

Optimizing Government Sukuk to Minimize Foreign Debt: A Qualitative Study on Indonesia's Fiscal Policy Shift

Fahmaninda Listiyani^{1*}, Dewi Wulansari²

¹Department of Accounting, Faculty of Economics, Universitas Nadlatul Ulama Yogyakarta, 55281, Indonesia

²Department of Business, Cardiff Business School, Cardiff University, United Kingdom

ABSTRACT

Introduction: Foreign debt has increased the burden on the State Revenue and Expenditure Budget (APBN), leading to unsustainability. Islam, a religion of charity, provides solutions for all aspects of human life, including the fiscal economic system. State sukuk, also known as state Sharia Securities (SBSN), is a sophisticated Islamic financial product that can alleviate issues caused by interest-bearing foreign debt.

Methodology: This work uses a qualitative methodology such as in-depth interviews and literature reviews.

Results: This research paper results such challenges on enhancing the development of SBSN in Indonesia, such as lack of human resources' understanding of the Islamic economic system, limited knowledge of the public regarding sharia investment instruments, the main economic drivers that are not yet the primary focus of state sukuk, inapplicability and inflexibility of SBSN, lack of SBSN issuance volume results in high issuance costs. Thus, based on some experts concluded in this research, it is concluded that there are several policy variables suggested, including increasing human resources, enhancing investor awareness, expanding financing to strategic sectors, developing SBSN innovations, and increasing SBSN issuance volume. Moreover, due to the numerous adverse impacts of foreign debt in accordance with Islamic best practices, this research proposes a transition from foreign loans to sukuk as the primary means of fiscal financing.

Conclusion : Fiscal policies that cooperate with Islamic financial institutions are also necessary to help the government fund the national budget deficit and prevent usury. In result, The Ministry of Finance or Bank Indonesia should have an integrated system to address macroeconomic issues, not only based on conventional fiscal tools but also it need to adopt Islamic fiscal tools.

ARTICLE INFO

Keywords:

fiscal; foreign debt; government; policy; qualitative; sukuk

Article History:

Received July 03, 2025

Revised July 09, 2025

Accepted August 19, 2025

JEL Code:

D13, I31, J22, K31



Copyright © 2025. Author/s This work is licensed under Attribution-ShareAlike 4.0 International

*Corresponding Author at Department of Accounting, Faculty of Economics, Universitas Nadlatul Ulama Yogyakarta, 55281, Indonesia

E-mail address : fahmaninda.listiyani@unu-jogja.ac.id

INTRODUCTION

The government must enhance every sector to improve citizens' lives. This is done to meet annual growth goals. If the Indonesian economy grows as expected, new jobs will be needed to accommodate the workforce. A nation's economy can't rely solely on its residents' production. Sukirno (2019) claims that natural, human, and productive capital resources are needed for economic progress. Each nation's economy needs superior resources. However, not all nations have enough money to grow economically. Due to resource scarcity and little private sector involvement in economic development at home, the government must drive economic development.

The government must examine multiple funding choices when executing projects to satisfy economic growth ambitions. Domestic financing is mainly used by the government for development. Domestic revenue from taxes, oil and gas, and other sources is sometimes insufficient to support development according to the growth target. Indonesia needs increase tax revenue since oil and gas revenue is no longer reliable. Tax revenue is unaffected by the economy. Most tax income is insufficient to fund growth-oriented development. As of currently, 97.2 percent of state revenue comes from taxes, as shown in the 2024 State Budget. This tax collection can only fund 57.7% of the 2024 State Budget's spending. The administration chose alternative favorable funding sources to meet the national development budget. International debt is a typical finance source.

The effect of foreign debt on a country's economic growth is a topic of much discussion. The ability of debt to support a country's economic growth has long been a topic of discussion, according to Swamy (2015). The reason for this is that different countries have different results. Foreign debt growth can have a positive and significant effect on economic growth in certain countries, but in other countries, even though the foreign debt variable increases significantly, the debt growth does not correspond with economic growth. Kurniasih (2021) noted that despite the sharp rise in government debt, the Greek economy is still stagnating (Kurniasih, 2021).

The burden of foreign debt, which includes principal repayments and interest, has grown annually in tandem with the government's holdings of foreign debt. The State Revenue and Expenditure Budget (APBN) is consequently burdened more. According to Cahyaningrum et al. (2022), who conducted a study on the factors influencing foreign debt in Indonesia between 2015 and 2019, the primary cause of the rise in government foreign debt was the absence of funding to settle the principal and interest of foreign debt that had matured. The national budget has seen a rise in foreign debt in the new colonial era (Cahyaningrum et al, 2022). The nations that provide aid to Indonesia do so with certain objectives in mind. During the "specific purpose" phase, donor nations demand to take charge of significant industrial sectors. Due to the quotas that donor nations demand, local businesses are unable to oversee the highly lucrative extractive industries (Cahyaningrum et al, 2022).

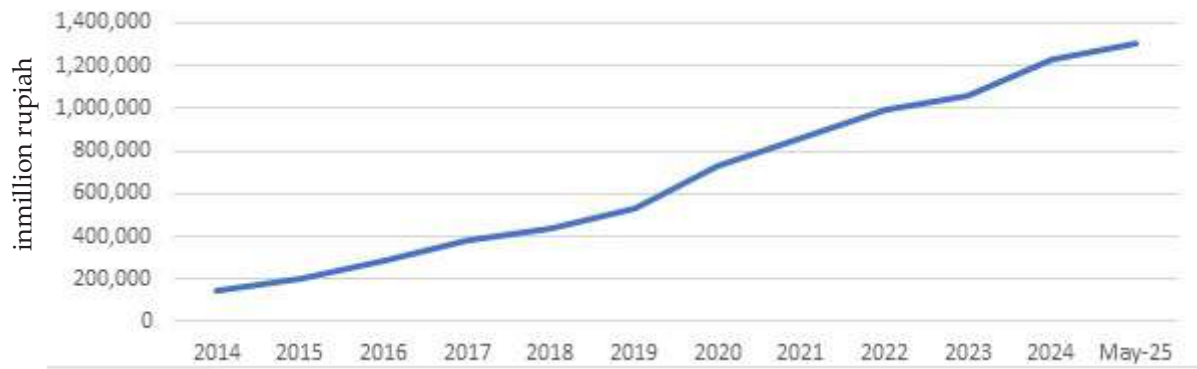
Fauzi and Suhaidi (2022) identifies five primary concerns related to foreign debt that are readily discernible. Initially, depending on foreign debt to fund state-owned initiatives presents considerable risks, particularly to the very survival of the state. Secondly, prior to approving loans, donor nations engage their economists to evaluate the borrowing country's competence and capabilities. Donor nations masquerade their endeavours as technical or economic advice while collecting intelligence on the strengths and weaknesses of the recipient country's economy. Third, the loan disbursement procedure seeks to maintain the impoverishment, dependency, and perpetual indebtedness of borrowing nations. Fourth, Western capitalist nations utilize foreign debt as a political instrument, particularly aimed at Muslim countries, to enforce political and economic agendas upon them. Ultimately, foreign debt undermines and jeopardizes the financial sector of the borrowing nation, particularly its monetary stability.

