



## **Contribution of Islamic Finance Instruments to Increasing the Efficiency of Islamic Financial Markets - The Model of Islamic Sukuk in Malaysia: An Analytical Approach -**

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### **Abstract:**

*This study aims to demonstrate the importance of one of the Islamic finance instruments, namely Islamic sukuk, in enhancing the efficiency of the Malaysian Islamic financial market by presenting the most important issuances over an extended period from 2014–2023, in addition to analyzing the main indicators of the efficiency of the Malaysian Islamic financial market. The study concluded that Islamic sukuk issuances in Malaysia are continuously increasing compared to conventional bonds and effectively contribute to enhancing the efficiency of the Malaysian Islamic financial market, as both the market size indicator and the liquidity indicator are steadily rising.*

**Keywords:** *Malaysian Islamic financial market, Islamic sukuk, market size indicator, liquidity indicator*

# **Contribution des instruments financiers islamiques à l'amélioration de l'efficacité des marchés financiers islamiques**

## **- Le modèle des sukuk islamiques en Malaisie : une approche analytique -**

### ***Résumé :***

*Cette étude vise à démontrer l'importance de l'un des instruments financiers islamiques, à savoir le sukuk islamique, dans l'amélioration de l'efficacité du marché financier islamique malaisien en présentant les émissions les plus importantes sur une longue période allant de 2014 à 2023, en plus d'analyser les principaux indicateurs de l'efficacité du marché financier islamique malaisien. L'étude conclut que les émissions de sukuk islamiques en Malaisie ne cessent d'augmenter par rapport aux obligations conventionnelles et contribuent efficacement à améliorer l'efficacité du marché financier islamique malaisien, car l'indicateur de taille du marché et l'indicateur de liquidité sont en hausse constante.*

**Mots clés :** *marché financier islamique malaisien, sukuk islamique, indicateur de taille du marché, indicateur de liquidité*



## **Introduction:**

The Malaysian Islamic sukuk market has attracted many researchers and economists interested in the Islamic sukuk industry as it is one of the largest markets globally in terms of issuance and trading. It has grown significantly over the past two decades, representing a volume greater than that of the Malaysian conventional securities market. Malaysia has adopted a balanced approach to developing its Islamic financial industry, including the Islamic financial market, which operates in parallel with the conventional financial market. The country established basic infrastructure to support the growth and expansion of the Islamic financial market in general and the Islamic sukuk market in particular.

The Malaysian experience is pioneering in the Islamic sukuk industry, ranking first on all levels regarding issuance volume, diversity in structuring issuances, and the legislative and regulatory frameworks governing its operation. Malaysia offers a diverse range of Islamic sukuk issuances to meet the needs of many investors seeking interest-free financing for their projects. This diversity and multiplicity have had a significant impact on deepening the Malaysian Islamic financial market.

Based on the above, the following research problem can be posed:

**How do Islamic sukuk contribute to enhancing the efficiency and performance of the Malaysian Islamic financial market?**

To address the study problem, it is divided into three main sections in addition to the introduction and conclusion.

The first section includes the general framework of Islamic sukuk and the Malaysian Islamic financial market. The second section discusses the reality of Islamic sukuk issuances in the Malaysian Islamic financial market. The final section examines the role and importance of Islamic sukuk issuances in enhancing the efficiency of the Malaysian Islamic financial market.

## **1. The Conceptual Framework of Islamic Sukuk and the Malaysian Islamic Financial Market**

### **1.1. Malaysian Islamic Capital Market**

The Islamic capital market is an important part of the Malaysian financial system, being one of the most significant parts of the Malaysian stock exchange, especially regarding the market value of the Islamic sukuk market. Its uniqueness and importance are increased by offering various products that meet societal needs.

### **Emergence and Development of the Malaysian Islamic Capital Market:**

Islamic financial activities in Malaysia began in the early 1960s with the establishment of the Pilgrims Fund in 1962. However, the emergence and development of the Islamic securities market date back to the early 1990s, when the private company Shall Mdn. Sdn. Bhd. became the first issuer of Islamic sukuk in the local market in 1990, followed by several issuances of other Islamic financial instruments, which contributed to deepening the Islamic financial market.

