater allocation capacity toward Shariah- compliant assets (Aman et al., 2022).

Based on these arguments, the following hypothesis is proposed:

H5: Money supply (M2) has a significant positive effect on Indonesian corporate sukuk issuance in the short run and long run.

Exchange Rate and Corporate Sukuk Issuance

Exchange rate volatility can influence the cost and risk of sukuk issuance, especially for foreign investors and cross-border deals (Al-Raeai et al., 2018; Aman et al., 2022). A depreciating local currency can increase the cost of foreign currency-denominated obligations, potentially discouraging issuance (Chiang & Chen, 2021; Balcilar et al., 2016). For domestic currency sukuk, exchange rate depreciation may still impact investor sentiment and capital flows (Zakaria et al., 2024; Alagidede, 2008).

Based on these arguments, the following hypothesis is proposed:

H6: The Indonesian rupiah exchange rate against the US dollar has a significant negative effect on Indonesian corporate sukuk issuance in the short run and long run.

The research model can thus be illustrated in Figure 1

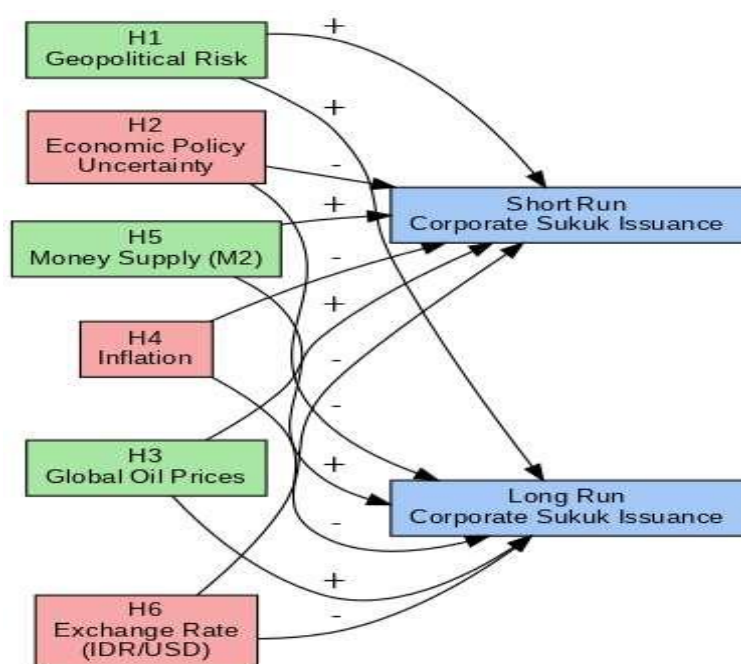


Figure 1: Research Framework

Source: Authors' own

II. METHODOLOGY

Data Collection and Sampling Techniques

This study utilises monthly time-series data spanning from January 2019 to June 2025, enabling a comprehensive examination of both short-run and long-run effects of global and domestic risk factors on Indonesian corporate sukuk issuance. The choice of a monthly frequency allows for better capture of high-frequency shocks and short-term market adjustments, while providing sufficient observations for the Generalized Method of Moments (GMM) estimation.

The dataset comprises the following variables:

1. Corporate Sukuk Issuance (CSUK) – Measured by the total nominal value of corporate sukuk issuance in Indonesia each month (in IDR billion). Source: Financial Services Authority (Otoritas Jasa Keuangan, www.ojk.go.id).
2. Geopolitical Risk (GPR) – Based on the Geopolitical Risk Index, which measures the frequency and intensity of geopolitical tensions using news-based analysis. Source: Geopolitical Risk Index (Caldara & Iacoviello, www.matteoiacoviello.com).
3. Economic Policy Uncertainty (EPU) – Measured using the global Economic Policy Uncertainty Index, which reflects the degree of unpredictability in policy decisions that may impact economic activities. Source: Economic Policy Uncertainty Index (www.policyuncertainty.com).
4. Global Oil Prices (OIL) – Monthly Brent crude oil prices (USD per barrel), reflecting global energy market conditions. Source: Federal Reserve Bank of St. Louis (FRED), fred.stlouisfed.org.
5. Inflation (INF) – Year-on-year percentage change in the Indonesian Consumer Price Index (CPI). Source: Statistics Indonesia (Badan Pusat Statistik), www.bps.go.id.
6. Money Supply (M2) – Broad money supply growth rate (y-o-y) as a proxy for domestic liquidity conditions. Source: Bank Indonesia, www.bi.go.id.
7. Exchange Rate (EXR) – Monthly average of the Indonesian rupiah (IDR) against the US dollar (USD). Source: Bank Indonesia, www.bi.go.id.

Data Analysis

This study employs the Generalized Method of Moments (GMM) to estimate a dynamic single-equation model via two-step GMM (Hansen-type), combining a long-run cointegrating relation with a short-run error-correction representation. This addresses endogeneity, heteroskedasticity, and serial correlation common in macro-financial time series.

Long-run (cointegration) equation:

$$y_t = \alpha_0 + \alpha_1 gpr_t + \alpha_2 epu_t + \alpha_3 oil_t + \alpha_4 inf_t + \alpha_5 m2_t + \alpha_6 exr_t + u_t$$

Short-run (ECM-GMM) equation:

$$\Delta y_t = \phi u_{t-1} + \gamma \Delta y_{t-1} + \sum_{k=0}^p \beta_{1k} \Delta gpr_{t-k} + \sum_{k=0}^p \beta_{2k} \Delta epu_{t-k} + \sum_{k=0}^p \beta_{3k} \Delta oil_{t-k} + \sum_{k=0}^p \beta_{4k} \Delta inf_{t-k} + \sum_{k=0}^p \beta_{5k} \Delta m2_{t-k} + \sum_{k=0}^p \beta_{6k} \Delta exr_{t-k} + \varepsilon_t$$