Foreign debt poses hazards and weaknesses, as noted in several instances. Thus, traditional fiscal concepts incorporating foreign debt cause unsustainability. In conventional economics, foreign loan interest is the cost of borrowing and a drag on economic growth. According to Islamic economics, foreign debt interest is the main obstacle to economic growth. Islam forbids Muslims from borrowing money, including nationally. Islamic beliefs prioritise justice over interest-based transactions (Tsabita, 2018).

Tan and Shafi (2021) state that Islamic finance emphasizes the link between funds and productivity. A government can decrease the hazards of excessive leverage and speculative economic activities by following Islamic economic principles that forbid usury, speculation, and gambling. The shortcomings of the traditional fiscal system should be addressed by Islam. State sukuk ought to be considered in this study as one of the most advanced Islamic financial products in recent years that is anticipated to address the problems brought by foreign debt that is loaded with interest (Haq et al, 2020).

In a study of sukuk-issuing countries from 1995 to 2015, Smaoui and Nechi (2017) demonstrated compelling evidence that the sukuk market significantly contributes to long-term economic development, after accounting for several other factors. Mitsaliyandito and Arundina (2018) evaluated the influence of sovereign bonds and sovereign sukuk on economic growth in Indonesia from 2009 to 2016. The findings indicated that only sovereign sukuk positively influences economic growth, suggesting it is relatively more effective than traditional sovereign bonds. Nevertheless, previous research has not offered any recommendations or frameworks for substituting sovereign sukuk for conventional debt to enhance long-term economic development. This study aims to position SBSN, Indonesia's sovereign sukuk, as the primary fiscal financing to alternate the current foreign conventional borrowings.

In **Figure 1** below, it can be seen that SBSN has developed quite well, evidenced by its growth which is always on an upward trend. Although the development of state sukuk is quite good, compared to foreign debt, the financing from sukuk is relatively small. Data



Source : SEKI (2025)

Figure 1. SBSN Issuances in Indonesia

obtained from the Indonesian economic statistics released by Bank Indonesia in May 2025 shows that SBSN in May 2025 amounted to only Rp1,300 trillion, while the government's foreign debt in the same month and year was three times larger at Rp3,548.9 trillion (SULNI, 2025). The disparity in the size of SBSN and foreign debt indicates that the Indonesian government has not yet made sukuk a primary financing instrument, even though there is positive trend on sukuk issuances.

This study intends to give an advice to the government on how to make SBSN a primary source of state budget funding, given the many advantages that SBSN offers. This research views SBSN as an Islamic fiscal instrument variable that plays an important role in driving Indonesia's economy. This is because sukuk has a high connectivity to the real sector, as SBSN is used for financing infrastructure and other government projects that directly interact with the community's economy. The difficulties SBSN faces in expanding to the point where it can take ULN's place in state budget financing are also highlighted by this study. Moreover, this study suggests via efforts to enhance the management resources of SBSN, elevate investor awareness, broaden financing to critical industries, foster SBSN innovations, and augment the amount of SBSN issuances, SBSN has the potential to become a significant source of state funding.

METHODOLOGY, DATA, AND ANALYSIS

This work was written using a qualitative methodology. This journal uses in-depth interviews and literature reviews as qualitative tools. One significant and pertinent research method is the literature review. A solid basis for knowledge advancement and theory development will be established by a well-executed literature review as a research method (Snyder, 2019). Snyder (2019) mentioned that this procedure is carried out methodically in order to collect and examine the findings of earlier studies. In contrast to individual studies, this review is able to address research questions with a wider scope by integrating the findings from multiple studies. Furthermore, the literature review offers a thorough grasp of a variety of academic disciplines, including interdisciplinary ones (Snyder, 2019). The

researcher also uses in-depth interviews, another qualitative technique, in addition to the literature review method (Boyce and Neale, 2006). Researchers use in-depth interviews as a method of gathering data by holding direct question-and-answer sessions with a group of people who can offer pertinent information about the research question. One benefit of in-depth interviews is that they offer more detailed information than other data collection methods like surveys (Ibid). By giving the informants a set of pre-planned questions and important concepts or frameworks, this method seeks to get information straight from the subject. Owing to geographical constraints, this interview will take place virtually (through the Zoom app). The researcher will record the information the informant shares during the interview process using the prepared questions. The informants in this in-depth interview have diverse backgrounds, such as academics, representatives from the government including the Ministry of Finance and Bank Indonesia, and DSN MUI. These differing backgrounds provide extensive and in-depth perspectives on the performance of ULN and SBSN, as well as the challenges in the development of SBSN in Indonesia. The authors have included the informants' details in **Table 1**, which includes the classification of informants, their names, and their positions within their respective institutions.

Table 1. Informants' list

Representative	Name	Position
Academics	1) Prof. Dr. Ir. Hermanto Siregar M.Ec.	A Professor on IPB University
	2) Prof. Dr. Jaih Mubarak, S.E., M.H, M.Ag.	A Professor on UIN Sunan Gunung Djati & Vise Chairman of BPH DSN-MUI
Gov. Representatives on Foreign Debts	3) Wahyu Utomo, S. Sos., M.Si.	Chairman of Center for State Revenue Budget Policy (PKAPBN), Fiscal Policy Agency (BKF), Ministry of Finance of The Republic of Indonesia
Gov. Representatives on Sukuk	4) Chairul Adi, Ph.D candidate	Daily executor of the Head of the Medium-Term Debt Financing Strategy Section, Directorate General of Financing and Risk Management (DJPPR), Ministry of Finance of The Republic of Indonesia
	5) Rifki Ismal, Ph.D.	Sukuk Experts, Bank Indonesia member, and academicians
	6) Andi Ali Mustafa, Ph.D.	Head of the SBSN Price Section, Directorate General of Financing and Risk Management (DJPPR), Ministry of Finance of The Republic of Indonesia

RESULT AND DISCUSSION

Concept of Sukuk

Etymologically, sukuk comes from the Arabic word 'sakk' (صَكَّ), which refers to a document or certificate. In the context of the Arabic language, sukuk (صُكُوك) is the plural form and represents a book containing records of previous transactions. As documented in the mu'jam al-mustholahaat al iqtishodiyah wal Islamiyah, 'sakk' is further understood as a security (Ghani, 2018). Terminologically, sukuk refers to long-term securities that comply with Sharia principles. These securities are issued by an entity to bondholders, who are obligated to receive income from the sukuk. In addition, the issuer is responsible for repaying the bond funds at maturity (Wardanah et al., 2023).

