ABSTRACT

Government sukuk is one of the securities issued by the government for domestic and foreign investors, which has developed into an alternative instrument for the public to invest in. Sukuk is deemed capable of offering considerable profits in the form of returns and can counter high-risk investment failure. Several countries have also used sukuk as a long-term investment instrument to finance budget deficits. The government fund the budget deficit through three sources; tax regulations, printing money by the Central Bank and issue debt securities.

This study analyzed the impact of sukuk-financed budget deficit financing on the crowding out or crowding in effect in private investment in Indonesia since 2008Q3-2022Q2. The Error Correction Model (ECM) was used to analyze the short-term and long-term cointegration relationship. The independent variables of this study included Budget Deficits, Outstanding Sukuk, Returns on the Islamic Interbank Money Market (PUABS), Economic Growth, Interest Rates on the Interbank Money Market (PUAB), and Outstanding Bonds; Private Investment is the dependent variable of this study

This study concluded that sukuk-financed budget deficit financing has a crowding out effect on private investment in Indonesia in the short run. At the same time, sukuk and the Interbank Money Market (PUAB) are proven to have a crowding out impact on private investment in Indonesia for the long term. On the contrary, Bonds and Economic Growt have a crowding in effect on Indonesian private investment.

Keywords: Budget Deficit, Crowding Out, Crowding In, Private Investment, Sukuk