

# The Impact Of Sukuk Issuance On Stock Prices: New Insights From The Jakarta Stock Exchange

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## Abstract

This study fills a critical gap in the Islamic finance literature in emerging markets by examining the market reaction to Sukuk issuances of firms listed on the Jakarta Stock Exchange (JKSE) between January 2023 and October 2024. Drawing on signaling theory, it is hypothesized that Sukuk issuances can signal positive firm performance and financial health, thereby influencing investor behavior. A market-adjusted event study methodology is employed, where abnormal returns (AR) and cumulative abnormal returns (CAR) are calculated over an event window of -10 to +10 days, where statistical significance is tested through t-values and p-values. Our results reveal heterogeneous responses across firms. Some firms show statistically significant positive ARs after issuance, while others show neutral or negative responses. The variation in CARs suggests that Sukuk issuances are perceived differently depending on firm-specific factors and broader market conditions. These findings contribute to the Islamic finance literature by providing empirical evidence on the financial market impacts of Sukuk, especially in Indonesia, where Islamic finance is growing rapidly. The research highlights the role of Sukuk as a financing tool in enhancing market perceptions and investor confidence, offering practical implications for both policy makers and corporate managers.

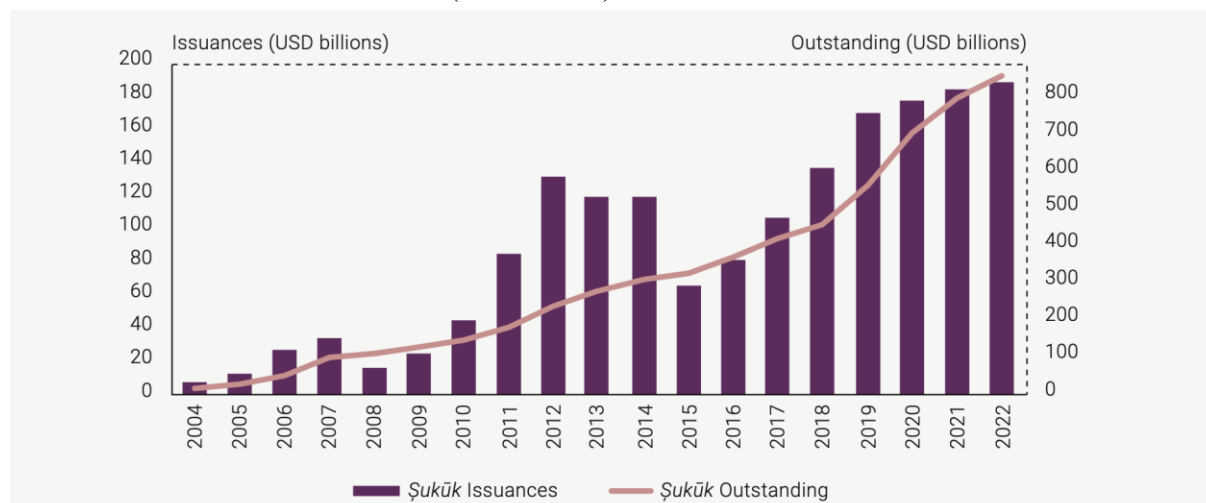
**Keywords:** Sukuk issuance; event study; Islamic finance; signaling theory; Jakarta Stock Exchange

## 1. Introduction

Today, Islamic finance has an important share in the global financial system. The financial instrument with the highest share in Islamic finance, whose share is increasing day by day, is Sukuk. Sukuk refers to an asset or service based on it and to having rights over the underlying asset. According to the definition made by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI): “Sukuk are certificates issued in equal value in the form of ownership of assets in the form of existing goods (in-kind) benefits or services or in the assets of a specific project or in a specific investment activity” (AAOIFI, 2015).

Sukuk, an interest-free investment instrument, is issued by many countries and provides funds for various projects. Sukuk, issued by the state and private companies, has reached significant figures worldwide. Although the sukuk market slowed down in 2022 compared to the previous year, it has shown a growth trend since 2015. In 2022, total sukuk issuance increased to US\$829.7 billion, showing an annual growth of 7% (2021: 12.5%). The following chart shows total global sukuk issuances between 2004-2022 (IFSB 2023, p.51).