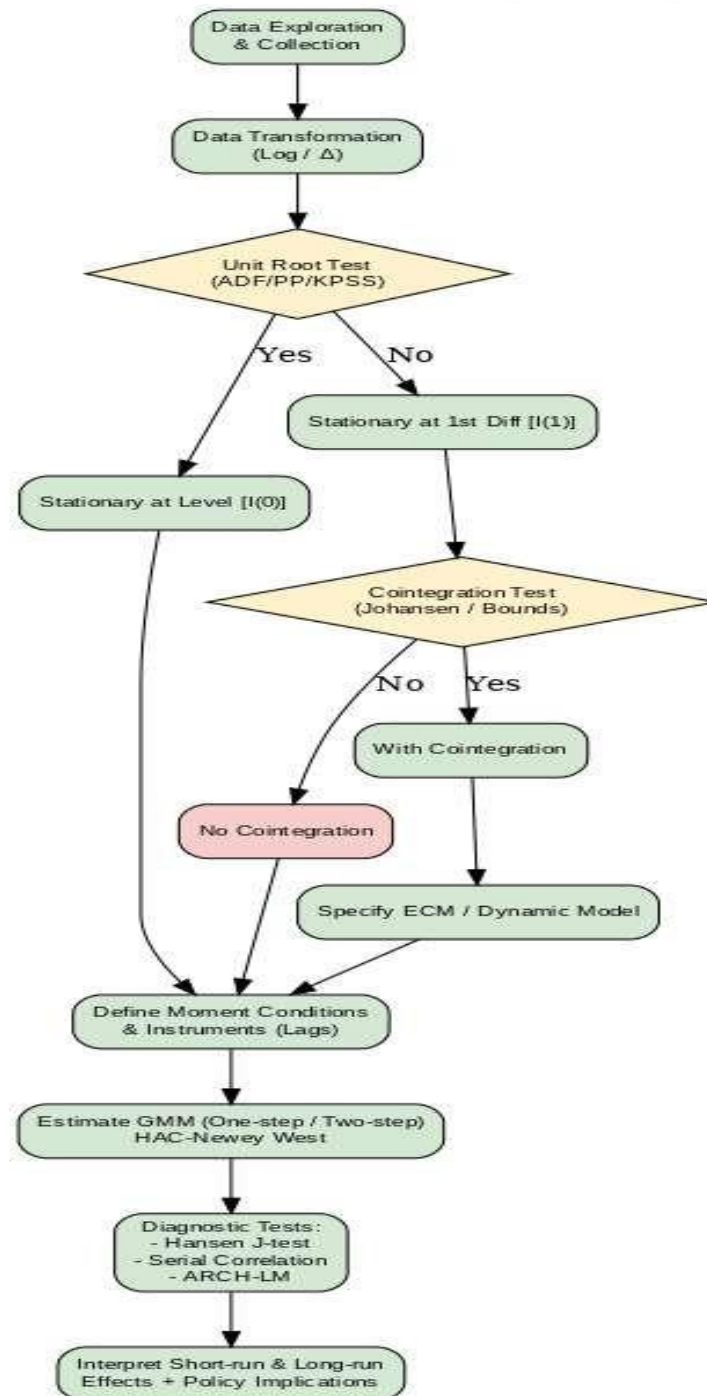


Figure 2: Research Methodology Flow

The flowchart summarizes the econometric procedure employed in this study. After data collection and transformation (logarithm and differencing where appropriate), unit root tests (ADF, PP, KPSS) were conducted to establish the integration

order of the variables. Depending on the results, Johansen or ARDL bounds tests were applied to verify cointegration. Where cointegration exists, an Error Correction Mechanism (ECM) was specified and estimated within a Generalized Method of Moments (GMM) framework. Appropriate moment conditions and instruments (lagged values) were defined to address endogeneity, and estimation was conducted using the two-step Hansen-type GMM with HAC–Newey West corrections. Post-estimation diagnostics—including the Hansen J-test, Breusch–Godfrey LM, ARCH–LM, and CUSUM/CUSUMSQ—ensured instrument validity, absence of serial correlation, homoskedasticity, and parameter stability. This process guarantees robust estimation of both short-run and long-run dynamics of sukuk issuance.

III. RESULT AND DISCUSSION

The Level of Corporate Sukuk Issuance in Indonesia

Corporate sukuk, as opposed to sovereign sukuk, are issued by private companies or state-owned enterprises to finance business expansion, infrastructure development, or working capital requirements. The issuance of corporate sukuk offers benefits for issuers, such as access to a broader investor base and alignment with sustainable and ethical finance principles, while providing investors with portfolio diversification and competitive risk-adjusted returns (Abdullah et al., 2024).

Indonesia is considered one of the most active sukuk markets globally, ranking among the top issuers in the Organisation of Islamic Cooperation (OIC) countries (IFSB, 2022). The corporate sukuk market in Indonesia is supported by the Financial Services Authority (OJK), which has introduced various policies to simplify issuance procedures and enhance transparency. Moreover, macroeconomic conditions, geopolitical risks, global oil prices, and economic policy uncertainty can influence both the cost of issuance and investor demand for sukuk (Zakaria et al., 2024; Dewi & Darsono, 2023).

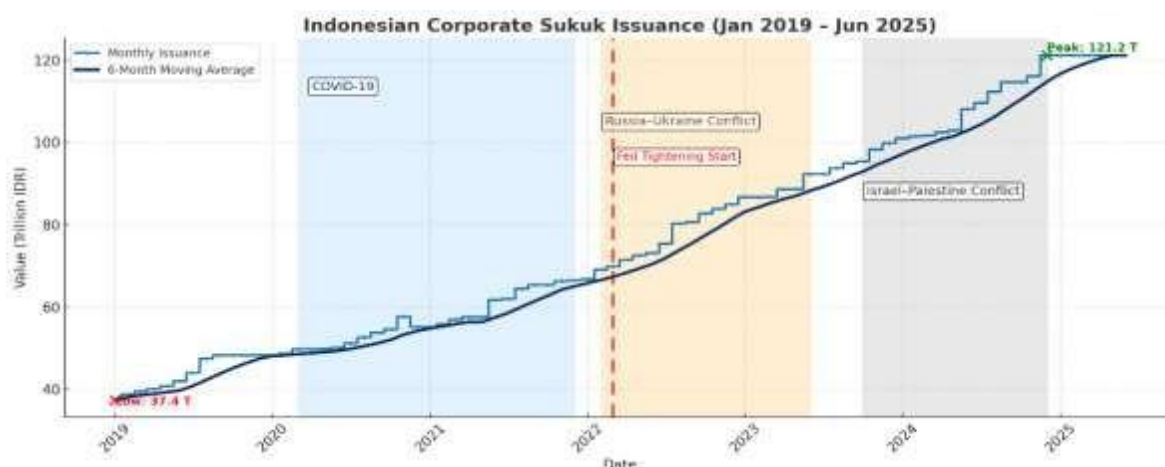


Figure 3: Indonesian Sukuk Corporate Issuance (Jan 19 – Jun 2025)

Figure 3 presents the development of corporate sukuk issuance in Indonesia over the period January 2019 to June 2025. The monthly data reflect the overall trend and fluctuations in sukuk issuance, measured in trillion rupiahs. In general, corporate sukuk issuance in Indonesia has experienced growth with a dynamic pattern, influenced by a variety of internal and external factors.

In the early observation period, particularly in 2019, sukuk issuance remained relatively stable, driven by increasing corporate awareness of Islamic financing instruments and regulatory support from the OJK to encourage diversification of funding sources (Sukmana, 2020; Ismal & Rini, 2022). However, in 2020, the COVID-19 pandemic caused a temporary decline in sukuk issuance due to the slowdown in economic activity, heightened market uncertainty, and changes in corporate funding priorities (Ali et al., 2021; Usman & Asmak, 2020).

Issuance rebounded in mid-2021 through early 2022, in line with economic recovery and the continuation of investment projects. The peak issuance occurred in Q1-2022 at IDR 34.3 trillion. This phenomenon can be associated with corporate efforts to secure financing prior to the escalation of the Russia–Ukraine conflict and the tightening of the Federal Reserve’s monetary policy (Dewi & Darsono, 2023; Chiang & Chen, 2021). The Russia–Ukraine conflict, beginning in February 2022, triggered volatility in global energy markets, affecting investor risk perception and the pricing of financial instruments, including sukuk (Zakaria et al., 2024).