Umar bin al-Khattab, the first caliph, played an important role in the creation of sukuk by stamping the sukuk papers (Al Parisi & Rusydiana, 2016). This stamp serves as a mark of validation and authentication for the sukuk issuance process. This sukuk is specifically used for the purpose of paying state employees' salaries (Al Parisi & Rusydiana, 2016). At the beginning of the Hijri year, Muslims, in the context of international trade, used sukuk as a financial transaction tool. Sukuk were used by traders as documents that indicate financial obligations arising from commercial companies and other business activities (Fasa, 2016). During the Middle Ages, Muslim traders typically used sukuk as a means to signify financial obligations arising from trade and other commercial ventures (Fasa, 2016). The perspective of the Qur'an on Sukuk is reflected in Surah Al-Baqarah verse 282 which states as bellow:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَى أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكُنْ بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ وَلَا يَأْبَ كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ فَلْيَكْتُبْ...

Meaning: "O you who have believed! When you contract a debt for a specified term, write it down. And let a scribe write between you in justice. And let no scribe refuse to write as Allah has taught him. So let him write and let the one who has the obligation"

The meaning of the above verse has been explained by a Jeddah fiqh expert who then issued Decision Number 5 of 1988, which stipulates that the formation of sukuk involves the representation of several groups of assets through official deeds or bonds. These bonds can be traded in the market at the prevailing price, and the security of the bonds is backed by a combination of physical and financial assets owned by the issuer or seller (Sundari, 2022). Surah al-Maidah verse 1:

يَا أَيُّهَا الَّذِينَ آمَنُوا أَوْفُوا بِالْعُقُودِ....

Meaning : "O you who have believed, fulfill [all] contracts..."

In Surah Al-Maidah verse 1, the term "aqd" indicates that it refers to a binding agreement that transfers the ownership of the purchased goods to someone and gives them greater authority in utilizing those goods (Sundari, 2022). The verse of the Quran emphasizes the importance of fulfilling contracts and promises fully. When a contract is fulfilled, it will create a sense of security and happiness, as there will no longer be any dependency between

the parties involved in the contract. Similarly, in sukuk transactions, the existence of a contract is very important, following the principles outlined in the Quran (Sundari, 2022).

Analysis of Sukuk Using Maqasid Sharia

State sukuk or SBSN contains the concept of maqasid sharia within it. The permissibility and superiority of sukuk, as outlined in Fatwa DSN-MUI Number 137/DSNMUI/IX/2020, when viewed from the perspective of Maqā'id asy-Syarī'ah can be summarized as follows (Haerisma, 2017):

1. The benefits obtained from the issuance of sukuk in relation to the protection of religion (hifdz al-din) are that the issuance of sukuk allows for the promotion of Islamic values by establishing benchmarks for Sharia-compliant financial instruments.
2. The benefits of sukuk in relation to the preservation of life (hifdz al-nafs) are that the presence of sukuk contributes to the increase in job opportunities through infrastructure development, thereby playing an important role in driving the growth of the Islamic financial market in a multiplier effect.
3. The advantage of sukuk related to the protection of intellect (hifdz al-aql) is that sukuk can be used to build pesantren, public schools, madrasahs, Quranic education parks, and other educational institutions.
4. The benefits of sukuk in relation to the preservation of lineage (hifdz al-nasl) are that the presence of sukuk creates many job opportunities, providing income or salaries that can support the livelihoods of the workers' children. In addition, sukuk can be used for the construction of healthcare facilities to ensure the health of infants and children, thereby meeting their nutritional and health needs.
5. The advantage of sukuk in relation to the preservation of wealth (hifdz al-mal) is that the presence of sukuk provides a broader alternative financing option for the state budget. This allows the government to explore various ways to finance and manage its financial resources effectively. Notes: this section should be at the beginning of discussion.

Conventional financial methods are closely linked to interest laden with usury. This method certainly has negative consequences for the economy, which is increasingly burdened by loan interest (Benbekhti et al., 2019). Therefore, it is important to seek new alternatives for financing government expenditures that can address this shortcoming in accordance with Islamic principles. Islamic finance has played a role in alleviating the burden of government expenditures through various means such as zakat, waqf, and takaful. In addition to these Shariah products, sukuk, as an innovative product of Islamic financing, has gained significant recognition in the global financial market due to international interest in Islamic finance (Benbekhti et al., 2019).

Sharia bonds, particularly sukuk, outperform conventional financial instruments (Mitsaliyandito & Arundina, 2018). Sharia bonds demonstrate better stability compared to traditional bonds, especially concerning global and regional uncertainty factors, as

highlighted by Naifar et al. (2017). Although traditional instruments offer short-term solutions to address budget deficits in general, these instruments negatively contribute to economic growth in the future (Mitsaliyandito & Arundina, 2018). The negative contribution is reflected in the government's dependence on national debt. This will lead to an increase in government spending in the future because the government has to pay back the principal and interest on the loans. Indirectly, the high government spending will result in higher national inflation. Therefore, Sharia instruments, particularly sukuk, are considered more suitable for financing budget deficits, as emphasized by Amaliah & Aspiranti (2017), and Al Parisi & Rusydiana (2017).

The advancement of the sukuk market also plays an important role in promoting financial inclusion, as stated by Smaoui & Nechi (2017). Sukuk, as a significant tool for promoting Islamic financial inclusion, has the potential to enhance the impact of financial inclusivity on economic growth by improving infrastructure quality (Ibrahim & Sanusi, 2019). A recent study highlighted the possibility of introducing retail sovereign sukuk as a component of government bonds to finance the budget deficit in Indonesia (Hafiz, 2019). These bonds will serve as a substitute for foreign debt and reduce the government's budget deficit.

In modern times, the emergence of sukuk was driven by the goal of avoiding the practice of *riba* inherent in conventional bonds and seeking alternative financing instruments that comply with sharia for entrepreneurs or the state (Fasa, 2016). This motivation is supported by the issuance of fatwas from scholars prohibiting the use of conventional bonds, such as the National Sharia Council of the Indonesian Ulema Council Fatwa No. 32/DSN-MUI/IX/2002 on Sharia Bonds.

Exploring the experiences of various countries that use sukuk issuance to finance budget deficits is important to see how effectively those countries utilize their sovereign sukuk. Curiel & Mardam-Bay (2013) reported that several African countries such as South Africa, Senegal, and Mauritania issued sukuk to finance infrastructure deficits and bridge fiscal gaps. In addition, Egypt and Tunisia also plan to finance their fiscal deficits through the issuance of sukuk (Curiel & Mardam-Bay, 2013). Boumediene (2015) observes that several Muslim countries have made efforts to develop Sharia-compliant methods to finance budget deficits and manage liquidity. Examples of these initiatives include government *ijārah* certificates in Sudan, Malaysia, Bahrain, and Brunei, government sharia bonds in Bangladesh, and sukuk al-salam in Bahrain.