**Chart 1.** Global Sukuk Issuances (2004–2022) Billion US\$



**Source:** IFSB 2023, p.51

Sukuk, issued by Middle Eastern, European and Asian countries, is mostly issued by Saudi Arabia, Malaysia, Indonesia and Kuwait (2021: Indonesia - 19.6%; Malaysia - 17.8%). There has been an increase in Sukuk issuances made in Turkey, Bahrain and Brunei (IFSB 2023, p.52).

Although Sukuk is a debt instrument similar to conventional bonds, it is distinguished from other debt instruments by being in compliance with Islamic finance principles. Sukuk contributes to the expansion and growth of companies by providing capital increase while meeting the need for interest-free financing.

Sukuk, which is in line with the principles of Islamic law, took its place in the markets as an alternative instrument to the financial markets in the West, especially in the early 2000s. Today, both public issuances and private sector issuance volumes are showing a growth trend.

When we look at the development of the sukuk market in the global market; sukuk increased its performance in the first half of 2017 and had an issuance value of 53.6 billion US dollars. The global sukuk market has renewed its confidence since 2016 and prepared the

ground for more sukuk issuance in 2017 and beyond. In 2017, there were important developments in countries related to sukuk. One of these developments was the Saudi Arabian Government's first sukuk issuance worth 17 billion riyals (4.53 billion US dollars). In return for this issuance, there was more than 3 times the demand from investors (over 51.0 billion riyals). Another development took place in Turkey. The government started selling gold-based lease certificates on October 2, 2017 for households' gold savings under the pillow. Another important development took place in Malaysia. In July 2017, Tadau Energy Sdn Bhd issued MYR250.0 million (approximately US\$59.0 million) of green sustainable and responsible investment (SSY) sukuk. In October of the same year, Quantum Solar Park Malaysia Sdn Bhd issued MYR1.0 billion (approximately US\$236.0 million). (COMCEC Coordination Office, 2018, p. 5)

The rate of sukuk issuances is increasing day by day. This increase in the rate of issuance is used for various projects such as roads, bridges, airports, electricity, and petrochemicals, especially in developing economies (Jobst et al., 2008). Sukuk also helps economic development by increasing participation in the Islamic finance system.

In recent years, it is seen from the sukuk issuance rates that sukuk issuance has gained a solid ground in the global financial system. Sukuk has an important position especially in emerging markets. Moreover, sukuk issuance can be perceived as a sign of confidence in the investor perception. The need for the study emerged exactly at this point. The effect of sukuk issuances, which show a growth trend every passing year, on investors and whether this effect is short-term or long-term was wondered. In addition, the study aimed to measure the confidence perception of sukuk issuances in developing countries on investors. For this reason, Indonesia was selected as an example among developing countries. In this context, the article addresses the following research questions:

1. How are the share prices of sukuk issuing companies on the Jakarta Stock Exchange affected by sukuk issuance?
2. Is sukuk issuance perceived as a positive signal for investors?
3. Does the signal investors receive from sukuk issuance create a short-term or long-term effect?

The main objective of the study is to examine the potential of sukuk issuances to increase investor confidence by analyzing short-term market reactions to sukuk issuances. In addition, it is aimed to test whether sukuk issuing firms create a perception that they have a strong financial position.

This study aims to examine the market reaction to Sukuk issuances of firms listed on the Jakarta Stock Exchange (JKSE) between January 2023 and October 2024. The research fills a critical gap in the Islamic finance literature in emerging markets. The driving force behind this study is the assumption that Sukuk issuances can signal positive firm performance and financial health, thereby influencing investor behavior. Using a market-adjusted event study methodology, the study will calculate abnormal returns (AR) and cumulative abnormal returns (CAR) over an event window of -10 to +10 days, where statistical significance is tested through t-values and p-values.

