DISTRIBUTION OF SUKUK ISSUANCE BY CURRENCY

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Sukuk, commonly referred to as Islamic bonds, are financial instruments that comply with Islamic principles and laws, specifically Shariah law. Unlike traditional bonds, which represent a debt obligation of the issuer, sukuk are certificates of ownership in a tangible asset or project that generate returns for the investor. Sukuk has gained significant attention in recent years as a viable alternative to conventional bonds, particularly in the Islamic finance industry. This is due to the fact that sukuk aligns with Islamic principles of risk-sharing and prohibits the charging or paying of interest, which is considered usury in Islamic law. In this way, sukuk provides investors with the opportunity to earn returns while avoiding involvement in interest-based transactions. In this theme, we will explore the basics of sukuk, its structure, types, and the key players in the industry, as well as its advantages and challenges.

Although there has been an interest in sukuk in Uzbekistan in recent years, Islamic securities of this type have not yet been put into practice. Therefore, in his address to the Oliy Majlis on December 29, 2020, the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, emphasized the need to create a legal framework for the development of Islamic financial services in the country.[1] Accordingly, the PF-6207 Presidential Decree of April 14, 2021, on measures to further develop the capital market, identified the issuance of "sukuk" bonds based on the principles of Islamic finance as a separate task. It can be said that the importance of Islamic securities for the capital market is increasing.

Sukuk is an investment activity or an investment security based on Sharia principles that indicates ownership rights with respect to the activity or asset, and the benefit and risk degree are based on its type, which is represented by an issuance of securities. The term "sukuk" is the plural form of "sakk" in Arabic, which means document, proof, or check. Sukuk express the partnership between the issuer and investors in profit and loss, based on the principles of Sharia. The value of sukuk is determined by the underlying assets, and sukuk can be traded on the secondary market. Sukuk are gaining more importance in the capital market, and the President of the Republic of Uzbekistan has highlighted the importance of developing the Islamic finance industry in the country. As a result, the issuance of sukuk has been assigned as a separate task in the "Measures to Further Develop the Capital Market" decree issued in 2021.

Sukuk - is an investment activity or an issuance of securities based on sharia principles that indicate the ownership rights to an investment activity or its assets, depending on the type of

[1] https://president.uz/uz/lists/view/4057

sukuk, it shows the sharing of profits and losses, the redemption, and the level of profit is based on the level of risk.

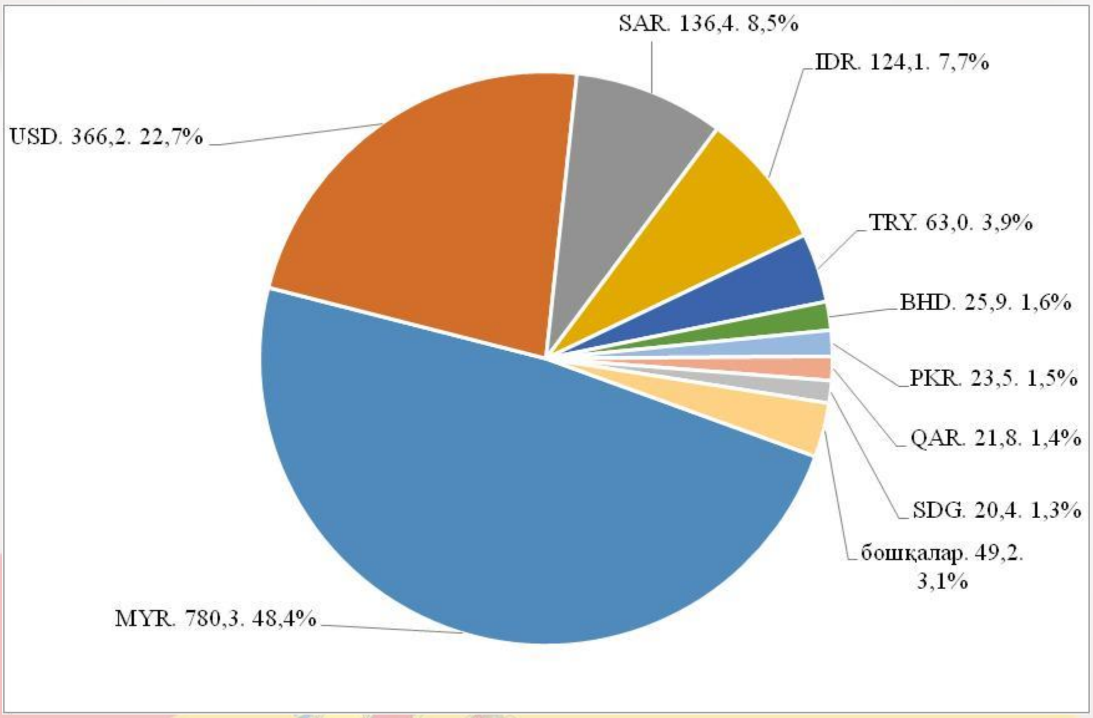

Figure 1. Global sukuk issuance currency break-up (2001-2021, USD bln.) [2]

Until the beginning of 2022, sukuk issuances exceeding 1.6 trillion US dollars have been issued worldwide.[3] As of the end of 2021, sukuk have been issued in 27 currencies, with the Malaysian Ringgit leading at 48.4% or 780.3 billion US dollars in value (figure 1). In the currency segment, the US dollar has a share of 22.7% (366.2 billion US dollars) and Saudi Arabia's riyal has a share of 8.5% (136.4 billion US dollars), taking second place. Additionally, the Indonesian rupiah (7.7%, 124.1 billion US dollars) and Turkish lira (3.9%, 63.0 billion US dollars) are among the most frequently issued currencies based on their value.

