

DARIUSZ PIOTROWSKI

Nicolaus Copernicus University in Toruń, Poland

CHALLENGES AND BARRIERS TO THE DEVELOPMENT OF SUKUK IN THE EUROPEAN CAPITAL MARKET

Abstract:

Sukuk are instruments of the capital market whose construction is based on the sharia rules. Over the last two decades, the sukuk market has become global. However, the main centres of trade are still located in South-Eastern Asia, with Malaysia at the forefront, and countries in the Persian Gulf region. Sukuk are present in the European financial market, mainly through companies' issues and the functioning of centres of trade in London, Luxembourg and Dublin. Despite that, the Islamic certificates have not yet gained significant interest. The paper will indicate the types of challenges and barriers related to issuing and trading sukuk in the European market. The research applies an analysis of literature on the subject, reasoning based on statistical data regarding the European market and a case study of a 2014 sukuk offering transacted by the government of the United Kingdom. The paper indicates that the specific characteristics of sukuk lead to the conclusion that they should be treated as a separate category of capital market instruments. In consequence, trading in these instruments on the European financial market requires an adjustment of the applicable legal norms. What is more, the fact that sukuk's structure is more complicated than that of traditional financial instruments increases risks and costs of the issuers. The distinctness and variety of sukuk forms hinder financial risk assessment, and thus have a negative impact on the scale of investors' interest in sukuk.

Keywords:

Sukuk, Islamic finance, European financial market, development barriers

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