Islamic finance studies on emerging markets are limited. This study will examine the effects of sukuk issuances on the market, especially in a country with a large Muslim population such as Indonesia, and will fill an important gap in the literature by increasing the number of

documents on sukuk markets in developing countries, which is scarce in the existing literature. This study will offer theoretical, methodological and practical contributions to the Islamic finance literature. In this context, the results of the study can contribute not only to the academic literature but also to investment strategies and policy decisions.

## **2. Literature Review**

When the relevant literature is examined, the number of studies emphasizing the importance of the sukuk market and comprehensively addressing the subject of sukuk has increased in recent years. Information on studies on sukuk in the literature and the findings obtained are given below.

Ledhem (2020) investigated whether sukuk financing increased economic growth in Southeast Asia (Malaysia, Indonesia and Brunei). In the analysis, data between the periods of 2013Q4–2019Q3 were analyzed using the dynamic panel one-step system generalized method of moments as the optimum estimation approach. The analysis results showed that sukuk financing increased economic growth in Southeast Asia.

Yıldırım et al. (2020) wanted to explain the relationship between economic growth and sukuk in their study. Therefore, they conducted analysis for the countries of Brunei, Indonesia, Jordan, Kuwait, Malaysia, Nigeria, Saudi Arabia, Pakistan and Turkey. Data from the periods of 2014Q1 to 2017Q4 were analyzed in the study. As a result of the study, it was found that there is a long-term cointegrated relationship between the sukuk market and economic growth. However, it was observed that sukuk development had no effect on economic growth in the short term.

In their study, Ballı et al. (2021) compared the yields of sukuk and bonds issued simultaneously using data from financial and non-financial companies at a weekly level. In this study, data from 123 companies issuing both sukuk and bonds between 2013 and 2018 were used. The panel generalized least squares estimation method was used in the study. As a result, it was found that global factors have a significant effect on sukuk-bond differences.

Aman et al. (2022) drew attention to the interest in sukuk financing in both Muslim and non-Muslim countries and in both developed and developing countries. Therefore, they aimed to provide empirical support by producing theoretical relationships in the sukuk market in their study. Using panel data analysis in their study, they covered 13 sukuk issuing economies between 1993 and 2017. As a result of the study, it was observed that there was a negative relationship between sukuk issuance and economic growth.

Ballı et al. (2022) used a sample of 38 firms from 13 sukuk issuing countries in their study. The study showed that market size, liquidity positions, and the price-leverage ratio of companies play a sharp role from sukuk to Islamic stock markets.

Alam et al. (2023) aimed to review the results of studies explaining the development of the emergence of green sukuk investments. For this reason, they analyzed 15 publications on green sukuk indexed by the Scopus database between 2016-2022. As a result of the analysis, there are various evaluation findings regarding sukuk financing and risk minimization efforts. Billah et al. (2023) used 15 sukuk market and green bond index examples in their studies. In the study, the asymmetric relationship and spillover effects between sukuk and green bonds were examined in terms of global risk factors. As a result of the study, it is shown that sukuk, green bonds and global factors are effective in balancing the risks. These results are also valid for the Covid-19 pandemic period.

Naeem et al. (2023) examined hedge and safe harbor features for sukuk and green bond markets before and during the COVID-19 pandemic. The methodology proposed by Ratner and Chiu (2013) was used in their study. The study revealed that green bonds exhibit strong harbor features and offer important diversification paths for investors who do not want to take too much risk during periods of economic stress.

Yüce and Toor (2023) investigated how company performance and characteristics affect the choice between conventional bond and sukuk issuance in their study. The study examined 227 sukuk and 628 conventional bond issuers from 12 countries between 2005 and 2017. As a result of the study, it was determined that large companies can enter the sukuk market in addition to the conventional bond market. Moreover, another result of the study is that companies with high financial performance can enter the sukuk market at a premium that cannot be reached in the conventional bond market.

