The aim of this study is to investigate macroeconomic influences on sukuk issuance in Malaysia for the period 1996-2011 at the aggregate level. Based on vector autoregressive models (VARs), variance decomposition (VDC) and impulse response functions (IRE), the results indicate that sukuk Granger-cause GDP while GDP Granger-causes both PPI and CPI. Sukuk are also driven by their own dynamics in the short horizon. The results have important policy implications to the decision-makers. Since sukuk issuance Granger-causes GDP, policy makers should design new policies to modernize the functional aspects of Islamic capital market. A further implication for international institutional investors is that sukuk have the competitive advantage since it targets a segment of the global markets that has not been penetrated by other rivals. (C) 2012 Published by Elsevier Ltd.