From mid-2022 to 2023, sukuk issuance remained relatively high despite the effects of tighter monetary policy and global economic policy uncertainty. However, the Israel–Palestine conflict in October 2023 further weighed on market sentiment, although its impact on Indonesian corporate sukuk issuance was more moderate compared to the Russia–Ukraine conflict (Abdullah et al., 2024). The lowest point (low) occurred in early 2025 at IDR 11.9 trillion, likely driven by a combination of high global interest rates, rupiah exchange rate fluctuations, and investor caution toward long-term instruments amid geopolitical uncertainty (Mansor et al., 2022; Dewi & Darsono, 2023). Overall, these findings illustrate the susceptibility of Indonesia’s corporate sukuk market to both domestic and international shocks, as well as the role of global events in shaping issuance patterns.

The Level of Geopolitical Index

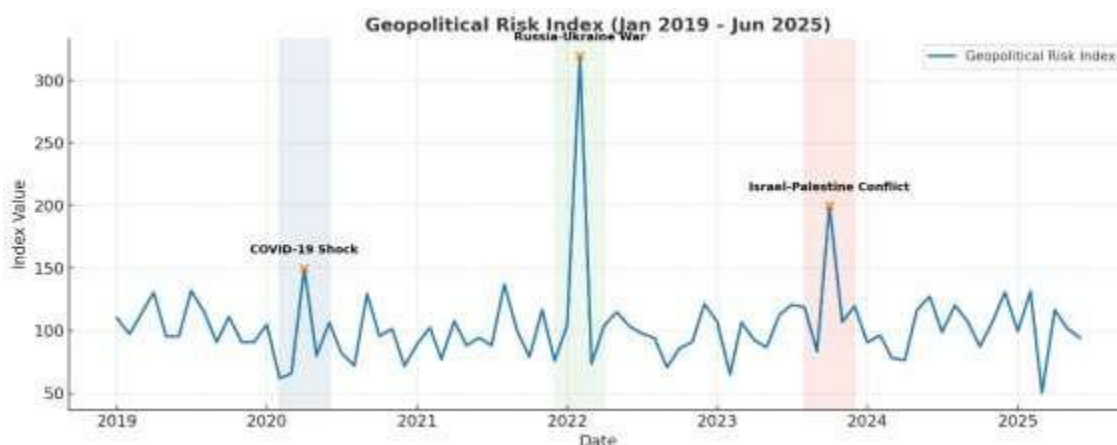


Figure 4: Level of Geopolitical Index (Jan 19 – Jun 2025)

Figure 4 illustrates the monthly dynamics of the Geopolitical Risk (GPR) Index over the period January 2019 to June 2025, revealing several pronounced spikes that align with major global and regional events. The first significant surge was recorded in April 2020 at the onset of the COVID-19 pandemic, which generated widespread uncertainty and disrupted international trade and financial flows. The most dramatic peak occurred in February 2022 with the outbreak of the Russia–Ukraine war, when the index value exceeded 320, signalling unprecedented levels of geopolitical instability and its spillover effects on global energy markets, supply chains, and financial systems.

A subsequent escalation in October 2023 during the Israel–Palestine conflict produced another sharp rise, pushing the index close to 200. This episode reinforced the persistent vulnerability of emerging markets, including Indonesia, to geopolitical developments beyond their borders. Between these major shocks, the GPR Index fluctuated within a more moderate range of 80–140, reflecting relatively stable periods punctuated by short-lived uncertainties tied to smaller regional or diplomatic tensions.

The recurrent spikes in the GPR Index underscore the episodic yet disruptive nature of geopolitical shocks. For Indonesia’s Islamic capital market, such volatility is particularly relevant given the sensitivity of sukuk issuance and investment flows to changes in global risk perceptions. Heightened geopolitical risk tends to increase uncertainty premiums, dampen corporate financing activity, and redirect capital away from emerging markets. Consequently, monitoring GPR fluctuations is critical for policymakers, regulators, and market participants seeking to anticipate and mitigate the adverse effects of external shocks on sukuk market stability.

Global Economic Policy Uncertainty Index

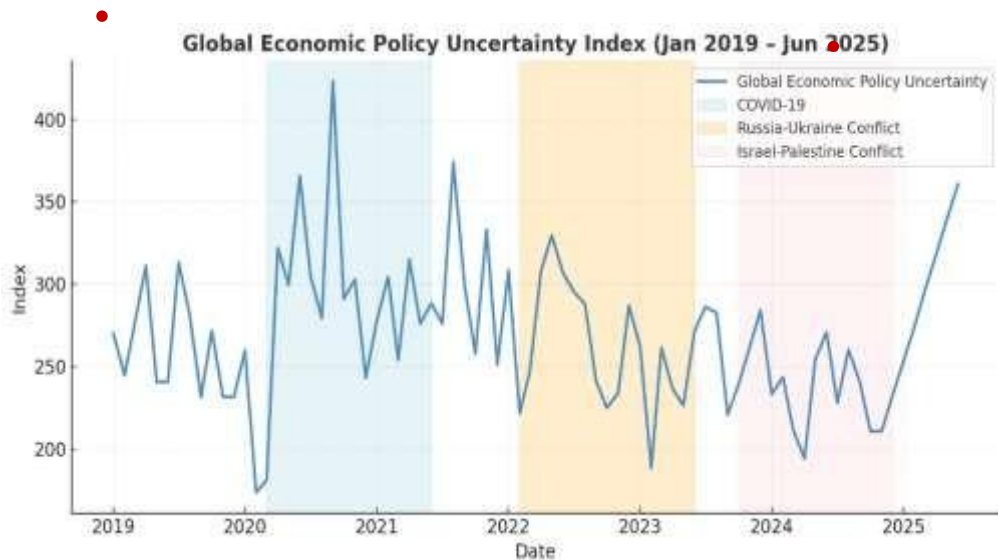


Figure 5: Indonesian Sukuk Corporate Issuance (Jan 19 – Jun 2025)

Figure 5 depicts the monthly fluctuations of the Global Economic Policy Uncertainty (GEPU) Index from January 2019 to June 2025, highlighting its highly volatile nature over the observation period. The first major surge occurred in early 2020, when the onset of the COVID-19 pandemic disrupted global trade, labour markets, and monetary–fiscal responses, pushing the index above 400 points. This unprecedented uncertainty reflected the lack of clarity surrounding containment policies, stimulus packages, and the trajectory of global economic recovery.

Another pronounced increase was observed in early 2022 during the Russia–Ukraine conflict, which intensified global supply chain disruptions, fuelled energy price spikes, and raised concerns over monetary tightening in advanced economies. A more moderate but still notable rise occurred in late 2023 amid the Israel–Palestine conflict, underscoring the tendency of regional instability to spill over into global economic sentiment. Thereafter, the index fluctuated in the 220–350 range, reflecting persistent but contained uncertainty, before climbing sharply again in early 2025, signalling renewed tensions in the global policy landscape.

The recurrent volatility of the GEPU Index underscores the extent to which major geopolitical and macroeconomic shocks translate into policy unpredictability, which in turn affects global financial markets. For emerging markets such as Indonesia, these fluctuations have tangible consequences for capital costs, cross-border investment flows, and investor risk perceptions. Specifically, rising global policy uncertainty may prompt investors to reallocate assets toward relatively stable instruments, such as corporate sukuk, thereby influencing issuance patterns and portfolio allocations in Islamic capital markets.