In their study, Delle Foglie and Keshminder (2024) conducted an analysis of literature studies on SRI sukuk to highlight the potential of instruments in financing more sustainable financial systems (SFSs). In this study, they examined the appearance of SRI sukuk development in the literature between 2016 and 2021. As a result of this study, they drew attention to the SRI problem.

Trabelsi et al. (2024) investigated the relationship between investable sukuk yields and US yield curve components. The data for the study was selected for the period between September 07, 2007 and March 12, 2021. According to the research results, sukuk and traditional fixed income securities increase or decrease slightly over time in distressed periods.

### 3. Material and Method

In this study, an event study method was applied to analyze the market reactions to sukuk issuances of firms listed on the Jakarta Stock Exchange (JKSE). In this analysis, the effect of sukuk issuance announcements on investors was examined by utilizing the signal theory. Signal theory suggests that strategic decisions of firms in financial markets provide information to investors and this information is reflected in market prices (Spence, M. 1973). Sukuk issuances may carry positive or negative signals about the financial structures of firms and the effect of these signals on the market can be analyzed using the event study method. The effect of sukuk issuances on investor behavior has been frequently studied in the past and these effects have generally changed depending on transparency and trust factors (Abdullah, M., & Sofian, S. 2012). The data are based on publicly available information on the stock exchange such as stock prices, transaction volumes and financial reports of firms announcing their sukuk issuances. The dates of the sukuk issuance announcements have been determined and the event window has been defined in line with these dates (Table 1).

**Table 1.** Event Window and Issuance Dates

Sn	Code	Explanation	Date of Issuance
1	<b>ADCP</b>	Adhi Commuter Properti Tbk PT (ADCP)	26 October 23
2	<b>AGII</b>	Samator Indo Gas Tbk PT (AGII)	10 October 23
3	<b>AMDF</b>	Adira Dinamika Multi Finance Tbk PT (AMDF)	3 May 24
4	<b>BALI</b>	Bali Towerindo Sentra Tbk (BALI)	11 October 23
5	<b>BBTN</b>	Bank Tabungan Negara Persero (BBTN)	27 September 24

6	<b>BMTR</b>	Global Mediacom Tbk (BMTR)	21 June 24
8	<b>DILD</b>	Intiland Development Tbk (DILD)	2 December 22
9	<b>DSSA</b>	Dian Swastatika Sentosa Tbk (DSSA)	4 September 24
10	<b>EXCL</b>	XL Axiata Tbk PT (EXCL)	1 September 22
11	<b>GIAA</b>	Garuda Indonesia Persero Tbk (GIAA)	29 December 22
12	<b>INKP</b>	Indah Kiat Pulp & Paper Tbk (INKP)	21 June 24
13	<b>ISSP</b>	Steel Pipe Industry Of Indonesia (ISSP)	4 April 23
14	<b>MFIN</b>	Mandala Multifinance Tbk (MFIN)	22 June 23
15	<b>MORA</b>	Mora Telematika Indonesia Tbk PT (MORA)	16 January 24
16	<b>RRPS</b>	Angkasa Pura I Persero PT (RRPS)	29 December 23
17	<b>WIKA</b>	Wijaya Karya Tbk (WIKA)	3 November 22
18	<b>WOOD</b>	Integra Indocabinet Tbk PT (WOOD)	25 March 22

The event study method is an analysis technique widely used in the finance literature to measure the impact of a specific event (e.g., a sukuk issuance announcement) on a company's stock returns (MacKinlay, 1997). The study is based on the framework of signaling theory and aims to examine the effects of sukuk issuance on investor perception.

Signaling theory suggests that companies' strategic decisions are perceived as information by the market and that this information affects investor behavior (Spence, 1973). In this study, two basic hypotheses are formed based on signaling theory:

- **Positive Signal Hypothesis:** Sukuk issuance may be perceived by investors as a strong financial position or growth potential of the company.
- **Negative Signal Hypothesis:** Sukuk issuance may indicate that the company needs cash, which may be perceived as a risk by investors.

