



**THE WORLD ISLAMIC CAPITAL MARKETS CONFERENCE** | **THE WORLD ISLAMIC FUNDS CONFERENCE**  
 المؤتمر العالمي لأسواق رأس المال الإسلامي | المؤتمر العالمي لتمويل الإستثمار الإسلامي

## *The State of the Islamic Capital Market & Future Prospects*

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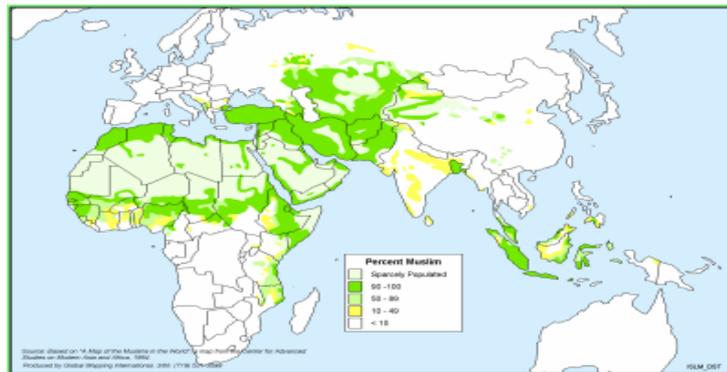
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## Global Market Perspective

- **US Equity Market**                      **US\$ 15.1 trillion (39% Global)**
- **Global Equity Market**                **US\$ 39.0 trillion (estimate)**
- **Islamic Equities @ 24%:**            **US\$ 9.36 trillion Potential**
  
- **Islamic Financial Assets**            **US\$ 400 billion (UAE MOF)**
- **Islamic Money Market**              **US\$ 30 – 50 billion**

US REITs		Malaysian REITs	
MARKET CAPITALIZATION		MARKET CAPITALIZATION	
USD MIL.		USD MIL.	
DJW REIT	252,800		189

## The Islamic Capital Market



- The total worldwide Muslim population is 1.5 billion, representing a sizeable 24% of total world population of 6.3 billion
- Shari'a-compliant assets, growing over the last 20 years, represent an estimated US\$ 300 billion banking assets & approximately \$400 billion Capital Market

## The Islamic Capital Market

- Islamic funds in Global Financial institutions is said to be at US\$1.3 trillion while the Islamic Financial Market is estimated to be US\$400 billion in size, with an annual growth rate of 12% - 15 %
- There are over 300 Islamic Financial Institution currently operating in about 75 countries worldwide
- More than 100 Islamic Equity Funds managing assets in access of US\$5.0 billion
- Estimated annual growth for Islamic Capital Market is between 15% to 20%

## The Islamic Capital Market

- GCC equity markets are amongst the fastest growing in the world by both value and volume
  - Equity held in Islamic portfolios < US\$ 20 billion
  - Approx. 100 GCC companies plan IPO's in 2006
- Rapidly expanding GCC conventional and Islamic bond market
  - Islamic Bonds – approximately US\$ 9 billion issues announced in 2006
  - Growing at 100% pa
- 150+ Islamic Funds; 65% in equity, 10% in bond (equivalent) and 25% in cash and hybrid, valued at US\$ 9.5 billion
  - Over US\$ 1bn raised in GCC equity funds 2005/2006

## The Current State of Islamic Capital Market – Shari’a Acceptability

Conventional Instrument	Characteristics	Shari’a-Compliant Alternative
Equity	Equity holders are the owners of the firm and responsible for conducting its affairs	Accepted
Preferred Stock-	A hybrid security that combines features of debt and equity	-
Primes and Scores	Equity is split into a prime component that has dividend and capital gains up to a stated price and a score component that has capital gains above this	-
Warrants	A long-term call option on a firm’s stock issued by the firm	-
Synthetics	Securities that allow combinations of assets to be obtained with low transaction costs	-
Acceptances	A written promise to pay a given sum at a pre-specified date	Developed, but not negotiable
Commercial Paper	A short-term debt security that can be easily traded	Developed, but not negotiable
Bonds	A term obligation to make a series of fixed payments.	Emerging
Floating-rate Bonds	The interest rate on the debt is based on LIBOR or T-bill rate	Emerging