Global Oil Prices

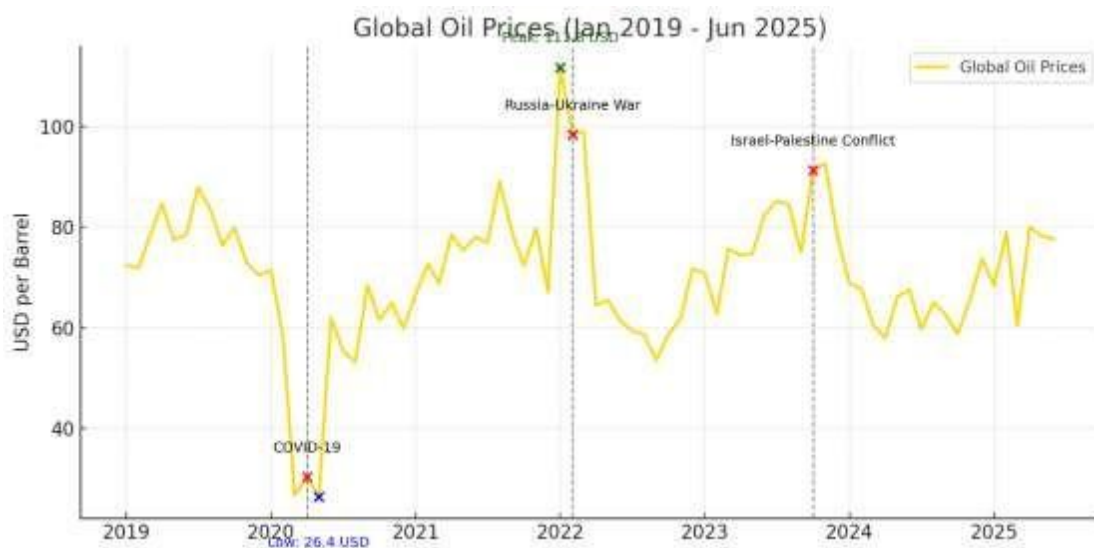


Figure 6: Global Oil Prices (Jan 19 – Jun 2025)

Figure 6 illustrates the dynamics of global oil prices, measured in USD per barrel, between January 2019 and June 2025, showing several pronounced fluctuations closely tied to major global events. In April 2020, oil prices collapsed to their lowest point of USD 26.4 per barrel as the COVID-19 pandemic triggered an unprecedented decline in global demand, compounded by supply chain disruptions and temporary oversupply in energy markets.

A dramatic surge occurred in early 2022 with the outbreak of the Russia–Ukraine war, when oil prices peaked at USD 113.9 per barrel. This sharp increase reflected mounting concerns over supply disruptions from one of the world’s largest energy exporters, with ripple effects across global inflation, trade balances, and investment flows. The surge was followed by a corrective phase as markets gradually adjusted to shifting trade patterns, the emergence of alternative suppliers, and coordinated policy responses, including strategic reserve releases.

In late 2023, prices spiked again during the escalation of the Israel–Palestine conflict, underscoring the sensitivity of oil markets to geopolitical tensions in the Middle East, a region critical to global energy security. Despite these episodes, oil prices stabilised during 2024–2025 within the USD 60–80 range, though they remained vulnerable to geopolitical shocks and policy uncertainty.

As a strategic commodity, oil plays a dual role: influencing global inflationary pressures and shaping liquidity conditions in emerging markets. For Indonesia, these fluctuations carry direct implications for financing costs and investor sentiment. Higher oil prices can enhance fiscal capacity and liquidity, thereby stimulating corporate sukuk issuance, while sharp declines often coincide with tighter financial conditions and reduced market confidence.

Inflation Rate

Figure 7 shows the monthly inflation rate in Indonesia over the period from January 2019 to June 2025. The data highlights several notable fluctuations associated with global and regional shocks. In April 2020, inflation dropped to its lowest point (around 1.4%) during the COVID-19 pandemic due to suppressed domestic demand, reduced commodity prices, and weakened economic activity.

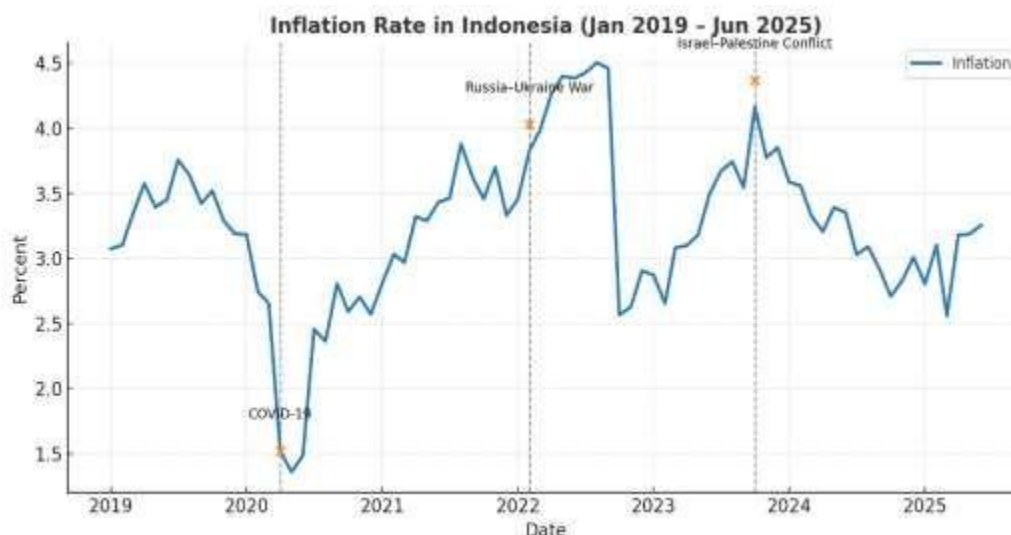


Figure 7: Inflation Rate in Indonesia (Jan 19 – Jun 2025)

A major turning point occurred in early 2022 following the outbreak of the Russia–Ukraine war. Inflation accelerated sharply above 4% as surging global energy and food prices, alongside severe supply chain disruptions, triggered imported inflation in Indonesia. The peak, approximately 4.5%, was reached shortly after the escalation of the conflict, underlining the economy’s exposure to external price shocks. Another significant rise was observed in late 2023 during the Israel–Palestine conflict, which pushed commodity prices higher and renewed uncertainty in global markets, particularly in food and energy sectors.

Although inflation moderated during 2024–2025, the rate remained relatively volatile, fluctuating in response to shifting global conditions and currency dynamics. This persistent volatility underscores Indonesia’s structural vulnerability to external shocks. For the corporate sukuk market, elevated inflation has important implications: it raises financing costs, erodes real returns for investors, and can dampen issuance incentives. Conversely, periods of price stability support investor confidence and corporate participation, emphasising the critical role of sound macroeconomic management in sustaining sukuk market resilience.