In this study, an event window is defined for each announcement in order to examine the signal sent to investors by sukuk issuance announcements. The event window is determined as a period of (-10, +10) days covering 10 days before and 10 days after the announcement. Signal theory suggests that strategic decisions of companies in financial markets (in this context, such as sukuk issuance) are perceived as information by the market and this information affects investor behavior. This analysis aims to evaluate how sukuk issuances send a signal to investors.

- a) **Definition of Event Window within the Scope of Signal Theory:** According to signal theory, announcements of companies send certain signals to the market and these signals may affect investors' decisions. Since sukuk issuance is a debt instrument regulated especially according to Islamic finance principles, it may give a positive or negative signal about the financial structure and growth potential of the company. In this study, an event window was defined for each announcement in order to examine the signal sent by sukuk issuance announcements to investors. The event window was determined as a period of (-10, +10) days covering the 10 days before and 10 days after the announcement.

- b) Data Collection and Analysis of Signal Effect:** Data were collected from sources such as stock prices, transaction volumes and relevant financial reports that are publicly available from the Jakarta Stock Exchange. The date ranges of each sukuk issuance announcement were determined in line with the event window and the relevant stock price information was recorded daily. Within the framework of signal theory, the effect of the sukuk issuance announcement on the market (positive or negative) was analyzed with these data.
- c) Return Calculations and Measurement of Signal Effect:** Daily stock return ( $R_t$ ) of each company is calculated with the following formula:

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}} \quad (1)$$

$R_t$  : Rate of Return

$P_t$  : Closing price of the stock at time  $t$

$P_{t-1}$  : Closing price of the stock at day  $t-1$

- d) Calculation of Abnormal Returns (AR):** Abnormal returns (AR) are calculated as the difference between the firm's observed return and the expected market return. The market return is estimated based on the Jakarta Stock Exchange general index. Abnormal return is calculated using formula 2 as follows:

$$AR_t = R_t - E(R_t) \quad (2)$$

$AR_t$  : Abnormal return,

$R_t$  : Observed return,

$E(R_t)$  : Expected market return.

- e) Calculation of Cumulative Abnormal Returns (CAR) and Signaling Effect:** The sum of the abnormal returns calculated during the event window is called cumulative abnormal returns (CAR) and is calculated with the help of formula 3:

$$CAR = \sum_{t=-10}^{+10} AR_t \quad (3)$$

The CAR value is used to measure the total impact of the event. Positive CAR values may indicate that investors perceive the sukuk issuance as a positive signal, while negative CAR values may indicate that they perceive it as a negative signal. (Fama, 1970).

A t-test was applied to test whether the AR and CAR values obtained during the event window are statistically significant. This test evaluates whether the observed abnormal returns are significantly different from zero. The t-values and p-values obtained in the t-test evaluated the impact of Sukuk issuances on the market. This methodology provides a comprehensive framework to determine whether strategic decisions such as sukuk issuances send positive or negative signals to the market. Understanding the impact of sukuk issuances on the market can make a significant contribution to the Islamic finance literature.

#### 4. Result

In this study, the effects of sukuk issuance announcements of companies listed on the Jakarta Stock Exchange and issuing sukuk on the market were analyzed. For each sukuk issuance, a total of 21-day event window (-10, +10) was taken into account before and after the announcement and daily abnormal return (AR) and cumulative abnormal return (CAR) were calculated. As a result of the analysis, it was observed that sukuk issuances had a significant effect on stock prices. These findings indicate that, in accordance with the signaling theory, sukuk issuances are reflected as reassuring or risk-indicating information to investors.

