Mechanisms to Ensure Liquidity of Banks Through Islamic Financing

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Abstract

One of the services of Islamic finance, the second largest sector, through the development of law, not only increases bank income, but also has a positive effect on the liquidity of commercial banks.

Keywords: Islamic finance mechanism, Islamic banking services, liquidity, commercial banking, personal income, sukuk, gross domestic product.

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Introduction

In recent years, Islamic finance has been showing a general growth trend. By 2020, the assets of Islamic finance will be almost 2.6 trillion. reached the US dollar. According to the books, by the end of 2024, 3.4 trillion. It is expected to reach USD [1]. Also, the fact that Islamic finance managed to get a place on the G20 agenda [2]. increases its importance even more. The second largest sector of Islamic finance, sukuk, is growing relatively faster. 123.15 billion in 2019. A total of 1.1 trillion sukuk were issued in US dollars. It amounted to US dollars [3].

In the article, continuing the current direction of Islamic financial services, the level of influence of the second largest sector of sukuk issuance on the country's economy and the income of the population is studied based on the indicators of 2008-2022 in the example of Malaysia, one of the developed countries. Through Islamic financing, we can solve the liquidity problem that is bothering our commercial banks today, analyzed through regression and correlation model, and practical suggestions and explanations for its application in our country in the future are presented.

Review of literature on the subject

Before evaluating the impact of law on economic development, in order to analyze the work done in this regard, articles published in international scientific journals by Elsevier publishing house indexed in the Scopus database were studied. In the search system, it was found that there are 57 articles based on the usage of the word "suquk" in the title of the article, annotation and keywords [6]. As a result of the study of these literatures, it can be concluded that the scientific works related to Islamic finance and Islamic banks are increasing. They also contain scientific analyzes of literature [7].

There are few scientific works on the impact of rights on the economy, and the first attempt in this regard was focused on the impact of the issuance of rights on GDP, gross fixed capital growth and trade processes [5]. In this scientific work, the impact of debt issuance on GDP, fixed capital growth and trade processes was seen in 2007-2014, and although the impact was not felt for the Persian Gulf countries, it was determined that debt issuance has a positive effect on GDP when all issuing countries are taken together. Although the studies did not yield the expected results, they are significant because they have taken a new direction. Further research in this direction is notable for achieving significant results [2]. It differs from the previous one by other factors and the choice of method. In 2008-2022, the impact of sukuk on the economic growth of countries issuing sukuk was studied. The results show that rights support economic growth in the long run. Corporate and state rights are equally important.

Analysis and results

Historical documents illustrate that the issue of sukuk was covered for the first time in Imam Malik's "Al-Muwatta" [5]. This mechanism was used during the Umayyad caliphate in the 7th century. There were attempts to issue modern-day sukuk in 1978 in Jordan and in 1980 in Pakistan. But these attempts ended in failure due to insufficient market infrastructure and transparency [12]. The first successfully calculated sukuk was in 1990 in Malaysia for 125 million Malaysian Ringgit - 32.9 million. Issued in USD [13]. After that, no sukuk were issued until 2001.

In our research, the impact of legal development on economic development was evaluated, and the following factors were selected:

> volume of securities in circulation - the volume of securities in circulation in Malaysia. One of the most important indicators of the law market was chosen as an influencing factor for our model;

> National Income Per Capita (GNIP) is a measure of Malaysia's national income per capita. This influencing factor serves to determine the standard of living of the population.

All the above indicators were calculated in national currency at constant 2014 prices for 2008-2022 (Table 1). The fact that the data is obtained from the World Bank, the International Islamic Financial Market (IIFM) and the Malaysian Securities Commission is the basis for the reliability of the analysis.

Table 1 The volume of securities in circulation and the value of national income per capita in the country of Malaysia

Year	Volume of sukuk in circulation (billion)	National income per capita	National income per capita *
2008	105,2	22116,3	25824,3
2009	135,8	24376,7	27131,5
2010	152,8	27423,8	27607,5
2011	172,0	25189,9	27005,6
2012	181,0	28194,2	28194,2
2013	349,3	31068,2	29462,3
2014	474,5	32179,9	30217,7
2015	512,1	33412,9	31331,4
2016	576,3	35820,0	32778,0
2017	607,9	37210,6	34184,6
2018	661,1	38990,9	35141,6
2019	759,6	42341,3	36784,3
2020	844,2	43784,6	37677,4
2021	935,7	45396,4	38945,3
2022	1027,2	47008,2	40213,2

The main purpose of the study is to create a regression and correlation model of the level of influence of the emission of rights on the income of the population in the case of Malaysia. We use the *Eviews 9.0* program, which is widely used in econometrics, to create these models. We express the influence of the factor affecting national income per capita (GNIPC) in the form of the following simple regression and correlation econometric formula:

$$gnipc_i = \beta 0 + \beta 1 soi_i \quad (1)$$

Since the indicators of the resulting factor and the causal factor are different when constructing a simple regression and correlation econometric model, we transfer them to their natural logarithm and make it a simple regression and correlation econometric formula.

$$lngnipc_i = \beta 0 + \beta 1 lnsoi_i + \varepsilon_i \quad (2)$$

(2) above is implemented in practice using the "ordinary least squares method" in constructing simple regression and correlation econometric models. The results of this simple regression and correlation econometric model analysis are presented in Table 2.