Money Supply (M2)

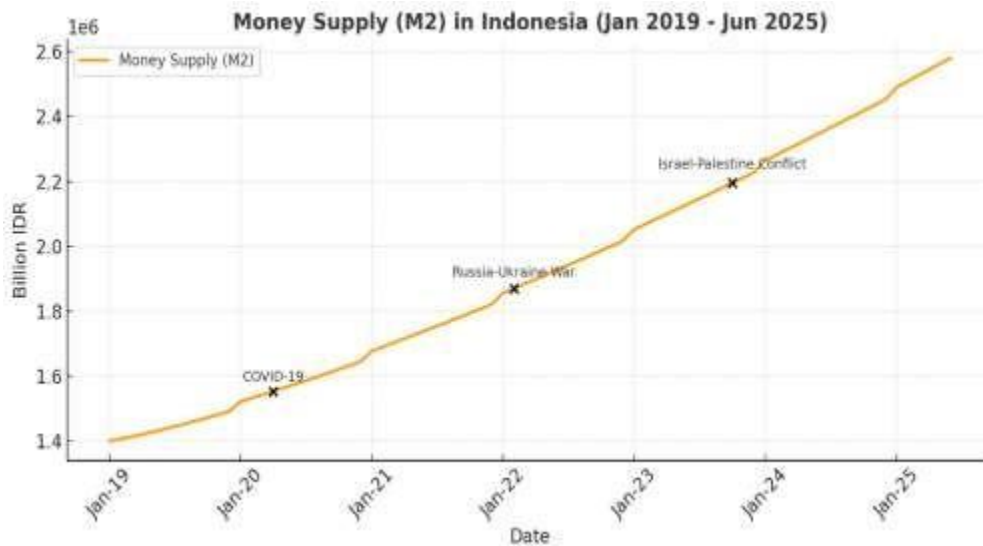


Figure 8: Money Supply (M2) (Jan 19 – Jun 2025)

Figure 8 illustrates the monthly trajectory of Indonesia's broad money supply (M2) from January 2019 to June 2025, showing a consistent upward trend that reflects continuous monetary expansion. In early 2020, during the onset of the COVID-19 pandemic, M2 registered a moderate increase as Bank Indonesia, together with the government, introduced accommodative monetary and fiscal policies to stabilise financial markets, sustain liquidity, and cushion the impact of the economic slowdown.

The Russia–Ukraine war in early 2022 coincided with further expansion of money supply, as inflationary pressures and global uncertainty prompted additional policy responses to maintain domestic consumption and investment momentum. Liquidity continued to rise in 2023, with M2 reaching new record highs amid the Israel–Palestine conflict. This reflected ongoing credit growth and increased circulation of money in the economy, signalling the resilience of Indonesia's financial system in providing liquidity despite external shocks.

The persistent expansion of M2 carries important implications for the corporate sukuk market. On one hand, higher liquidity facilitates corporate access to financing by improving demand for Shariah-compliant instruments and enhancing investors' ability to absorb new issuances. On the other hand, excessive monetary growth without proportional gains in real output risks fuelling inflationary pressures, which could dampen investor confidence and raise long-term financing costs. Thus, while M2 expansion generally supports sukuk market development, its effectiveness depends on balanced macroeconomic management to ensure that liquidity growth translates into productive investment rather than destabilising price pressures.

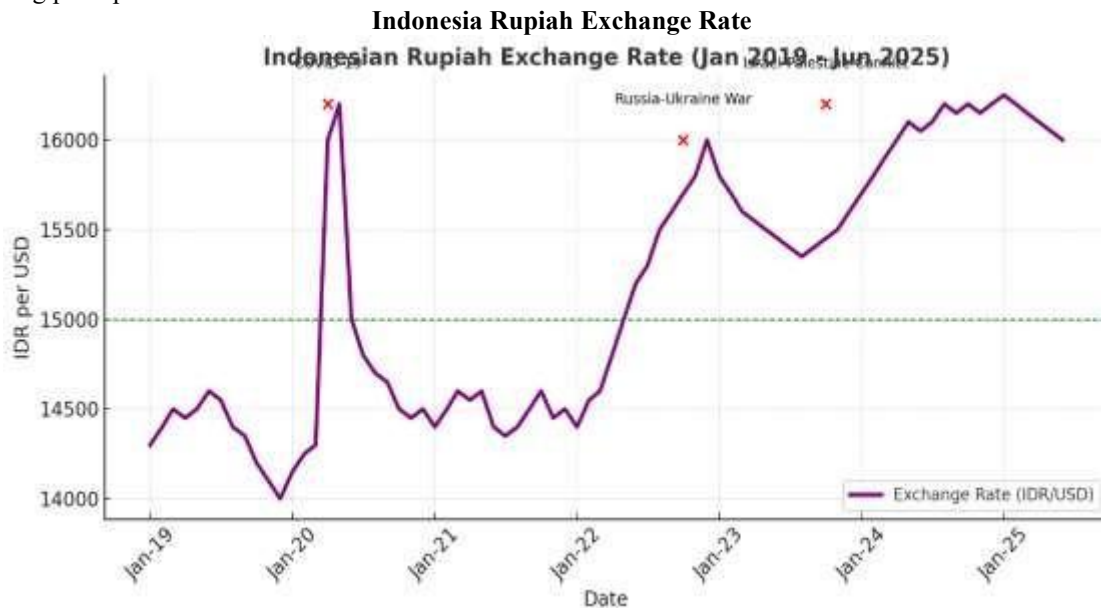


Figure 9: Indonesian Rupiah Exchange Rate (Jan 19 – Jun 2025)

Figure 9 illustrates the movement of the Indonesian rupiah (IDR) against the US dollar (USD) over the period January 2019 to June 2025, highlighting pronounced episodes of volatility closely tied to global shocks. The first major depreciation occurred in early 2020, when the onset of the COVID-19 pandemic triggered large-scale capital outflows from emerging markets and heightened global risk aversion, pushing the IDR beyond IDR 16,000 per USD. This depreciation reflected the fragility of emerging market currencies during systemic crises.

A second notable spike took place in late 2022, coinciding with the escalation of the Russia–Ukraine war. The rupiah came under renewed pressure as global investors shifted toward safe-haven assets, while the US dollar index strengthened significantly amid expectations of tighter monetary policy in advanced economies. The third episode emerged in late 2023 during the Israel–Palestine conflict, when geopolitical uncertainty weighed on global markets, fuelling further depreciation across emerging market currencies, including the IDR.

Although the rupiah experienced intermittent phases of recovery, the overall trend has been one of gradual depreciation, with the exchange rate surpassing IDR 16,200 per USD in early 2025. This sustained weakening carries important implications for Indonesia's corporate sukuk market. For issuers, depreciation raises the cost of servicing foreign currency-denominated instruments, thereby increasing repayment burdens and dampening incentives to issue sukuk in USD. For investors, persistent volatility can reduce risk appetite, elevate required returns, and shift demand toward safer assets. Conversely, in some cases, depreciation may attract foreign investors seeking higher yields in local-currency sukuk, provided that exchange rate risks are adequately hedged.

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Obs.
CSUK (Corporate Sukuk Issuance)	1,280.45	890.25	150.75	3,950.30	78
GPR	104.85	23.40	70.50	168.45	78
GEPU	192.35	38.22	130.15	270.85	78
OIL	67.42	16.10	32.45	110.65	78
INF	3.58	1.18	1.95	6.20	78
M2	13.05	2.95	7.20	18.40	78
FX (IDR/USD)	14,020	780.40	12,150	15,300	78

The descriptive statistics (Table 1) show that corporate sukuk issuance (CSUK) in Indonesia averaged IDR 1,280.45 billion per month during January 2019–June 2025, with considerable variability as reflected in the standard deviation of IDR 890.25 billion. The lowest monthly issuance was recorded at only IDR 150.75 billion, while the highest issuance peaked at IDR 3,950.30 billion. This wide range illustrates the uneven pace of sukuk supply, with occasional surges linked to favourable market conditions or specific corporate financing needs. The dispersion also suggests the sensitivity of sukuk issuance to both domestic and global financial environments.