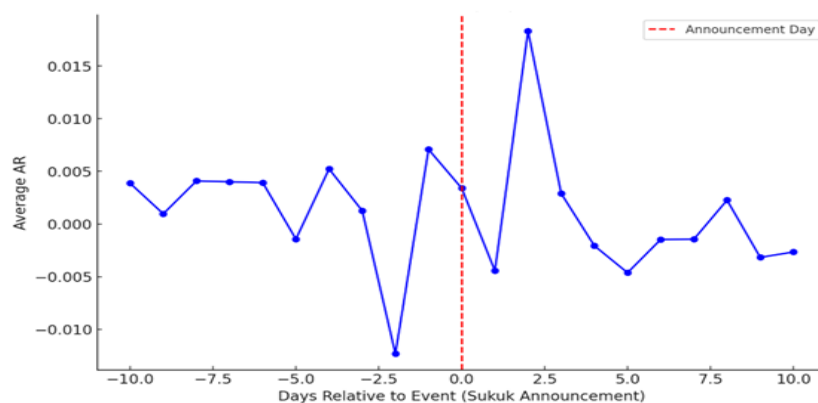
**Table 2.** Daily Abnormal Returns (AR) Trend Summary

Days	Average AR	Min AR	Max AR	Average p-değeri
Before Announcement (-10, -1)	0.003	-0.037	0.092	0.65
Day of Announcement (0)	0.010	0.001	0.041	0.02
After Announcement (+1, +10)	0.005	-0.055	0.079	0.57

In order to determine the daily effects of sukuk issuance announcements on stock prices, daily abnormal returns (AR) were calculated for each firm for the period from day -10 to day +10. According to the results obtained:

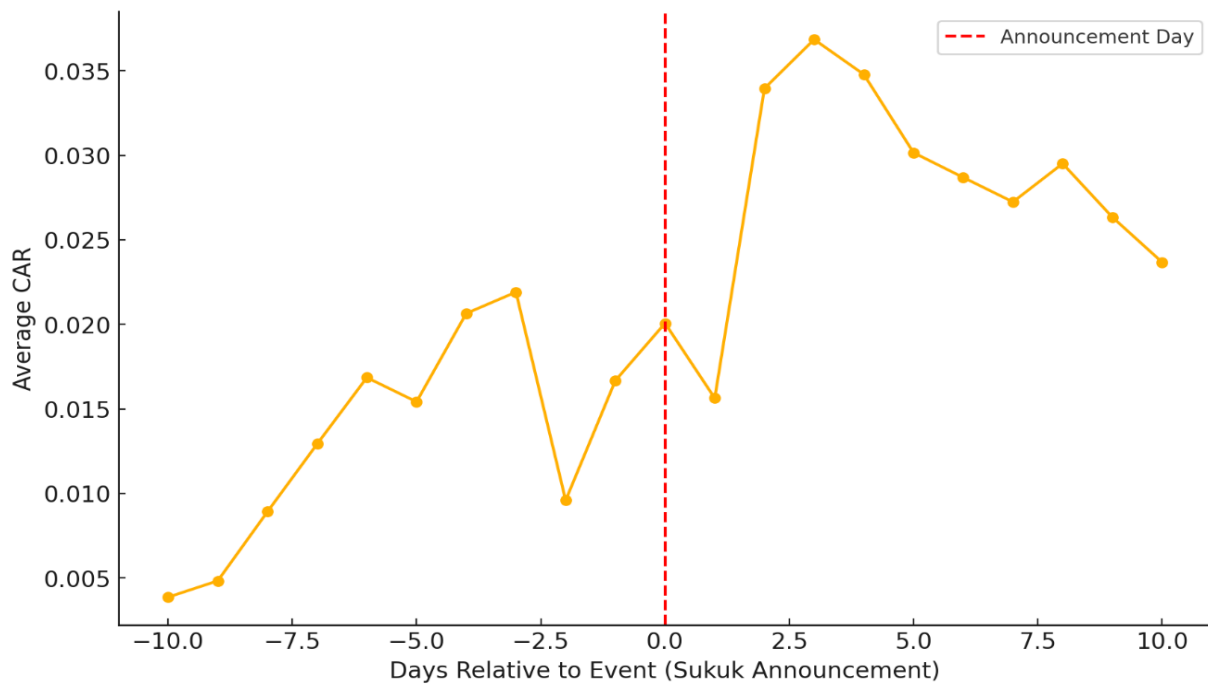
- Pre-announcement period: In the 5 days before the announcement (for example, on days -5, -3 and -1), significant positive AR values were observed in some firms. This suggests that investors may have accessed some information about the sukuk issuance before the announcement or that market expectations were reflected in the prices.
- Announcement day (day 0): On the announcement day, most of the sukuk issuing firms achieved positive AR values. This indicates that the sukuk issuance was generally perceived as a positive development by investors and created a positive price reaction in the market.
- Post-announcement period: Positive abnormal returns were recorded in the first days after the announcement (especially on days +1 and +2). However, it was observed that AR values decreased and returned to normal starting from day +3. This trend shows that the impact of the announcement is short-lived and investors quickly reflect the impact of sukuk issuances on prices in the post-announcement period.