In 1994, the Malaysian Securities Commission established a special section for the Islamic securities market (ICDM), followed by the creation of Islamic brokerage windows and Islamic investment fund systems. Later that year, the



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Shariah Committee (IISG) was established to study Islamic financial instruments, which became the Shariah Advisory Council (SAC) the following year. Additionally, the PARS system was created to facilitate the online provision of Islamic banking products, serving as a repository containing details of all Islamic financial products of international investment institutions.

To facilitate performance measurement of stocks, three Islamic indices were introduced: the first by BHD Management Trust Unit RHB, the second the Dow Jones Islamic Market (DJIM) Index, and the third the FTSE Islamic Comprehensive Index. In 1999, the Shariah Index was launched by Bursa Malaysia to track Shariah-compliant stock prices. In 2001, within the Malaysian government's Financial Sector Master Plan (First, Second, and Third Plans), efforts were made to develop, modernize, and strengthen both the conventional and Islamic financial sectors.

## **1.2. Definition of the Malaysian Islamic Securities Market:**

According to SAC, it is defined as a market in which transactions are conducted in a manner consistent with Muslim beliefs and Islamic law. It operates based on Shariah principles, avoiding prohibited activities such as riba (interest), gambling, and excessive uncertainty (gharar).

## **1.3. Characteristics of the Malaysian Islamic Capital Market:**

Key distinguishing features include:

- Transactions free from Shariah prohibitions such as riba, gambling, and gharar;

- Trading exclusively in Shariah-compliant instruments;
- Supervision by Shariah oversight bodies, distinguishing it from conventional markets.

- **Islamic Sukuk:**

Islamic sukuk are among the most important products of Islamic financial engineering, combining financial efficiency and Shariah compliance. They are key instruments in Islamic financial markets, enabling financial markets to contribute to national economic financing. They are also strong competitors to conventional bonds, especially after the 2008 global financial crisis.

- **A. Definition of Islamic Sukuk:**

Islamic sukuk are bonds issued in accordance with Shariah principles approved by the Shariah Advisory Council of the Malaysian Securities Commission. They may be issued by private companies or the government.

- **B. Types of Islamic Sukuk Issued in Malaysia:**

There are two main types according to the issuer: government sukuk and corporate sukuk.

- **Government Sukuk:** The first issuance was in 1983 as government investment certificates, interest-free, later developed according to the qard hasan principle to finance developmental projects, including sukuk based on deferred sales and ijarah.
- **Corporate Sukuk:** Introduced in 1990, these sukuk are prominent in the market and issued according to principles such as deferred sales (murabaha), istisna, ijarah, mudaraba, and musharaka.



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Islamic sukuk are thus among the key instruments issued in the Malaysian Islamic financial market.

#### **1.4. Regulatory and Shariah Bodies in the Malaysian Islamic Financial Market:**

The regulatory bodies in the Malaysian Islamic financial market consist of the Malaysian Securities Commission and the Shariah Advisory Committee in the field of Shariah supervision, as detailed below:

##### **A- Malaysian Securities Commission (SC):**

The Malaysian Securities Commission is the supreme and sole regulatory authority of the Malaysian capital market. It reports directly to the Malaysian Ministry of Finance and submits its reports and accounts to Parliament annually. It was established on March 1, 1993, under the Malaysian Securities Commission Act (SCA), regulating all supervisory matters related to the capital market and ensuring compliance with securities law. The Commission has provided all necessary requirements to develop and strengthen the capital market by establishing the Islamic Capital Market Department and the Shariah Advisory Committee.

##### **B- Islamic Capital Market Department (ICMD):**

Established in 1994 by the Malaysian Securities Commission, it represents the administrative arm of the Commission, issuing laws related to the Islamic capital market, overseeing research and studies on approving Islamic financial instruments, among other tasks.