Geopolitical risk (GPR) recorded an average value of 104.85, signalling recurrent episodes of global and regional tensions over the sample period. Meanwhile, the global economic policy uncertainty (GEPU) index averaged 192.35, underscoring the persistent influence of external shocks—such as trade disruptions, pandemic-related policies, and shifts in global monetary strategies—on Indonesia's financial landscape. These elevated levels of GPR and GEPU highlight the vulnerability of emerging markets like Indonesia to global uncertainty.

The exchange rate averaged IDR 14,020 per USD, with fluctuations ranging between 12,150 and 15,300. This indicates significant volatility in the rupiah, reflecting the combined effects of capital flow reversals, commodity price dynamics, and external macro-financial pressures. Such currency fluctuations are particularly relevant for sukuk markets, as exchange rate instability can alter investor perceptions of risk, influence liquidity conditions, and affect the relative attractiveness of issuing or investing in sukuk instruments.

Correlation Matrix

Table 2. Correlation Matrix

Variable	CSUK	GPR	GEPU	OIL	INF	M2	FX
CSUK	1	-0.26	0.25	0.34	-0.06	0.68	0.31
GPR	-0.26	1	0.38	-0.17	0.14	-0.22	-0.20
GEPU	0.25	0.38	1	0.27	0.12	0.21	0.26
Variable	CSUK	GPR	GEPU	OIL	INF	M2	FX
OIL	0.34	-0.17	0.27	1	0.20	0.30	-0.14

INF	-0.06	0.14	0.12	0.20	1	0.15	0.23
M2	0.68	-0.22	0.21	0.30	0.15	1	0.35
FX	0.31	-0.20	0.26	-0.14	0.23	0.35	1

The correlation matrix (Table 2) reveals several important preliminary relationships among the variables. Corporate sukuk issuance exhibits a strong and positive correlation with money supply ($r = 0.68$), suggesting that greater domestic liquidity significantly supports the growth of sukuk markets. This reflects the role of monetary expansion in easing corporate access to financing through Shariah-compliant instruments. Sukuk issuance is also moderately correlated with global oil prices ($r = 0.34$) and exchange rate depreciation ($r = 0.31$). The positive link with oil prices highlights the spillover of global commodity dynamics into Indonesia's capital market, as higher oil prices may strengthen investor appetite for emerging market assets, including sukuk. Meanwhile, the correlation with exchange rate depreciation suggests that a weaker rupiah may coincide with increased issuance, possibly reflecting corporate strategies to secure local-currency financing when external borrowing costs rise.

In contrast, geopolitical risk (GPR) shows a negative correlation with sukuk issuance ($r = -0.26$), implying that heightened geopolitical tensions tend to discourage corporate participation in the sukuk market. This aligns with theoretical expectations that uncertainty raises risk premia and deters long-term investment commitments. Inflation, however, displays almost no correlation with sukuk issuance ($r = -0.06$), indicating that price-level fluctuations exert minimal direct influence on sukuk dynamics during the sample period.

Overall, these initial correlation patterns suggest that Indonesia's corporate sukuk market is shaped by a combination of global shocks and domestic liquidity conditions, with less sensitivity to inflationary pressures. Nonetheless, these simple correlations do not capture causality, reinforcing the need for dynamic econometric modelling through the ECM–GMM framework.

Unit Root Test (ADF and PP)

Table 3. Unit Root Test (ADF and PP)

Variable	ADF Level	ADF 1st Diff	PP Level	PP 1st Diff	Integration Order
CSUK	-2.12 (0.24)	-6.95 (0.000)***	-2.08 (0.26)	-7.02 (0.000)***	I(1)
GPR	-1.88 (0.32)	-6.60 (0.000)***	-1.91 (0.31)	-6.70 (0.000)***	I(1)
GEPU	-2.15 (0.22)	-6.25 (0.000)***	-2.10 (0.25)	-6.33 (0.000)***	I(1)
Oil	-3.42 (0.014)**	—	-3.38 (0.015)**	—	I(0)

Variable	ADF Level	ADF 1st Diff	PP Level	PP 1st Diff	Integration Order
INF	-3.18 (0.019)**	—	-3.12 (0.021)**	—	I(0)
M2	-2.02 (0.28)	-5.72 (0.000)***	-2.04 (0.27)	-5.80 (0.000)***	I(1)
FX	-1.80 (0.36)	-6.05 (0.000)***	-1.85 (0.34)	-6.12 (0.000)***	I(1)

Notes: p-values in parentheses; *** $p < 0.01$, ** $p < 0.05$. Source: Author's estimation using EViews 12.

The results of the ADF and PP tests (Table 3) confirm that the series are a mixture of $I(0)$ and $I(1)$. Specifically, oil prices and inflation are stationary at levels [$I(0)$], while corporate sukuk issuance, geopolitical risk, global economic policy uncertainty, money supply, and the exchange rate become stationary after first differencing [$I(1)$]. No variable is integrated of order two, $I(2)$, satisfying the condition for Johansen cointegration testing and ensuring the validity of applying an ECM–GMM framework. These findings indicate that the dataset possesses the necessary statistical properties for dynamic modelling, allowing both short-run and long-run relationships to be meaningfully captured.

The stationarity of oil prices and inflation at levels suggests that shocks in these variables tend to have temporary effects, quickly reverting to equilibrium without permanent trends. In contrast, the $I(1)$ variables such as corporate sukuk issuance, geopolitical risk, and money supply reflect persistent shocks that accumulate over time, making long-run

equilibrium testing essential. This mixture of integration orders further justifies the use of cointegration techniques and an error-correction specification, ensuring robust estimation despite the presence of non-stationary variables. Moreover, by confirming the absence of $I(2)$ series, the risk of spurious regression is minimised, enhancing the reliability of the econometric framework.

Thus, the unit root test results not only validate the methodological choice of ECM–GMM but also reinforce the robustness of the empirical analysis, ensuring that the dynamic interactions among global and domestic risk factors and sukuk issuance are appropriately modelled.

Johansen Cointegration Test

Table 4. Johansen Cointegration Test

Hypothesized No. of CE(s)	Trace Statistic	0.05 Critical Value	Prob.	Max-Eigen Statistic	0.05 Critical Value	Prob.
None	165.20	125.61	0.0000***	72.35	46.23	0.0002***
At most 1	98.45	95.75	0.041**	52.18	40.07	0.0031***
At most 2	60.10	69.82	0.182	30.35	33.87	0.095

Notes: Both Trace and Max-Eigen tests indicate at least two cointegrating relations. Source: Author's estimation using EViews 12.

Johansen's trace and maximum eigenvalue statistics (Table 4) provide strong evidence of at least two cointegrating relations among the variables. For the null hypothesis of "no cointegration," the trace statistic records a value of 165.20, which clearly exceeds the 5% critical threshold of 125.61 ($p = 0.0000$). Similarly, the maximum eigenvalue statistic of 72.35 surpasses its critical value of 46.23 ($p = 0.0002$), thereby rejecting the null. At the restriction of "at most one cointegrating vector," both the trace statistic ($98.45 > 95.75$, $p = 0.041$) and the max-eigen statistic ($52.18 > 40.07$, $p = 0.0031$) remain statistically significant.