In recent years, the value of the Indonesian rupiah and the Turkish lira has been increasing. In addition to the US dollar, international currencies such as the British pound sterling, the euro, and the Chinese yuan have also issued sukuk, totaling $374.9 billion (23.3%). It is noteworthy that this value is less than the value of international sukuk issued in local currencies, indicating that international sukuk are also being issued in local currencies.

[2] IIFM Sukuk report: A comprehensive study of the global sukuk market. International Islamic Financial Market, August 2022, 11th edition. p86.
[3] IIFM Sukuk report: A comprehensive study of the global sukuk market. International Islamic Financial Market, August 2022, 11th edition. p29.

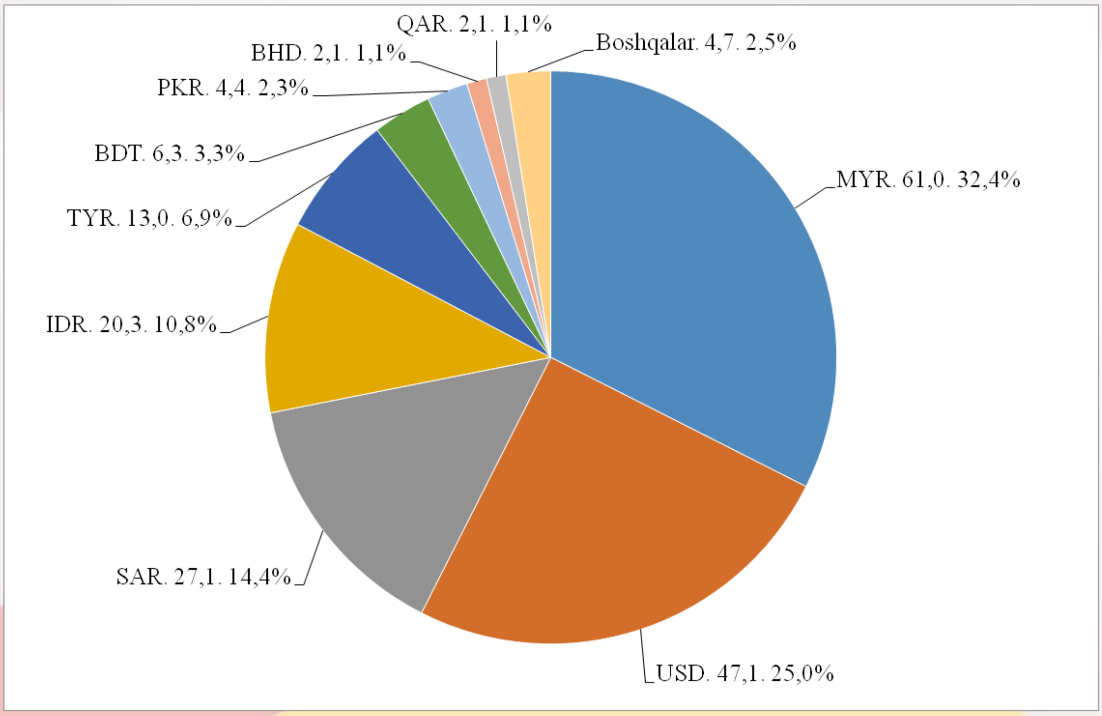

Figure 2. Global sukuk issuance currency break-up (2021, USD bln.) [4]

If the composition of sukuk issued in 2021 is analyzed from the volume perspective, there is almost no difference from the previous figure (2). While the Malaysian ringgit is dominant with a 32.4% share or a value of $61.0 billion, the US dollar has a 25.0% share ($47.1 billion), Saudi Arabia's riyal has a 14.4% share ($27.1 billion), the Indonesian rupiah has a 10.8% share ($20.3 billion), and the Turkish lira has a 6.9% share ($13.0 billion) as the main currency.

In general, the volume of sukuk issuance in other currencies besides the most dominant ones has been increasing, and it reflects the diversification of sukuk issuance in various countries based on their respective economic interests. Interestingly, in Bangladesh, sukuk worth 6.3 billion US dollars have been issued in the Bangladeshi Taka currency, representing 3.3% of the total sukuk issued in 2021.

In conclusion, sukuk has emerged as a popular form of investment in recent years, particularly in Muslim-majority countries. Sukuk not only provides a Shariah-compliant alternative to conventional bonds, but also attracts a diverse range of investors globally. The sukuk market has grown significantly, with multiple countries issuing sukuk in their local currencies. While the dominant currencies for sukuk issuance remain the Malaysian ringgit and the US dollar, other currencies such as the Indonesian rupiah and the Turkish lira have also seen an increase in sukuk issuance. Overall, sukuk has proven to be a viable and attractive investment option for those seeking Shariah-compliant opportunities in the global financial market.

[4] IIFM Sukuk report: A comprehensive study of the global sukuk market. International Islamic Financial Market, August 2022, 11th edition. p86.

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1. 1. O‘zbekiston Respublikasi Prezidentining 2021-yil 14-apreldagi “Kapital bozorini yanada rivojlantirish chora-tadbirlari to‘g‘risida”gi PF-6207-sonli Farmoni

2. IIFM Sukuk report: A comprehensive study of the global sukuk market. International Islamic Financial Market, August 2022, 11th edition. 202 p.

3. https://president.uz