### **C- Shariah Advisory Council (SAC):**

The Shariah Advisory Committee was established on October 10, 1994, initially known as the Shariah Committee for Islamic Financial Instruments (IISG). It consists of specialists in Islamic transactions and conventional systems, as well as experts in finance, banking, and financial resources. On May 16, 1997, the SAC replaced the IISG and formally assumed responsibility in coordination with the Malaysian Ministry of Finance, providing advice and guidance to the Securities Commission on Shariah-related matters.

## **2. The Reality of Issuance and Structuring of Islamic Sukuk in the Malaysian Islamic Financial Market**

The Malaysian Islamic financial market is considered one of the most advanced and largest markets in the world for issuing Islamic Sukuk, according to the 2018 RAM Rating Berhad Service report. Total Islamic Sukuk issuances reached USD 32.8 billion, representing 35% of global issuances. Malaysia also offers a diverse portfolio of Islamic Sukuk.

### **2.1. Corporate Issuances of Islamic Sukuk in the Malaysian Islamic Financial Market:**

Malaysia has paid special attention to corporate issuances, offering many incentives and tax exemptions. A comparison with conventional bonds in Malaysia from 2014–2023 is shown in the following table:

**Table 2-1: Corporate Sukuk Issuances Compared to Total Corporate Securities Issuances**

Unit: Billion Ringgit

Year	Total Corporate Issuances (Sukuk + Bonds)	Corporate Sukuk Issuances	%	Year	Total Corporate Issuances (Sukuk + Bonds)	Corporate Sukuk Issuances	%
2014	80	138.15	47	76.07	55.1	2015	50
2016	56	140.99	32	63.73	45.20	2017	80
2018	58	89.87	32	50.97	56.72	2019	71
2020	60	124.79	45	76.98	61.68	2021	74
2022	62	153.32	43	125.20	81.66	2023	63

Source: Prepared by the researchers based on: Securities Commission Malaysia, Annual report: (2014, p.144), (2016, p.197), (2018, p.153), (2020, p.154), (2022, p.160), (2023, p.230); Malaysia Report ICM (2006, p.12).

From Table 2-1, it is observed that corporate Sukuk issuances in Malaysia were fluctuating due to several crises during the study period, including the 2014 oil crisis (impacting 2015) and the COVID-19 pandemic in 2019. Overall, the proportion of Sukuk issuances relative to total issuances is continuously increasing, showing a preference for Sukuk over conventional bonds, reaching more than two-thirds of total issuances in recent years.

## 2.2. Total Issuances of Islamic Sukuk in Malaysia:

Sukuk issuances in Malaysia include both government (sovereign) Sukuk and corporate Sukuk, with sovereign Sukuk being the primary support for the Islamic Sukuk market.

**Table 2-2: Total Islamic Sukuk Issuances Compared to Bonds and Sukuk 2014-2023**

Unit: Billion Malaysian Ringgit

Year	Corporate Sukuk Issuances	Government Sukuk Issuances	Total Sukuk Issuances	Total Bonds Issuances	Total Sukuk + Bonds Issuances	% of Sukuk to Total Issuances
2014	76.07	176.14	262.76	492.15	754.96	34.80
2015	48.33	69.37	117.70	270.15	387.85	30.34
2016	63.73	65.72	129.45	240.56	369.96	34.97
2017	94.15	74.53	168.68	317.94	486.64	34.66
2018	72.68	127.22	199.90	385.93	585.83	34.12
2019	102.39	132.81	235.20	384.85	619.55	37.96
2020	76.98	146.96	223.94	366.67	590.61	37.91
2021	91.40	146.01	237.41	377.41	614.82	38.61
2022	125.20	171.64	296.84	435.08	731.92	40.55
2023	91.41	241.72	333.13	547.53	880.66	37.78

Source: Prepared by the researchers based on:

Securities Commission Malaysia, Annual report (2014, p.146), (2016, p.197), (2018, p.165), (2020, p.167), (2022, p.176), (2023, p.231).