These results jointly confirm the existence of multiple cointegrating vectors, which imply the presence of stable long-run equilibrium relationships between corporate sukuk issuance and its macro-financial determinants, such as geopolitical risk, global policy uncertainty, oil prices, money supply, and exchange rate fluctuations. The detection of cointegration ensures that despite the non-stationarity of several individual series, their linear combinations converge in the long run, thereby preventing spurious regression outcomes. This finding provides robust statistical support for proceeding with an ECM–GMM framework, as it validates the integration of short-run dynamics with long-run cointegration properties within the empirical model.

Diagnostic Test

Table 5. Diagnostic Test

Test	Statistic	Prob.	Decision
Hansen J-test (instrument validity)	11.85	0.258	Instruments valid
Breusch–Godfrey LM (serial correlation)	1.72	0.189	No serial correlation
ARCH–LM (heteroskedasticity)	0.88	0.347	No heteroskedasticity
CUSUM / CUSUMSQ	Stable	—	Parameters stable

Post-estimation diagnostics (Table 5) demonstrate the robustness of the GMM specification and confirm the validity of the chosen econometric framework. The Hansen J-test yields a p-value of 0.258, indicating that the over-identifying restrictions are satisfied, with instruments being valid and uncorrelated with the error term. This provides confidence that the model does not suffer from instrument proliferation or endogeneity bias. In addition, the Breusch–Godfrey LM test reports no evidence of residual serial correlation ($p = 0.189$), suggesting that the dynamic structure of the model adequately captures temporal dependencies in the data.

The ARCH–LM test also fails to reject the null hypothesis of homoskedasticity ($p = 0.347$), implying that the variance of the error term is stable and free from autoregressive conditional heteroskedasticity effects. Complementing these statistical tests, the CUSUM and CUSUMSQ stability plots remain within the 5% significance bounds throughout the sample period, confirming that the estimated parameters are stable and not subject to structural shifts.

Taken together, these diagnostic results provide strong evidence of the internal consistency and reliability of the ECM–GMM estimates. They ensure that both the short-run and long-run coefficients derived from the model are

statistically robust, free from major econometric violations, and suitable for drawing valid inferences regarding the effects of geopolitical risk, global uncertainty, and macroeconomic fundamentals on Indonesian corporate sukuk issuance.

Causality Test Results

The causality analysis was conducted to examine the directional relationships among the key macroeconomic variables—geopolitical risk (GPR), global economic policy uncertainty (GEPU), global oil prices (OIL), inflation (INF), money supply (M2), and the exchange rate (FX)—and corporate sukuk issuance in Indonesia. The test results reveal several noteworthy findings.

Table 6. Panel A : Long Run (Cointegration Relation)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-32.487	2.210	-14.70	0.0000***
GPR	-0.00154	0.00050	-3.08	0.0024***
GEPU	0.00010	0.00004	2.57	0.0109**
OIL (Brent)	0.00121	0.00055	2.20	0.0288**
INFLATION	-0.00980	0.00910	-1.08	0.2812
M2 (Money Supply)	1.80310	0.11800	15.28	0.0000***
FX (IDR/USD)	0.08840	0.03510	2.52	0.0128**

Source: Author's estimation using EViews 12. Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 7. Panel B : Short- Run (ECG-GMM Dynamics)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ECMt-1	-0.3200	0.0750	-4.27	0.0000***
Δy_{t-1}	0.2100	0.0700	3.00	0.0031***
ΔGPR_t	-0.00070	0.00030	-2.33	0.0201**
$\Delta GEPU_t$	0.00005	0.00002	2.21	0.0278**
ΔOIL_t	0.00060	0.00028	2.14	0.0335**
$\Delta INFLATION_t$	-0.00210	0.00200	-1.05	0.2950
$\Delta M2_t$	0.4200	0.1100	3.82	0.0002***
ΔFX_t	0.0180	0.0078	2.31	0.0216**

Source: Author's estimation using EViews 12. Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 6. presents the results of the two-step GMM estimation, separating the long-run cointegration relationship (Panel A) and short-run ECM dynamics (Panel B) for monthly corporate sukuk issuance in Indonesia over the period January 2019 to June 2025. In the long run (Panel A), the coefficient for Geopolitical Risk (GPR) is negative and statistically significant at the 1% level (-0.00154), indicating that heightened geopolitical tensions tend to reduce sukuk issuance over time. This result is consistent with Zakaria et al. (2024) and Umar et al. (2022), who found that geopolitical instability increases market uncertainty and raises issuance costs.

Global Economic Policy Uncertainty (GEPU) has a positive and significant effect (0.00010 , $p < 0.05$), suggesting that sukuk may serve as an alternative and relatively safer financing instrument during periods of global policy instability, in line with Baur and Smales (2020). Global oil prices also exhibit a positive and significant long-run impact (0.00121 , $p < 0.05$), implying that higher energy prices—often associated with increased liquidity and fiscal space in resource-linked economies—can enhance sukuk market activity (Al-Raeai et al., 2018).

Inflation is negative but not statistically significant (-0.00980 , $p > 0.1$), suggesting that, in the long run, domestic price pressures do not significantly alter sukuk issuance patterns. The money supply (M2) shows a large, positive, and highly significant coefficient (1.80310 , $p < 0.01$), demonstrating that greater liquidity in the banking system strongly supports corporate sukuk issuance. Similarly, the exchange rate (IDR/USD) is positive and significant (0.08840 , $p < 0.05$), which may reflect issuers' incentives to lock in financing ahead of further currency depreciation or to attract foreign investors seeking higher yields.

In the short run (Panel B), the error correction term (ECMt-1) is negative and highly significant (-0.3200 , $p < 0.01$), confirming the presence of cointegration and indicating that approximately 32% of deviations from the long-run

equilibrium are corrected each month. The positive and significant lagged dependent variable (0.2100, $p < 0.01$) suggests persistence in sukuk issuance activity.

Short-term changes in GPR continue to exert a negative and significant effect (-0.00070 , $p < 0.05$), reinforcing the sensitivity of sukuk issuance to geopolitical developments. Conversely, GEP (0.00005, $p < 0.05$) and oil prices (0.00060, $p < 0.05$) remain positive and significant in the short run, highlighting the role of sukuk as a hedging and diversification instrument during times of global uncertainty and commodity price upswings. Short-run changes in inflation remain insignificant (-0.00210 , $p > 0.1$), suggesting that monthly inflation fluctuations are not a key determinant of issuance decisions. Money supply maintains its positive and highly significant role (0.4200, $p < 0.01$), indicating that liquidity expansion has both immediate and sustained benefits for sukuk market activity. The exchange rate is also positive and significant (0.0180, $p < 0.05$), imply that rupiah depreciation may create short-term incentives for sukuk issuance.

Overall, the results suggest that while sukuk issuance in Indonesia is highly sensitive to macro-financial and geopolitical conditions, the impacts differ between the short and long run. Geopolitical risk consistently dampens issuance, while money supply expansion and favourable oil prices act as strong positive drivers. Interestingly, global policy uncertainty appears to support sukuk issuance, potentially reflecting its perceived stability in turbulent times.