Furthermore, Standard and Poor's Rating Services (2015) stated that the issuance of sovereign sukuk could serve as a means to finance substantial deficits in Africa. Al-abadallat (2016) examined the role of sukuk in supporting the budget deficit in Jordan through qualitative research. The findings indicate that the issuance of sukuk by the Central Bank of Jordan supports budget deficit financing and serves as an alternative to conventional interest-bearing bonds.

Echchabi et al. (2016) examined the potential effects of Islamic finance in the specific form of sukuk issuance on economic growth, represented by three proxies: gross domestic product (GDP), gross capital formation (GCF), and trade activity. This research examines several countries, including those that are part of the GCC (Gulf Cooperation Council) from 2005 to 2012. This study uses the Granger non-causality test from the Toda and Yamamoto (1995) method. The results of the study indicate that the utilization of Islamic financing, particularly through the issuance of sukuk, may not effectively drive development and economic growth in Saudi Arabia. This can be attributed to the relatively smaller size of sukuk issuance in the country, which lacks international competitiveness. Additionally, the economic dependence on conventional financial markets for development may also contribute to this outcome.

Fahrian & Seftarita (2016) examined the impact of sukuk on gross domestic product (GDP) studied in the short and long term. This study uses quarterly data on sukuk and GDP from 2009 to 2015. The analysis was conducted using the Autoregressive Distributed Lag (ARDL) estimation method. The findings of this study indicate that sukuk play a significant role in influencing GDP in both the short term and the long term. In the short term, a change of Rp1 trillion will decrease GDP in the following quarter by Rp84.568 million. Meanwhile, in the long term, an increase in sukuk of Rp1 trillion will increase GDP by Rp103.081 million.

The research conducted by Ledhem (2020) aims to empirically test whether sukuk financing contributes to the increase in economic growth in Southeast Asia, using the endogenous growth model framework. This journal applies the dynamic panel one-step system generalized method of moments as an optimal estimation approach to investigate the impact of sukuk financing on economic growth in Southeast Asia covering the period 2013:Q4-2019:Q3. The research results show that sukuk financing plays an important role in driving economic growth in Southeast Asia. This study reaffirms the promising prospects for the Islamic financial market of sukuk as an alternative financial market that can contribute to sustainable economic growth. These findings align with the conclusions drawn by Cevik & Bagan (2018) and Yıldırım et al. (2020), further supporting the idea of sukuk's potential in driving economic development.

Furthermore, Malikov (2017) found that in the long term, there are significant positive changes in various indicators after the issuance of sukuk, including improvements in infrastructure provision, per capita GDP growth, and overall economic development in Malaysia. Furthermore, although sukuk are more sensitive to changes in economic conditions, they remain more sustainable and stable during financial crises due to their strong ties to both real and monetary economic fundamentals (Ahmad & Radzi, 2011).

Development of SBSN

According to the Fatwa of the National Sharia Council (DSN-MUI No. 69/DSN-MUI/VI/2008) of the Indonesian Ulema Council, State Sukuk or known as SBSN (State

Sharia Securities) are state securities issued based on sharia principles that serve as proof of participation in the SBSN assets, whether in local currency (rupiah) or foreign currency. It is in accordance with the law regulating State Sharia Securities (SBSN) Law Number 19 of 2008. According to the law, SBSN assets are objects of SBSN financing and/or State-Owned Goods that have economic value, in the form of land and/or buildings or other than land and/or buildings, which in the context of SBSN issuance are used as the basis for SBSN issuance (SBSN, 2008). Thus, consequently, the Indonesian government issued first sukuk in 2009 as an alternative source of financing to address the budget deficit (IIFM, 2012). The main objectives of issuing sukuk are to diversify the financing of the state budget, accelerate infrastructure development, enhance the Islamic financial market, improve public services, empower local industries and government investments, and increase the transparency of government services (IIFM, 2012).

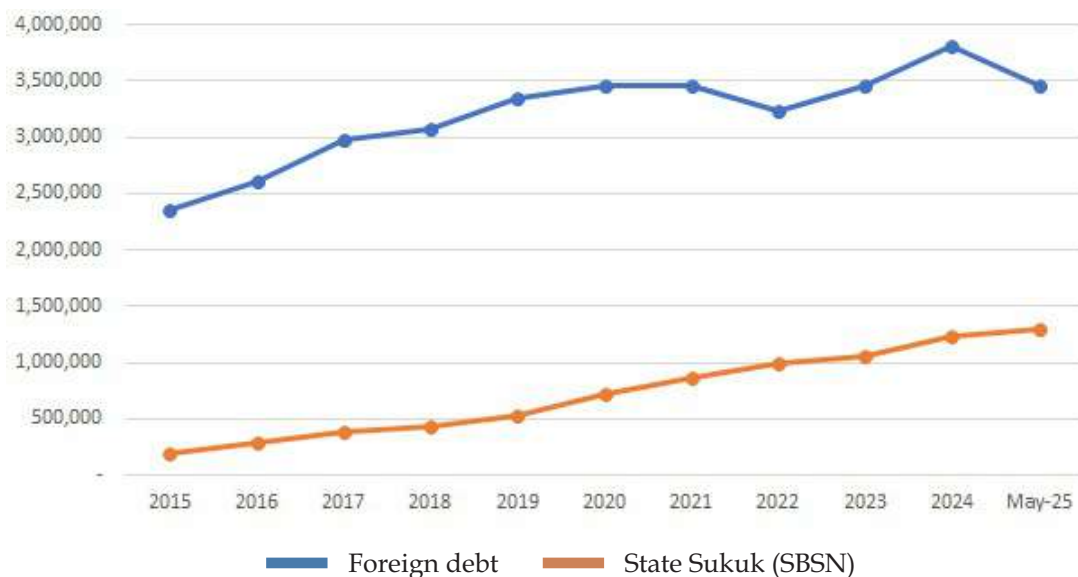


Figure 2. Comparison between Foreign Debt and State Sukuk (SBSN)

Figure 2 illustrates that foreign debt consistently exceeds SBSN issuance. Despite the demonstrated favourable trend in state sukuk development, funding from sukuk remains relatively modest when compared to international debt. Data from the Indonesian economic data published by Bank Indonesia in May 2025 indicates that SBSN reached Rp1,300 trillion, although the government's foreign debt in the same month was threefold bigger at Rp3,548.9 trillion (SULNI, 2025). The discrepancy between the magnitude of SBSN and foreign debt suggests that the Indonesian government has not yet prioritized sukuk as a principal financing mechanism in comparison to foreign debt.