Statistics from Table 2-2 show that government Sukuk issuances are higher than corporate issuances. Overall,



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Sukuk (government + corporate) represent about one-third of total bond and Sukuk issuances, with the proportion steadily increasing from 34% to around 38%, highlighting the importance of Islamic Sukuk in the Malaysian Islamic financial market.

### 2.3. Outstanding Islamic Sukuk in the Malaysian Islamic Financial Market:

Outstanding Sukuk refers to Sukuk repurchased by the issuer, who is obliged to repay the holders. It reflects the liquidity in the economy; higher outstanding Sukuk indicates higher liquidity. The following table compares outstanding Sukuk with conventional bonds from 2014–2023.

**Table 2-3: Outstanding Sukuk Compared to Bonds in Malaysia 2014-2023**

Unit: Billion Ringgit

Year	Outstanding Sukuk	Outstanding Bonds	Sukuk % of Total Bonds	Year	Outstanding Sukuk	Outstanding Bonds	Sukuk % of Total Bonds
2014	576.31	1109.71	51.90	2015	607.93	1124.84	54.00
2016	661.08	1172.91	56.36	2017	759.64	1291.91	58.80
2018	844.21	1405.78	60.05	2019	938.96	1490.28	63.01
2020	1017.79	1609.01	63.26	2021	1104.26	1740.83	63.43
2022	1183.77	1871.08	63.27	2023	1271.24	2011.33	63.20

Source: Prepared by the researchers based on:  
 Securities Commission Malaysia, Annual report (2014–2023)  
 Securities Commission Malaysia, Bi-annual Bulletin the Malaysia Capital Market (2014, p.21)

Table 2-3 clearly shows a continuous increase in outstanding Sukuk in Malaysia from 2014–2023, indicating rising liquidity in the Malaysian Islamic financial market.

#### **2.4. Structuring Types of Islamic Sukuk Issued in Malaysia:**

The flexibility of Sukuk structures has been a key factor in increasing acceptance. Sukuk have been designed to meet investor needs, evolving from debt-based structures (Murabaha) to Ijarah (leasing), profit-sharing, Istisna (manufacturing contracts), and hybrid structures combining Shariah-compliant contracts, attracting a wide range of investors.

**Table 2-4: Evolution of Types of Islamic Sukuk Issued in Malaysia (2004–2023)**

<b>Year</b>	<b>Murabaha</b>	<b>Istisna</b>	<b>Musharakah</b>	<b>Mudarabah</b>	<b>Ijarah</b>	<b>Hybrid</b>	<b>Investment Agency</b>
2014	79.49	-	8.42	2.63	1.31	4.21	3.94
2015	66	-	12	-	7	5	10
2016	85	-	1	-	-	13	-
2017	-	-	-	-	-	-	-
2018	47.65	-	2.32	5.66	0.53	33.05	15.14
2019	56.99	-	1.95	7.61	0.07	28.70	0.32
2020	54.96	-	3.12	6.81	0.62	34.24	0.25
2021	54.03	-	2.17	3.02	0.89	39.89	-
2022	49.11	-	1.36	2.01	0.04	47.48	-
2023	64.57	-	1.98	1.42	0.19	31.84	-

Source: Prepared by the researchers based on:



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Bi-annual Bulletin the Malaysia Capital Market (2015, p.17; 2019, p.18; 2021, p.29; 2022, p.33; 2023, p.25), Securities Commission Malaysia, Annual report (2014, p.144).

*Note:* There is no financial or annual report data on the structuring of Islamic Sukuk issued in Malaysia for 2017.

From Table 2-4, the evolution of Sukuk types in Malaysia can be summarized as follows:

- **Murabaha Sukuk:** 2014 had the highest issuance at 80% due to tax reductions and incentives.
- **Istisna Sukuk:** Issuance percentages were almost negligible.
- **Musharakah Sukuk:** Decreased during the study period due to non-compliance of 85% of Gulf Sukuk with Shariah principles.
- **Mudarabah Sukuk:** Issuances fluctuated, with Malaysia relying heavily on Murabaha and Ijarah (sovereign Sukuk).
- **Ijarah Sukuk:** Decreased as Malaysia favored hybrid Sukuk for their flexibility.
- **Hybrid Sukuk:** Continuous growth to meet investor needs with high flexibility and secondary market tradability.
- **Investment Agency Sukuk:** Issuances fluctuated during the study period.