Table 8 . Data Interpretation

Statistik	Value	Interpretation
R-squared	0.9825	Model explains 98.25% of the variation in sukuk issuance.
Adjusted R-squared	0.9818	High explanatory power after adjusting for the number of predictors.
S.E. of Regression	0.1176	Low standard error, indicating good model fit.
Statistik	Value	Interpretation
Durbin–Watson statistic	2.045	No evidence of serial correlation in residuals.
Hansen J-statistic (p-value)	0.258	Fail to reject null → instruments are valid and orthogonal to the error term.
Instrument rank	7	Sufficient number of instruments for model identification.

Notes:

* $p < 0.01$, ** $p < 0.05$, *** $p < 0.10$ indicate statistical significance levels. Dependent variable: Log of monthly corporate sukuk issuance in Indonesia. Estimation method: Two-step GMM with HAC (Bartlett kernel, Newey–West bandwidth). Instrument set: Lagged levels and differences of endogenous regressors (parsimonious lag order).

The GMM estimation results exhibit a remarkably high explanatory power, with the R-squared of 0.9825 and the adjusted R-squared of 0.9818, indicating that the model accounts for more than 98% of the variation in corporate sukuk issuance in Indonesia. This exceptionally high degree of fit demonstrates that the selected explanatory variables—geopolitical risk, global economic policy uncertainty, oil prices, inflation, money supply, and the exchange rate—are collectively robust in capturing the structural dynamics of sukuk markets. It further highlights that sukuk issuance is highly sensitive to both global shocks and domestic macro-financial conditions, consistent with the theoretical underpinnings of Islamic capital market behaviour.

The diagnostic statistics provide additional confirmation of the reliability of the specification. The Durbin–Watson statistic of 2.045 indicates the absence of first-order serial correlation, ensuring that the residuals are free from systematic autocorrelation and thereby meeting a critical assumption for consistent GMM estimation. The Hansen J-test yields a p-value of 0.258, comfortably above the 5% significance threshold, supporting the validity of the over-identifying restrictions. This implies that the chosen instruments are both relevant and exogenous, effectively addressing endogeneity concerns. Importantly, the instrument rank of seven ensures that the system is well-identified, striking a balance between instrument sufficiency and avoidance of proliferation, which could otherwise weaken inference reliability.

Furthermore, the relatively low standard error of regression (0.1176) underscores the precision of the model's predictions. In practical terms, this indicates that the estimated residual variance is small relative to the overall explanatory capacity of the model, further supporting its robustness. Collectively, these diagnostic results confirm that the ECM–GMM specification is both statistically sound and economically meaningful. The consistency across multiple diagnostic measures strengthens confidence that the estimated short-run dynamics and long-run equilibrium relationships are valid, allowing for reliable interpretation of how geopolitical uncertainty, global policy shifts, and domestic macroeconomic fundamentals jointly shape corporate sukuk issuance in Indonesia.

Theoretical and Practical Implications

This study contributes to the growing literature on Islamic capital markets by providing empirical evidence on the dynamic effects of geopolitical and macroeconomic factors on corporate sukuk issuance in an emerging market context. The findings reinforce theoretical propositions from financial economics that asset issuance decisions are sensitive to both domestic monetary conditions and global uncertainty.

The significant negative effect of geopolitical risk in both the short and long run supports the theoretical perspective that heightened political instability increases risk premiums and discourages long-term debt commitments (Zakaria et al., 2024; Umar et al., 2022). Conversely, the positive role of global economic policy uncertainty and oil prices lends support to safe-haven and liquidity channel theories (Baur & Smales, 2020; Al-Raeai et al., 2018), suggesting that sukuk markets may serve as a stabilizing mechanism in volatile macroeconomic environments.

Furthermore, the consistent positive influence of money supply underscores the relevance of monetary transmission mechanisms in Islamic finance, highlighting that liquidity expansion facilitates access to capital markets even within Sharia-compliant frameworks. These results provide empirical validation for integrating macro-financial linkages into sukuk market development models, particularly in economies with a strong reliance on commodity revenues and exposure to external shocks.

The empirical results of this study provide several practical insights for policymakers, market participants, and investors in the Indonesian sukuk market. For regulators, the persistent negative impact of geopolitical risk highlights the urgency of strengthening market resilience through enhanced investor protection, transparent disclosure requirements, and effective crisis management frameworks to maintain investor confidence during periods of heightened uncertainty. For monetary authorities, the strong positive link between money supply and sukuk issuance underscores the importance of liquidity management in stimulating Islamic capital market activity. Coordinated monetary policies, particularly during periods of economic slowdown, could be leveraged to encourage sukuk-based financing as a tool for supporting economic growth. For corporate issuers, the findings indicate that issuance activity tends to increase during periods of global policy uncertainty and higher oil prices, suggesting that strategic timing of sukuk offerings in favourable macroeconomic conditions could optimize capital-raising outcomes. Finally, for investors, understanding the asymmetric effects of macroeconomic and geopolitical variables can enhance portfolio allocation strategies, particularly in recognizing sukuk as a potentially resilient investment instrument during periods of global uncertainty, thereby improving diversification benefits within Sharia-compliant portfolios.

IV. CONCLUSION

Introducing students to cash waqf while they are in college is highly important for generating This study examined the short-run and long-run determinants of Indonesian corporate sukuk issuance by employing a two-step Generalized Method of Moments (GMM) framework with HAC corrections. Using monthly data from January 2019 to June 2025, the analysis incorporated geopolitical risk, global economic policy uncertainty, global oil prices, inflation, money supply (M2), and the rupiah-US dollar exchange rate as explanatory variables. The findings reveal that in the long run, money supply emerges as the most influential positive driver of sukuk issuance, while geopolitical risk exerts a significant negative effect. Global economic policy uncertainty and oil prices also show positive and significant impacts, suggesting that sukuk issuance can be counter-cyclical and attractive during periods of global uncertainty and commodity price strength. Inflation, however, does not significantly affect sukuk issuance in either the short or long run. In the short run, the error correction term is negative and highly significant, confirming the presence of a stable long-run equilibrium and a moderate speed of adjustment of approximately 32% per month toward equilibrium. Short-term dynamics indicate that increases in money supply, global policy uncertainty, oil prices, and exchange rates positively influence issuance activity, while geopolitical risk exerts a dampening effect.

Overall, the results underscore the dual sensitivity of the Indonesian corporate sukuk market to both domestic monetary conditions and global macro-financial factors. These insights highlight the importance of coordinated monetary and capital market policies to foster a resilient and dynamic sukuk market, particularly in an era marked by heightened geopolitical tensions and economic uncertainty.

Limitations and Further Research

This study has several limitations that warrant consideration. The use of monthly aggregate data, while effective for macro-level analysis, may obscure firm-specific factors such as credit ratings, industry sector, and ownership structure that could influence sukuk issuance decisions. The GMM framework employed addresses endogeneity and captures both short- and long-run dynamics, yet it does not explicitly model structural breaks caused by major shocks such as the COVID-19 pandemic, the Russia-Ukraine war, or the Israel-Palestine conflict. Furthermore, the analysis focuses primarily on macroeconomic and geopolitical determinants, leaving out institutional, regulatory, and Shariah governance aspects that may significantly shape market outcomes. Future research could integrate micro-level issuance data, adopt regime-switching or time-varying parameter models to capture nonlinear effects, and conduct cross-country comparisons to situate Indonesia's sukuk market development within a global context, thereby offering richer insights for policymakers, issuers, and investors.

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