Bank Indonesia (2025) noted that Indonesia's external debt ratio to Gross Domestic Product (GDP) remained stable at 31.0%. Based on that ratio, foreign debt is still one of great amount financial fundings, even though statistics show that it no longer dominates government debt like it did in the Old Order or New Order. Foreign debt is still riskier than

domestic. Foreign debt poses two risks. Global and domestic risks come first (Satya, 2015). Satya (2015) identifies two global risks: increasing the capacity to repay due to the economic slowdown in emerging markets and low export commodity prices, and refinancing and the increased burden of foreign debt payments due to tight global liquidity. Satya (2015) also lists two domestic risks: macro-level: increased external vulnerability (DSR, gross external financing, debt/GDP, and risk premium); micro-level: currency mismatch risk, over-leverage, and FX liquidity risk. Indonesia is one of the fragile five, which are vulnerable to FED monetary policy changes (Hendar, 2014). The fragile five have small foreign exchange reserves, limited fiscal budgets, small or deficit current accounts, and high inflation (Hendar, 2014). Thus, it is important to propose the use of SBSN to reduce the dominance of ULN in national fiscal financing.

State sukuk is widely used for financing infrastructure and government projects whose multiplier effects are not directly felt by the economy. This is because the projects funded by SBSN are usually large long-term projects such as toll road infrastructure, dams, and bridges. Based on Article 10 of Government Regulation Number 16 of 2023, projects funded through the issuance of SBSN include infrastructure development; provision of public services; empowerment of domestic industries; and/or other developments in accordance with the Government's strategic policies. Rifki Ismal (2023) during the interview session stated that one of the weaknesses SBSN is, sukuk must be project-based or have an underlying asset as the basis for sukuk issuance, so sukuk cannot be used for consumptive financing, which distinguishes it from ULN that can easily be allocated to consumptive financing. Therefore, state sukuk face the challenge of evolving into a type of state fiscal financing to support Indonesia's economic development.

Sukuk are issued to cover the budget deficit and are considered more pro-growth because sukuk issuance must be by project. Although the current figures are still very small, resulting in a negative impact on growth, in the long term, if sukuk continues to be increased and directed towards key sectors that create a multiplier effect, it is not impossible that sukuk could become a productive source of financing that in turn can drive higher economic growth as stated by Prof. Jaih Mubarak (2023).

Challenges and Strategies of SBSN

From the results of in-depth interviews gathered in this research, this study concludes several challenges faced by state sukuk/SBSN, as follows:

1. To enhance the progress of the Islamic economy, it is crucial to strengthen human resources' understanding of the Islamic economic system. This will enable them to develop innovative Sharia-compliant products while adhering to Islamic jurisprudential principles. Additionally, for Sharia economic instruments such as SBSN to function effectively, the human resources involved in their operations must have a deep understanding of the jurisprudential philosophy underlying Sharia products.

Similarly, jurists are encouraged to gain a comprehensive understanding of the practical and operational aspects of Sharia financial products, rather than solely focusing on their jurisprudential aspects. This holistic approach ensures the successful and Sharia-compliant development of the Islamic economy. To enhance the progress of the Islamic economy, it is crucial to strengthen human resources' understanding of the Islamic economic system. This will enable them to develop innovative Sharia-compliant products while adhering to Islamic jurisprudential principles. Additionally, for Sharia economic instruments like SBSN to function effectively, the human resources involved in their operations must have a deep understanding of the jurisprudential philosophy underlying Sharia products. Similarly, jurists are encouraged to gain a comprehensive understanding of the practical and operational aspects of Sharia financial products, rather than solely focusing on their jurisprudential aspects. This holistic approach ensures the successful and Sharia-compliant development of the Islamic economy. This challenge was articulated by Prof. Dr. Jaih Mubarak, S.E., M.H, M.Ag – Deputy Chairman of the BPH DSN-MUI (2023).

2. The general public's lack of understanding of sharia investment instruments such as SBSN. The limited knowledge of the public regarding sharia investment instruments like SBSN necessitates further education on the benefits and advantages of saving through SBSN. Extended socialization efforts are needed to familiarize the public with SBSN, so they become potential investors. Because SBSN is relatively new, less than 15 years old, extensive socialization is very important to highlight its benefits as a community investment instrument. This challenge was raised by several speakers such as Prof. Dr. Ir. Hermanto Siregar M.Ec (2023), Wahyu Utomo, S. Sos., M.Si (2023), Prof. Dr. Jaih Mubarak, S.E., M.H, M.Ag (2023), and Andi Ali Mustafa, Ph.D. (2023).
3. SBSN must expand its financing in national strategic sectors. State sukuk should be used to finance projects or infrastructure that significantly contribute to the economic advancement of a country. Currently, state sukuk are primarily focused on certain sectors that are not the main drivers of the economy, so sukuk has not yet become a commonly used method of state financing. This challenge was conveyed by Prof. Dr. Jaih Mubarak, S.E., M.H, M.Ag (2023) and Rifki Ismal, Ph.D (2023).
4. SBSN products must be more innovative, applicable, and flexible so that SBSN products can compete with conventional bond products. The emphasis on SBSN policy is on the implementation of innovative, practical, and accessible sharia financial products for all segments of society. Sukuk negara, in particular, must be made more flexible to align with the dynamic movements of the domestic and global economy, ensuring balance with flexible fiscal policies. This challenge was expressed by several interviewee, namely Prof. Dr. Jaih Mubarak, S.E., M.H, M.Ag (2023), and Wahyu Utomo, S. Sos., M.Si (2023).
5. The lack of SBSN issuance volume results in high issuance costs. The low volume of

SBSN issuance implies a lack of liquidity in SBSN. The lack of SBSN issuance volume results in high issuance costs for SBSN. The shortage of SBSN issuance volume implies a lack of liquidity for SBSN. The difference in liquidity between SBN (conventional bonds) and SBSN (sharia bonds) is quite significant. This issue is very important to address because higher liquidity in the market will result in better prices based on supply and demand. Better price discovery will create conditions for SBSN to compete more effectively with SBN. Improving the liquidity of SBSN is crucial for the future development of SBSN. A more liquid market will result in better borrowing costs for the government in issuing SBSN, which in turn will enhance liquidity. Additionally, SBSN can serve as a benchmark for the issuance of corporate sukuk, which is currently still limited. This challenge was expressed by Andi Ali Mustafa, Ph.D (2023).