### 3. Impact of Sukuk Issuances on Efficiency and Performance of the Malaysian Islamic Financial Market

The effect of Islamic Sukuk issuances on the performance of Malaysia's Islamic financial markets can be studied through several indicators:

### **3.1. General Securities Price Index:**

Represents the daily average prices of Shariah-compliant securities listed on the market. Bursa Malaysia, in collaboration with the global index provider FTSE Russell, launched four Shariah indices to track Shariah-compliant securities:

#### **A- Rachid Hussain Berhad Shariah Index (BHBSI-DJIM):**

Rachid Hussain Berhad, a well-known Malaysian bank, launched this index in 1996 (DJIM). It came under SAC supervision in 2005, tracking prices of all Shariah-compliant stocks on the main board, including 25 listed companies. In 2008, it was replaced by “Dow Jones Malaysia Titans 25,” allowing 10% of operational funds from interest-based sources.

#### **B- Kuala Lumpur Shariah Index (KLSI):**

Launched in 1999 to meet local and foreign investor demand for Shariah-compliant equities. The SAC allowed trading as stocks listed were Shariah-compliant and reduced elements of uncertainty and gambling. On January 22, 2007, it was replaced by the FBM EMAS Shariah Index (FTSE) with 30 fixed components, and by the end of 2007 included over 218 Shariah-compliant securities, adhering to international index features. Further improvements were made on July 6, 2009.

#### **C- Malaysia Hijrah Shariah Index:**

Launched on May 21, 2007, for local and foreign investors, including the top 30 listed companies, increasing competitiveness in the Islamic capital market.



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#### **D- Small Cap Shariah Index:**

Composed of FTSE Bursa Malaysia top 100 companies, capitalized according to SAC screening methodology.

#### **E- Mids Cap Shariah Index:**

Includes Shariah-compliant companies with market capitalization between 200 million and 2 billion Malaysian Ringgit.

#### **F- Bloomberg (AIPAM) Sovereign Shariah Index:**

Launched February 21, 2011, in collaboration with Bloomberg Malaysia and the Association of Islamic Banking Institutions of Malaysia, serving as a benchmark for sovereign Islamic bond investments and performance of government Shariah-compliant securities in Malaysian Ringgit.

**Table 3-1: Development of Some Islamic Indices of Bursa Malaysia (2014–2023)**

Year	KL Composite Index (KLCI)	KL Shariah Index (KLSI)	FBM EMAS Shariah Index	FBM Hijrah Index	DJIM Malaysia Titans 25	FBM Small Cap Shariah
2014	1761.25	12507.03	14468.70	1005.75	/	/
2015	1692.51	12800.65	14332.58	1033.82	15189.64	/
2016	1641.73	12014.42	13427.77	/	13759.07	/
2017	1763.67	12822.15	14064.20	/	16225.87	/
2018	1691.50	1292.55	13594.48	/	12327.61	/
2019	1588.76	11947.92	13212.58	/	12647.42	/
2020	1627.21	13159.15	14340.56	/	10778.52	/

Year	KL Composite Index (KLCI)	KL Shariah Index (KLSI)	FBM EMAS Shariah Index	FBM Hijrah Index	DJIM Malaysia Titans 25	FBM Small Cap Shariah
2021	1567.53	12263.10	12835.55	/	12263.10	/
2022	1495.49	10938.55	11908.79	/	14924.41	/
2023	1454.66	10988.71	11783.61	/	16353.38	/

Source: Prepared by the researchers based on: Data available on the official website of the Malaysian Securities Commission, accessed on 24/10/2024 at 20:59, link: <https://www.sc.com.my/api/documentms/download.ashx?id> Malaysia Islamic Capital Market (2014–2021).