(Source: IDB’s 10 Year Master Plan)



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## The Current State of Islamic Capital Market – Shari’a Acceptability

Conventional Instrument	Characteristics	Shari’a-Compliant Alternative
Securitized loans	Pools of mortgages or other types of loans that are publicly traded	Emerging
Index-linked securities	Bonds where the payment is linked to an inflation index or a commodity price	Emerging
Convertibles	A bond that can be swapped for equity at a pre-specified ratio or vice versa	Emerging
Swaps	Transactions in which different streams of income are exchanged	-
Options	The right to buy or sell a security on or before a specified date	-
Commodity futures	Contracts for the future delivery of a commodity.	Under development
Financial futures	Contracts for the future delivery of currencies, securities, or an amount of money based on an index.	Under development

(Source: IDB’s 10 Year Master Plan)



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## OIC Equity Markets

Country	Market Capitalization		Market Liquidity	Turnover Ratio
	\$ Millions	% of GDP	Value Traded % of GDP	Value of Shares Traded % of Market
	2005	2004	2004	2005
Bahrain	17,240	-	-	4
Bangladesh	3,035	5.9	1.6	32.3
Egypt	79,672	48.9	7.1	42.4
Indonesia	81,428	28.4	10.7	54.8
Iran	46,995	28.8	8.1	21.7
Jordan	37,639	159.6	46.3	85
Kazakhstan	3,941	9.7	2.4	22
Kyrgyz Republic	34	1.5	3	205.3
Lebanon	4,929	10.7	0.9	25.5

(Source: Compiled from World Development Indicators -2006)

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## OIC Equity Markets

Country	Market Capitalization		Market Liquidity	Turnover Ratio
	\$ Millions	% of GDP	Value Traded % of GDP	Value of Shares Traded % of Market
	2005	2004	2004	2005
Malaysia	180,346	160.6	50.6	26.9
Morocco	27,220	50.1	3.4	16.4
Oman	15,269	26	7.4	29.8
Pakistan	45,937	30.2	76.9	375.7
Saudi Arabia	646,104	122.2	188.8	231.7
Tunisia	2,876	9.4	0.8	16.8
Turkey	161,537	32.5	48.7	153.9
United Arab Emirates	30,363	34.3	4.3	-

(Source: Compiled from World Development Indicators -2006)

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## OIC Equity Markets

Country	Market Capitalization		Market Liquidity	Turnover Ratio
	\$ Millions	% of GDP	Value Traded % of GDP	Value of Shares Traded % of Market
	2005	2004	2004	2005
<b>WORLD</b>	38,904,431	96.3	97.0	53.7
<b>Low income</b>	450,544	44.5	45	107.6
<b>Middle income</b>	2,982,006	43.7	23.9	41.6
<b>High income</b>	35,471,881	108.9	113.9	114

(Source: Compiled from World Development Indicators -2006)

## Malaysian Capital Markets

- Adopted a parallel Islamic / Conventional approach in 1983
- Now Islamic Capital Market Leaders
- As at the end of 2005
  - 857 Islamic Equity Securities – 84% of total market
  - Total Capital Market instruments US \$ 110 billion
  - Total Islamic Bond market \$31 billion – 28% of total
  - 83 Islamic Unit Trust Funds with a net asset value of \$2.1 billion - 8% of total (Annual Growth rate -25.5%)
  - Most issues not accepted in the Arabian Gulf
  - First Global Corporate Sukuk
    - Guthrie \$ 150m in 2001
  - First Global Sovereign Sukuk
    - Malaysian sovereign - \$600m (2002)