Based on the challenges of developing SBSN in Indonesia gathered by researchers from in-depth interviews with sources as explained above, this study provides useful policy recommendations for the development of SBSN, such as:

1. As Compared to ULN, SBSN instruments are less vivid due to a lack of awareness among SBSN management human resources. This can be as a result of Indonesia's relatively recent development in the field of Islamic finance economics. Human resources in charge of SBSN management, especially those working in the Ministry of Finance of the Republic of Indonesia's Sharia Financing Directorate of the DJPPR, must be well-versed in SBSN instruments, including the Islamic jurisprudential theory that guides their issuance. Since these human resources are at the forefront of SBSN development in Indonesia, it is imperative that the key stakeholders enhance both the quantity and quality of SBSN management human resources. The slowness of SBSN instruments in comparison to foreign loans (ULN) is a result of human resources management's ignorance. In-depth and current knowledge of SBSN instruments, including the Islamic jurisprudence philosophy that supports the issuance of SBSN instruments, is required for management bodies, especially those in the Sharia Financing Directorate of the DJPPR, Ministry of Finance of the Republic of Indonesia. Since these human resources are at the forefront of SBSN growth in Indonesia, it is essential for the pertinent stakeholders that both the quantity and quality of SBSN management human resources be improved.
2. The following initiatives can be used to raise community literacy among prospective SBSN investors:
 - a. Socialising students in high schools and colleges that are comparable
 - b. Employing influencers on YouTube, Instagram, TikTok, and other social media platforms to spread the word about SBSN's benefits to Generation Z investors.
 - c. Using advertising channels, including billboards, social media, national television, and public transit, to socialise the lower middle class.
 - d. Making investment offerings and socialising with both ASN and non-ASN

pensioners and potential retirees

3. In order to support Indonesia's economic growth, SBSN finance must also focus on national priority sectors that have been identified by the government. Manufacturing, mining, agriculture, trading, and construction are some of these key industries. Additionally, through the Presidential Regulation of the Republic of Indonesia No. 3 of 2016 about the Acceleration of the Implementation of National Strategic Projects, the government created the National Strategic Projects (PSN), which got underway on January 8, 2016. Road infrastructure, the Trans-Sumatra and Trans-Java toll roads, dams, special economic zones, railway facilities and infrastructure, energy, oil refineries, ports, drinking water processing, airports, irrigation networks, and smelters are among the ten sectors that are covered by the national strategic projects. The community's economy is directly impacted by the ten national strategic projects that the government has started, and this will greatly boost the growth of the national economy. Thus, it is anticipated that the government, through DJPPR, will take advantage of SBSN's excellent chance to contribute significantly to the funding of these important initiatives.
4. To maintain increased rivalry with traditional SBN and ULN, SBSN requires a number of product developments. This study's product innovations include:
 - a. The issuance of state sukuk to fund Indonesia's halal tourist and industry initiatives.
 - b. Supporting regional administrations that have the authority to independently issue sukuk.
 - c. Extending the use of green sukuk to oversee initiatives that significantly affect environmental preservation, including trash management initiatives in several Indonesian major cities.
5. The following is an increase in the volume of SBSN enhancement:
 - a. Expanding the domestic sharia financial market through achievement metrics like the availability of more sukuk instruments, an increase in the number of sukuk actors and investors, the establishment of regulations that can address every facet of the growth of state sukuk in Indonesia, and the provision of sufficient non-physical and physical infrastructure.
 - b. Creating profiles of domestic investors in order to avoid focussing solely on international investors who have the ability to generate liquidity.
 - c. Increasing market share in overseas markets.

It is anticipated that the suggestions made by this study will raise Indonesia's SBSN issuance percentage in the upcoming years. SBSN is anticipated to expand by at least more than 10%. For at least the next ten years, this expansion must continue unabated. It is hoped that SBSN's notable expansion will increase its future impact on Indonesia's economic expansion.

Recommendation of Switching Mechanism

The goal of developing SBSN is to switch from foreign loans (ULN) to SBSN in the future. It is hoped that SBSN will no longer be an alternative financing but rather one of the main sources of financing, replacing the role of foreign debt, so that in the future, this Islamic financial product can provide real benefits to Indonesia's economic growth. In addition, by maximizing SBSN as a variable of Islamic economics, Indonesia, which has a majority Muslim population, is expected to adopt the Islamic economic system as the spirit of the Indonesian economic system, replacing the currently dominant conventional economic system. **Figure 3** illustrates the switching mechanism recommendation that is proposed by this research. For further clarification of the diagram, the authors have also listed the explanation or the symbols in **Table 2**.

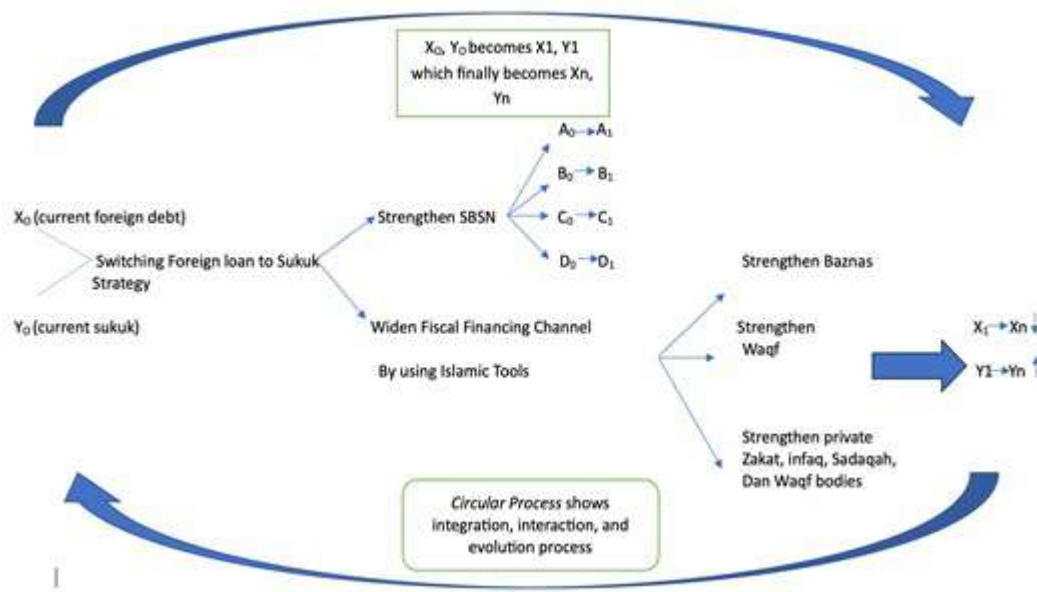


Figure 3. Recommendation of Switching Mechanism

Table 2. Diagram Explanation

Simbol	Explanation
X_0	Current Foreign Loan
Y_0	Current Sukuk
A_0	Strengthen Sukuk Policy 1
B_0	Strengthen Sukuk Policy 2
C_0	Strengthen Sukuk Policy 3
D_0	Strengthen Sukuk Policy 4
A_1	Positive changes on the following year after implementing sukuk policy 1
B_1	Postive changes on the following year after implementing sukuk policy 2
C_1	Positive changes on the following year after implementing sukuk policy 3
D_1	Positive changes on the following year after implementing sukuk policy 4