**Figure 1.** Average Abnormal Return (AR) Over Event Window



In order to evaluate the cumulative impact of the announcements, cumulative abnormal returns (CAR) were calculated by summing the daily abnormal returns during the event window. The CAR results reflect the overall market perception of the announcements by showing the total impact of sukuk issuances on stock prices.

**Figure 2.** Average Cumulative Abnormal Return (CAR) Over Event Window



- In companies with positive CAR values, it was observed that the sukuk issuance was considered a positive signal by investors and this announcement had a positive impact on the market value of the companies.
- In some companies with negative CAR values, it was understood that the sukuk issuance was considered a negative development by the market and investors reacted negatively to the announcement.

### Statistical Significance Tests

A t-test was applied to test the statistical significance of the AR and CAR values obtained on the announcement day and the days following the announcement. According to the t-test results, the positive AR and CAR values observed on the announcement day and the following few days were statistically significant. These results show that the positive effect of sukuk issuance on investors is not coincidental and has a significant effect on the market.

These findings reveal that sukuk issuance has a significant signaling effect on the market value of firms listed on the Jakarta Stock Exchange and that investors give significant reactions to sukuk issuance announcements. These results provide significant contributions to understanding the effects of Islamic finance instruments on market perception.

## 5. Conclusion

This study aims to analyze the market reactions of sukuk issuing firms listed on the Jakarta Stock Exchange within the framework of signaling theory. The results show that sukuk issuances have both positive and negative effects on investors and that this effect may vary depending on the characteristics of sukuk announcements. Daily abnormal returns (AR) and cumulative abnormal returns (CAR) calculated during the event window indicate that the effect of sukuk issuance announcements on the market is short-term. The observation of positive and significant AR and CAR values, especially on the announcement day and the surrounding days, suggests that sukuk issuances are perceived by investors as a confidence-building signal. This indicates that sukuk issuance is considered as a positive sign of the company's financial strength or growth potential.

The significant positive values of AR and CAR values on the announcement day support the interpretation of sukuk issuances as reassuring information about the financial structure of the companies, in accordance with the signaling theory. On the other hand, the fact that CAR values turned negative in some companies in the post-announcement period indicates that sukuk issuances are considered as a risk factor by some investors and that the positive effect of the announcement weakens in a short time. This result indicates that sukuk issuances may carry complex signals about the financial position of the company by investors. The study reveals that the signaling effect of sukuk issuance on the market creates different reactions depending on both the short-term and announcement characteristics. While positive and significant CAR values indicate that sukuk issuances are interpreted by investors as the company being in a strong financial position, negative CAR values that occur in some cases suggest that this issuance may also be perceived by the market as a sign of risk. These findings provide valuable information in terms of understanding the market perception of Islamic finance instruments and show how sukuk issuances play a role in shaping investor behavior.

Our results reveal heterogeneous responses across firms. Some firms show statistically significant positive ARs after issuance, while others show neutral or negative responses. The variation in CARs suggests that Sukuk issuances are perceived differently depending on firm-specific factors and broader market conditions. These findings contribute to the Islamic finance literature by providing empirical evidence on the financial market impacts of Sukuk, particularly in Indonesia, where Islamic finance is rapidly growing. The research highlights the role of Sukuk as a financing tool in enhancing market perceptions and investor confidence, offering practical implications for both policy makers and corporate managers.

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