Based on these calculations, the following one-factor regression model was formed:

$$lngnipci = 9{,}26 + 0{,}18 lnsoi + \varepsilon i \quad (3)$$

Table 2 Results of simple regression and correlation analysis based on Eviews program [15]

Dependent Variable: National Income Per Capita (lngnipc)				
Method: Least Squares				
Data: 2008-2022				
Number of observations: 13				
Variables	Coefficient	Standard error	t-statistic	Probably
Volume of sukuk in circulation	0.184419	0.018732	9.845261	0.0000
C	9.265272	0.109297	84.77156	0.0000
Coefficient of determination	0.898081	Mean value of dependent variables		10.33518
Adjusted coefficient of determination	0.888816	Standard deviation of dependent variables		0.126198
Standard error of the regression	0.042080	Akaike's criterion		-3.3578
Sum of squares of residuals	0.019478	Schwartz criterion		-3.2709
The value of the maximum similarity function	23.82607	Hannan-Quinn criterion		-3.3757
F-statistics	96.92917	Darbin-Watson statistics		0.7319
Probability (F statistic)	0.000001			

The regression analysis of the data in Table 2 shows that the dependent variable is the national income per capita (lngnipc), which is the independent variable, and the amount of credit in circulation (lnso). The corrected coefficient of determination showed how well the model fits the data. Because, the closer the adjusted coefficient of determination is to one, the more the dependent variable, the volume of securities in circulation, which is considered as an independent variable, will justify the effect of changes in national income per capita. That is, it provides an opportunity to accurately forecast the values of national income per capita. The coefficient of determination created in the developed model shows that 89.8 percent of the national income per capita (lngnipc) depends on the volume of securities in circulation, which is a factor developed in the model. The remaining 10.2 percent is due to other factors that have not been taken into account. The factor affecting the national income per capita (lngnipc) is determined by the coefficient of 5 percent significance level.

Table 3 Breusch-Godfrey autocorrelation test result [15]

F-statistics	2.712952	Probability F(4,3)	0.1197
Observation*R-Square	4.889590	Probably. chi-square (4)	0.0867

The regression model of the service types of Islamic finance shows that the probability of the P value of the coefficient of the volume of securities in circulation is less than one percent, which means that this coefficient affects the change in national income per capita of the country's economy. We can see that the probability of the P value of Fisher's F-statistic of the constructed regression model is less than 0.05, indicating that the fixed and independent variable factor affects the national income per capita, which is the dependent variable.

We performed a diagnostic analysis to determine the model's predictability of Islamic finance service types. First, we determine whether there is an autocorrelation problem in the residuals in the constructed model. We check the autocorrelation of the residuals using the Breusch-Godfrey test (Table 3).

Table 4 Breusch-Pagan-Godfrey heteroscedastic test result [15]

F-statistics	3.048468	The probability(1,7)	0.1086
Observation*R-Square	2.820954	Probably. chi-square (1)	0.0930
Explain the common sum of squares	1.063535	Probably. chi-square (1)	0.3024

Based on the Breusch-Godfrey test of Islamic finance services, it was found that there is no autocorrelation between the residuals. Because the R-squared probability level is higher than 0.05, it is possible to accept the null hypothesis, the hypothesis that there is no autocorrelation of the residuals. After the Breusch-Godfrey autocorrelation test, we performed a heteroskedasticity test of the residuals. We clarify the heteroskedasticity test of Islamic finance services by the Breusch-Pagan-Godfrey test (Table 4).

According to Breusch-Pagan-Godfrey heteroskedasticity result of Islamic finance services, there is no heteroskedasticity between the residuals. Because the R-squared probability level is greater than 0.05, the null hypothesis indicates that the residuals are not heteroscedastically accepted. Islamic finance services types of sukuk means that the residuals of the constructed model do not have homoscedastic fluctuations.

The diagnostic tests of Islamic finance services of sukuk mean that if there is no autocorrelation in the residuals in the constructed model, the fluctuation in the residuals is homoscedastic. If the model predicts, the model results of Islamic finance services of sukuk are the results of the normal distribution of residuals test, and there is a normal distribution between the residuals. This is because the R-squared probability level is greater than 0.05, indicating that the null hypothesis accepts the existing hypothesis that the residuals are normally distributed. Islamic finance services have the normality of fluctuations in the structured model of sukuk.

To conclude, we can note that without taking into account other factors (ceteris paribus), we can accept as a positive that a 1,0% increase in the volume of securities in circulation will lead to an increase in national income per capita of the country's population by at least 0.18%.

Conclusions and suggestions

In our research, the hypothesis concerning the positive impact of sukuk on the economy was once again confirmed. Accordingly, it is appropriate to use the issuance of rights as a factor of increasing the income of the population in countries with a large population of Muslims. In this case, medium and long-term rights are more effective from a macroeconomic point of view. We consider it as a favorable opportunity to stimulate the economy of countries that have not yet introduced the law or are using this financial instrument sparingly.

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