X_1	Foreign loan on a year
Y_1	Sukuk on a year
X_n	Foreign loan on the following years
Y_n	Sukuk on the following years

The process of shifting fiscal policy from one focused on growing foreign debt (ULN) to one focused on growing the share of SBSN as an Islamic fiscal tool is illustrated in the above diagram. Enhancing the quantity and quality of SBSN management human resources, raising investor awareness of SBSN, expanding sukuk financing to strategic sectors that support Indonesia's economic growth, creating state sukuk innovations in accordance with national development policies, and increasing the volume of SBSN issuance are the policy variables that this study recommends for strengthening SBSN. To meet the goals, efforts to improve SBSN must be reviewed and assessed annually. These factors combine and influence one another to progressively develop policies that can increase SBSN's capacity. In order to help the government finance the national budget deficit and avoid constantly taking on debt that includes usury, fiscal policies that work with Islamic financial institutions are also required. In the end, financing through external debt can be decreased and financing through SBSN increased by fortifying SBSN and collaborating with Islamic financial institutions.

The traditional method uses a usurious instrument, namely foreign debt, to pay off the national budget deficit and boost the economy with a constrained budget. Economic issues, sometimes known as a vicious cycle, are always a result of the traditional macroeconomic system. This cycle is brought on by either the expansion of the money supply, which leads to inflation or economic bubbles, or the imbalance between the monetary and real sectors. Contractionary policies, which lower the money supply in order to address this, cause the economy to slow down. As a result, expansive measures like fiscal deficit policies are put into place to expand the money supply. According to this policy, expenses are higher than revenues, and debt—including foreign debt—largely makes up the difference. In the end, using foreign debt raises the debt's amount and interest rate, which feeds the debt's growth, particularly when considering the dollar exchange rate (Nuraini, 2020).

The Ministry of Finance or Bank Indonesia should no longer bear the sole responsibility for resolving macroeconomic issues in a partial-oriented manner. A system that is focused on integration and capable of fully addressing macroeconomic concerns, especially those pertaining to state funding, is required. This idea is provided by the Tawhidi String Relation (TSR) methodology, which unifies all of the nation's economic components into a cohesive whole that is interrelated. According to this theory, the element of divinity (Tawhidi) cannot be divorced from a nation's political and economic processes. The incomplete idea that distinguishes between divine and worldly things is not acknowledged by Islam. The understanding that God created humans to be His vicegerents must be the foundation of all human behaviour.

The government should use that fundamental idea as a guide when handling the nation's finances. Therefore, one way to address macroeconomic issues is through the interaction and integration of financial institutions, including Islamic financial institutions. The state should take Islamic economics into account when managing national finances since it forbids the use of usurious instruments to address macroeconomic issues. As a result, the state's role in controlling the national deficit cannot be isolated. With the help of the community's active involvement in fiscal instruments like SBSN and other Islamic institutions like BWI and BAZNAS, this study aims to present the idea of integration and interaction among government financial institutions. Society's cultural strength must be balanced with the government's structural strength. Through their involvement in investments that directly support Indonesia's economic growth, like SBSN, the community – which also serves as an economic agent – must actively support government finances.

In order to solve macroeconomic issues, the integration and interaction of these institutions can maximise the capabilities of SBSN, zakat, infaq, sadaqah, and waqf as Islamic economic instruments. As a result, the entire community can work together to support the nation's finances. The government can now rely on SBSN, zakat, infaq, sadaqah, and waqf from the vast majority of Indonesian Muslims in addition to tax and other usurious revenue.

CONCLUSION

Given the numerous benefits offered by SBSN as a financing option for the state budget, this research aims to provide recommendations to the government that SBSN can serve as a primary source of state budget funding as an alternative to foreign debt. The diagram presented in this study illustrates the process of fiscal policy change from focussing on increasing external debt (ULN) to focussing on increasing the proportion of SBSN as an Islamic fiscal instrument. This research proposes several policy variables to strengthen SBSN, including increasing the quantity and quality of human resources in SBSN management, raising investor awareness of SBSN, expanding sukuk financing to strategic sectors that support Indonesia's economic growth, developing state sukuk innovations in line with national development policies, and increasing the volume of SBSN issuance. Annual reviews and evaluations of SBSN improvement initiatives are crucial to achieving these goals. All these elements interact and contribute to gradually creating policies that can enhance the capacity of SBSN.

Collaboration between fiscal policy and Islamic financial institutions is also needed to help the government finance the state budget deficit and prevent dependence on interest-bearing debt. Ultimately, strengthening SBSN and collaborating with Islamic financial institutions can reduce dependence on external debt financing and increase financing through SBSN. The Ministry of Finance or Bank Indonesia should no longer bear the full responsibility for finding partial solutions to macroeconomic problems. It is important to

have an integrated system that can comprehensively address macroeconomic issues, especially those related to state funding. This concept is offered by the Tawhidi String Relation (TSR) methodology, which integrates all elements of a country's economy into a single, interconnected unit. According to this theory, the political and economic processes of a country cannot be separated from the divine element (Tawhidi). Islam rejects the partial view that separates the divine world from the material world. All human behaviour must be based on the understanding that God created humans to be His representatives. Islamic economics, which prohibits the use of usury instruments in addressing macroeconomic problems, should be considered by the state in managing national finances. Therefore, it is impossible to separate the role of the state in reducing the national deficit. This research aims to introduce the concept of integration and interaction between government financial institutions and active community participation in fiscal instruments such as SBSN and other Islamic institutions like BWI and BAZNAS. The structural strength of the government must be balanced with the cultural strength of society. Society, which also functions as an economic agent, must actively support government finances by participating in investments that directly support Indonesia's economic growth, such as SBSN.