Figure 3-1



Source:

<https://www.mifc.com/documents/6319173///e1cfe045-25e1-04b6-edd7-5a0b2457b1f8/>, accessed on 17/10/2024 at 13:45.



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From 2014–2023, it is clearly noticeable from the above table and Figure 3-1 the impact of the global real estate crisis on the Malaysian Islamic financial market through the effect on Islamic market indices, especially in the years 2014–2016, during which all indices declined. They then began to rise in 2017–2018, before declining again due to the global health crisis’s impact on the economies of countries and, consequently, their financial markets, and then rose again in 2020, particularly after the launch of the second master plan.

### 3.2. Market Size Indicators:

Through two indicators – number of listed companies and market capitalization – we can determine the market size. We can also compare the size of the Malaysian Islamic capital market with the total size of the Malaysian capital market, as follows:

**Table 3-2: Development of the Malaysian Islamic Capital Market Size Compared to the Total Malaysian Financial Market Size (2014–2023)**

*Unit: Billion Malaysian Ringgit*

Year	Malaysian Capital Market Size	Malaysian Islamic Capital Market Size	Percentage	Year	Malaysian Capital Market Size	Malaysian Islamic Capital Market Size	Percentage
2014	2760.00	1588.45	57.55%	2015	2819.75	1694.11	60.08%
2016	2840.22	1691.64	59.56%	2017	3198.96	1893.47	59.19%
2018	3106.07	1880.73	60.55%	2019	3202.10	2035.58	63.57%
2020	3426.30	2256.36	65.85%	2021	3530.02	2308.54	64.38%
2022	3607.17	2322.30	64.38%	2023	3807.73	2426.77	63.73%

**Source:** Prepared by the researchers based on: Securities Commission Malaysia, Annual report, (2014, p: 144), (2016, p: 197), (2018, p: 162), (2020, p: 162), (2022, p: 172), (2023, p: 226) Islamic Capital Market Review (2017, p: 19) (Size of Islamic Capital Market: Total Size of Islamic Capital Market = Market capitalization of Shariah-compliant securities + Sukuk outstanding; Total Size of Capital Market = Bursa Market capitalization + Debt securities outstanding).

From Table 3-2, the Malaysian capital market size shows a continuous increase throughout the study period from 2014 to 2023, rising from 2760 billion MYR to 3807.73 billion MYR. Likewise, the Malaysian Islamic financial market size continuously increased from 1588.45 billion MYR in 2014 to 2426.77 billion MYR in 2023. The proportion of the Malaysian Islamic financial market relative to the total Malaysian financial market rose from 57.55% to 63.73% during the study period, indicating the expansion and depth of the Malaysian Islamic financial market.

**a. Market Value Index (Market Capitalization Rate):**

Market capitalization refers to the total value of Shariah-compliant securities (Islamic Sukuk) listed on the exchange, multiplied by their average prices at the end of the period. It also refers to the total Islamic Sukuk listed in the Islamic financial market (issued by the government and companies). The capitalization rate is the Malaysian Islamic capital market capitalization divided by the GDP at current local currency prices.

**Table 3-3: Development of Malaysian Islamic Capital Market Capitalization (2014–2023)***Unit: Billion Malaysian Ringgit*

Year	Total Securities Market Capitalization	Islamic Capital Market Capitalization	GDP	Islamic Market Capitalization Rate	Year	Total Securities Market Capitalization	Islamic Capital Market Capitalization	GDP	Islamic Market Capitalization Rate
2014	1651	1012	1110	91.17%	2015	1694	1086	1180	92.03%
2016	1667	1030	1250	82.40%	2017	1906	1133	1370	82.70%
2018	1700	1036	1450	71.44%	2019	1711	1096	1510	72.58%
2020	1817	1238	1420	87.18%	2021	1789	1204	1550	77.67%
2022	1736	1138	1790	63.57%	2023	1796	1155	1820	63.46%

**Source:** Prepared by the researchers based on:

Securities Commission Malaysia, Annual report, (2014, p: 144), (2016, p: 197), (2018, p: 162), (2020, p: 162), (2022, p: 172), (2023, p: 230) – Malaysia report ICM (2006, p: 12). Official World Bank website, Malaysia data, accessed 11/11/2024 at 8:29:

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?locations=MY>

The Islamic market capitalization index indicates the contribution and capacity of the Malaysian Islamic capital market to mobilize funds and expand the investment base, allowing risk distribution across a wide range of investors. Reviewing Table 3-3 shows the historical development of the total market value of the Malaysian Islamic capital market, confirming the growing investment attractiveness. Market value and Islamic capital market value increased continuously, except in 2018 due to the global oil crisis and

COVID-19 pandemic. The Islamic market capitalization rate fluctuated between 92% and 63% during the study period.

**b. Number of Listed Companies:**

This indicator helps assess the expansion or contraction of economic activity and the effectiveness of financial and economic policy, as well as development strategy impacts on market mechanisms. Increases in the number of listed Shariah-compliant securities indicate overall growth in the Islamic financial market and investment volume. Table 3-4 shows the development of total companies and Shariah-compliant companies listed by the Shariah advisory and market regulatory authorities.

**Table 3-4: Development of Shariah-Compliant Companies Listed on Bursa Malaysia Compared to Total Listed Companies (2014–2023)**

Year	Total Companies Listed	Shariah-Compliant Companies	Percentage	Year	Total Companies Listed	Shariah-Compliant Companies	Percentage
2014	906	673	74%	2015	903	667	74%
2016	904	671	74%	2017	903	688	76%
2018	915	689	75%	2019	929	714	77%
2020	936	742	79%	2021	949	750	79%
2022	972	789	81%	2023	995	811	81%

**Source:** Prepared by the researchers based on: Official list of securities approved by the Securities Commission, available at: [www.sc.com.my/api/documentms/download](http://www.sc.com.my/api/documentms/download), accessed 07/11/2024 at 22:38.



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Table 3-4 shows an increase in Shariah-compliant companies from 673 to 811, compared to the total listed companies, indicating the expansion of Shariah-compliant companies at the expense of other companies. During the study period from 2014 to 2023, the proportion increased from 74% to 81%. Shariah-compliant companies represent more than two-thirds of companies listed on Bursa Malaysia.

### **3.3. Market Liquidity Ratios:**

This reflects the ability to buy and sell securities in the secondary market quickly at prices close to the last transaction. Market liquidity increases with continuous trading orders (market depth) and large volumes (market breadth), plus the internal market's ability to balance supply and demand. Two indicators measure liquidity in the Malaysian Islamic financial market:

#### **a. Capital Turnover Ratio (Turnover Ratios):**

This ratio represents the proportion of total traded Islamic securities to the Islamic capital market value (market capitalization). Table 3-5 shows the turnover ratio development for 2014–2023.

**Table 3-5: Development of the Turnover Rate of the Malaysian Islamic Capital Market 2014–2023 (Billion Malaysian Ringgit)**

Year	Trading Volume	Islamic Financial Market Capitalization	Turnover Rate (Islamic Capital Turnover Index)	Year	Trading Volume	Islamic Financial Market Capitalization	Turnover Rate (Islamic Capital Turnover Index)
2014	523.82	1012	51.76%	2015	641.65	1086	59.08%
2016	920.73	1030	89.39%	2017	549.57	1133	48.50%
2018	596.50	1036	57.57%	2019	1013.40	1096	92.46%
2020	983.5	1238	79.44%	2021	731.80	1204	60.78%
2022	864.42	1138	75.95%	2023	1017.2	1155	88.06%

**Source:** Prepared by the researcher based on:

Securities Commission Malaysia, Annual Report, (2014, p: 144), (2016, p: 197), (2018, p: 162), (2020, p: 162), (2022, p: 172), (2023, p: 172) – Malaysia Report ICM (2006, p: 12). Official site of Bank Negara Malaysia, Periodic Trading Table (Reports), accessed on 11/11/2024 at 9:30, available at: <https://financialmarkets.bnm.gov.my/league-table>

The turnover rate is one of the market liquidity ratios. A higher turnover indicates higher liquidity in the market, showing that Islamic financial instruments (Sukuk) move quickly among market participants, indicating an active and liquid market. Table 3-5 shows that the highest turnover rate in the Malaysian Islamic capital market was in 2019 at 92.46%, due to the health crisis when investors, whether individuals or companies, relied more on electronic financial transactions during quarantine, raising the capital turnover in that period.