REFERENCES

- Al-Abedallat, A.Z. (2016). Islamic Sukuk and Its Role in Supporting the Budget Deficit: Case Study on the Central Bank in the Jordan. *Journal of Management Research*, 8(4), pp. 173-186.
- Benbekhti, S. E., Boulila, H., Benladghem, F., & Benbouziane, M. (2019). The Asymmetric Effect of Sukuk on Government Budget : Dealing with Deficit in Malaysia. *Signifikan: Jurnal Ilmu Ekonomi*. Vol. 8 (1): pp. 93-104. doi: <http://dx.doi.org/10.15408/sjie.v8i1.8068>
- Boyce, C., Neale, P., & Pathfinder International. (2006). *Conducting In-depth Interviews: A Guide for designing and Conducting In-Depth Interviews for evaluation input* (By Futures Group International, African Youth Alliance (AYA), Pathfinder/Extending Service Delivery (ESD), & Pathfinder headquarters). https://nyhealthfoundation.org/wp-content/uploads/2019/02/m_e_tool_series_indepth_interviews-1.pdf
- Cahyaningrum, H., et al. (2022). Analisis Faktor-Faktor yang Mempengaruhi Utang Luar Negeri di Indonesia Tahun 2015-2019. *Wacana Ekonomi (Jurnal Ekonomi, Bisnis dan Akuntansi)*, 21(1), pp. 39-54. <https://doi.org/10.22225/we.21.1.2022.39-54>
- Echchabi, A., & Idriss, U. (2016). Does Sukuk Financing Promote Economic Growth? An Emphasis on the Major Issuing Countries. *Turkish Journal of Islamic Economics*, 3(2), pp. 63-73.
- Fahrian, D., & Seftarita, C. (2016). The Effects Of Sukuk (Islamic Bonds) in the Economy. *Proceedings of AICS-Social Sciences*, 6, pp. 257-261.
- Fasa, M. I. (2016). *Sukuk: Teori dan Implementasi*. Li Falah: *Jurnal Studi Ekonomi dan Bisnis*

- Islam, 1(1), pp. 80-94.
- Fauzi & Suhaidi, M. (2022). Pengaruh Defisit Anggaran, Inflasi dan Nilai Tukar Rupiah Terhadap Utang Luar Negeri Indonesia dalam Perspektif Ekonomi Islam Tahun 2010-2019. *Jurnal Ilmiah Ekonomi Islam*, 8(02), pp. 2167-2182. <http://dx.doi.org/10.29040/jiei.v8i2.5864>
- Nik Abdul Ghani, N. A. R. (2018). Beneficial ownership in sukuk ijarah: a shari'ah appraisal. *International Journal of Islamic and Middle Eastern Finance and Management*, 11(1), 2-17.
- Haerisma, A. S. (2017). Tinjauan Maqasid Syari'ah Terhadap Obligasi Syariah (Sukuk). *Al-Mustashfa: Jurnal Penelitian Hukum Ekonomi Syariah*, 2(2), pp. 136-150.
- Ibrahim, S. S., & Sanusi, H. (2022). Testing The Effect of Islamic Financial Inclusion, Infrastructural Quality on Economic Growth in Nigeria: New Insight From Bootstrap and Non-Linear ARDL. *MALIA: Journal of Islamic Banking and Finance*, 6(2), pp. 87-104.
- Kurniasih, E. P. (2021). The Effect of Foreign Debt on the Economic Growth. *Jurnal Ekonomi Malaysia*, 55(3), pp. 125 – 136. <http://dx.doi.org/10.17576/JEM-2021-5503-09>
- Latifah, S. (2020). Peran Sukuk Surat Berharga Syariah Negara (SBSN) dalam Pertumbuhan Pembangunan Ekonomi Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 6(3), pp. 421-427.
- Ledhem, M. A. (2020). Does Sukuk financing boost economic growth? Empirical evidence from Southeast Asia. *PSU Research Review*, (ahead-of-print).
- Malikov, A. (2017). How Do Sovereign Sukuk Impact on the Economic Growth of Developing Countries? An Analysis of the Infrastructure Sector. In V. Efendić, F. Hadžić, & H. Izhar (Eds.), *Critical Issues and Challenges in Islamic Economics and Finance Development*. Basingstoke, UK: Palgrave Macmillan.
- Mitsaliyandito, R. Q., & Arundina, T. (2018). Dynamic Relationship Between Sovereign Bond and Sukuk Market Developments in Indonesia. *Pertanika: Social Sciences and Humanities*, 26(S), pp. 27-38.
- Nuraini, A., & Rouf, A. (2020). Kenaikan Utang Luar Negeri Dalam Sistem Ekonomi Makro Modern. *Jurnal Ilmiah Manajemen Kesatuan*, 8(3), pp. 377-384.
- Rusydiana, A. S. (2016). The Comparison of Sukuk and Bond Absorption: Deficit Budget Financing in Indonesia. *Tazkia Islamic Finance and Business Review*, 10(2).
- Satya, V. E. (2016). Analisis Kebijakan Pengelolaan Utang Negara: Manajemen Utang Pemerintah dan Permasalahannya. *Kajian*, 20(1), pp. 59-74.
- Smaoui, H. and Nechi, S. (2017), Does sukuk market development spur economic growth?, *Research in International Business and Finance*, Vol. 41, pp. 136-147.
- Snyder, H. (2019). Literature Review as a Research Methodology: An Overview and guidelines. *Journal of Business Research*, 104. <https://www.sciencedirect.com/science/article/pii/S0148296319304564>
- Sukirno, S. (2019). *Makroekonomi: Teori Pengantar*. Jakarta: Raja Grafindo Persada.

- Sundari, A., & Ridwan, A. H. (2022). Tafsir dan Hadist Sukuk Obligasi Syariah (Mengungkap Konsep Transaksi Kebatilan Dalam Q.S. An-Nisa: 29). *Fair Value: Jurnal Ilmiah Akuntansi dan Keuangan*, 4(6), pp. 2464-2472.
- Statistik ekonomi dan keuangan Indonesia. (2025). [Dataset]. Bank Indonesia. <https://www.bi.go.id/id/statistik/ekonomi-keuangan/seki/Pages/SEKI-MEI-2025.aspx>
- Statistik Utang Luar Negeri Indonesia. (2025). In <https://api-djppr.kemenkeu.go.id>. Kementerian Keuangan Republik Indonesia dan Bank Indonesia. Retrieved July 19, 2025, from <https://api-djppr.kemenkeu.go.id/web/api/v1/media/EC5EF82F-8DEC-47A8-9A70-0C46F9740645>
- Swamy, V. (2015). Government debt and its macroeconomic determinants—an empirical investigation. Available at SSRN 2601875. *Modern Economic Journal*
- Tan, Y.-L., & Roslina Mohamad Shafi. (2021). Capital market and economic growth in Malaysia: The role of sukūk and other sub-components [Journal-article]. *ISRA International Journal of Islamic Finance*, 13(1), 102–117. <https://www.econstor.eu/bitstream/10419/302002/1/1766558259.pdf>
- Taoual, S. (2016). Sukuk: a potential for stability and development in the GCC. *CORE Reader*. <https://core.ac.uk/reader/74395270>
- Tsabita, K. (2018). Examining The External Debt Crisis in Indonesia from Islamic Perspective. *Share: Jurnal Ekonomi dan Keuangan Islam*, 7(1), pp. 16-36.
- Undang-undang (UU) Nomor 19 Tahun 2008 tentang Surat Berharga Syariah Negara. (2008, May 7). [Press release]. Retrieved July 20, 2025, from <http://peraturan.bpk.go.id/details/39650/uu-no-19-tahun-2008>. Jakarta. Kementerian RI