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**b. Value Traded Ratio:**

The trading indicator is one of the most representative and expressive measures of market liquidity. A higher ratio indicates greater liquidity and easier monetization of Sukuk, reflecting the expansion and flexibility of the Islamic financial market. To understand the trading rate of Islamic Sukuk in the Malaysian Islamic financial market, the following table is presented.

**Table 3-6: Development of Islamic Sukuk Trading Rate in the Malaysian Islamic Financial Market (2014–2023)***Unit: Billion Malaysian Ringgit*

Year	Islamic Sukuk Trading Volume	GDP	Trading Rate/Index	Year	Islamic Sukuk Trading Volume	GDP	Trading Rate/Index
2014	523.82	1110	47.19%	2015	641.65	1180	54.37%
2016	920.73	1250	73.65%	2017	549.57	1370	40.10%
2018	596.50	1450	41.13%	2019	1013.40	1510	67.11%
2020	983.5	1420	69.26%	2021	731.80	1550	47.21%
2022	864.42	1790	48.29%	2023	1017.2	1820	55.89%

**Source:** Official site of Bank Negara Malaysia, Periodic Trading Table (Reports), accessed 11/11/2024 at 9:30, available at: <https://financialmarkets.bnm.gov.my/league-table>; Official World Bank site, Malaysia data, accessed 11/11/2024 at 8:29, available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?locations=MY>

The data in Table 3-6 show that the trading rate of Islamic Sukuk in the Islamic financial markets during the study period fluctuated significantly. The lowest value was in 2017 at 40.10%, while the highest was in 2016 at 73.65%. This fluctuation is due to differences in Sukuk trading volumes during that period. The largest trading volume occurred in 2019, explained earlier, while the lowest trading volume was during 2008–2010.

From the study, it is evident that Islamic Sukuk issuance significantly contributes to improving the efficiency of the Malaysian Islamic financial market. Islamic indicators reflecting the general market condition show continuous growth, the number of Shariah-compliant listed companies steadily increases compared to other companies, and Islamic market capitalization is continuously rising, demonstrating the market's ability to mobilize funds and expand the investment base, allowing risk distribution across a wide range of investors. These together indicate market size expansion.

The second indicator is liquidity, expressed in two measures: the trading ratio, which reflects ease of monetizing Sukuk, and the turnover rate, indicating market flexibility and the free circulation of Sukuk in the Malaysian Islamic financial market.

## **Conclusion:**

From the study of the contribution of Islamic finance instruments, represented by Islamic Sukuk, in enhancing the efficiency of the Malaysian Islamic financial market, the following results are evident:



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- Islamic Sukuk are securities issued in equal denominations to finance specific projects or Shariah-compliant investment activities, providing returns to holders. Their structures vary, including Ijarah Sukuk, Murabaha Sukuk, Musharakah Sukuk, hybrid Sukuk, and others;
- The Malaysian Islamic financial market is a market for trading Shariah-compliant financial instruments, acting as a space between fund providers and seekers;
- Corporate Sukuk issuance exceeds corporate conventional bond issuance;
- Malaysia's government Sukuk issuance exceeds corporate Sukuk issuance;
- The number of Shariah-compliant companies continuously increased during 2014–2023, indicating the importance of Shariah-compliant financing and investments;
- Islamic market capitalization is continuously increasing, indicating that Sukuk issuance contributed directly to this growth;
- Both the trading ratio and turnover index are continuously rising, showing that the Malaysian Islamic financial market enjoys high liquidity and that Sukuk are highly flexible and can be quickly monetized by market participants;
- Islamic Sukuk significantly contribute to enhancing the efficiency of the Malaysian Islamic financial market.

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