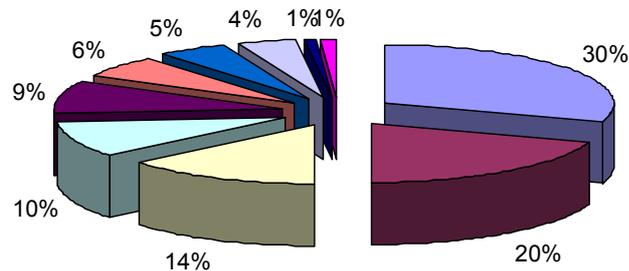
(Source: IFC- Bahrain)

## Malaysian Capital Markets

- Malaysia has been recognized as the pioneer and at the forefront in Islamic finance. Presently, Malaysia far surpasses other Muslim countries in terms of market infrastructure with unflinching support by the Government providing the impetus for growth of the local Islamic Capital Market.
- 36 % of all Shari'a listed equity funds in the world are listed in Bursa Malaysia and as at 31<sup>st</sup> December 2004, the total value of these funds stood at US\$ 1.8 billion compared to a total of US\$5 billion world wide

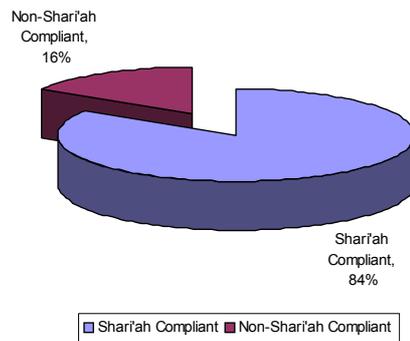
## Malaysian Equities Market

Number of Listed Companies



## Malaysian Equities Market

### Shari'ah Compliant Stocks



### Market Highlights (End-Dec 05)

- Diversity
  - 15 Sectors
  - 50 Economic activities
- Shari'a Compliant Stocks:
  - 84% (857 Listed Companies)

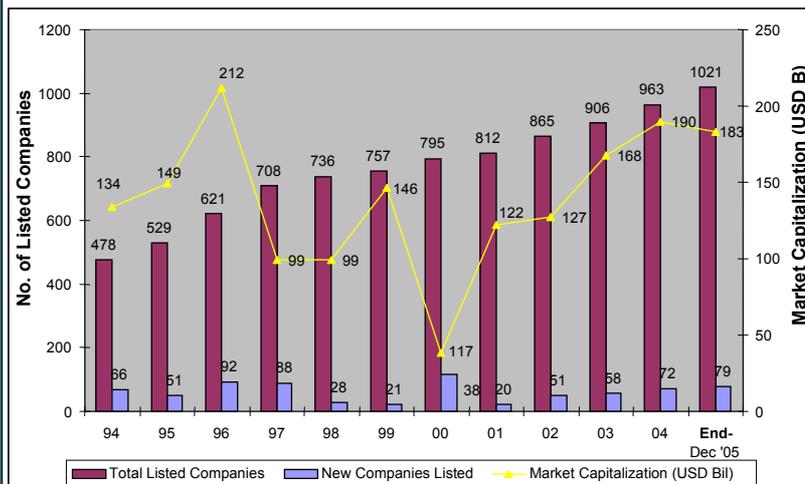
### Other Highlights

- 1021 Listed Companies
- USD 183 billion Market Capitalization

### YTD total Market transacted:

- Value: USD 46.6 billion
- Volume: 102 Billion Units

## Malaysian Market Capitalization



## Way Forward

- With the complexities of the Capital Market and the various instruments on offer or to be offered, clearly an international Islamic authoritative body is required to define and provide guidance on what is and is not permissible under Islamic Law
- Adequate infrastructure to enable the system to operate and function efficiently and effectively
- Industry to be build on ethical ground
- Improving regulatory infrastructure in OIC Countries

## Way Forward

- Cross Border trading with in OIC Countries to diversify in order to minimize risk and volatility
- Building on Information Technology
- Improvement in Transparency to attract international investors
- Guidelines on Day trading to be established

## Future Prospects

- Islamic Capital Markets have potential to reach several trillion USD
- GCC Surplus to continue for next 4-5 years mainly due to oil demand and price
- Customer acceptability, both Muslims and Non-Muslims, is increasing
- Increasing trend of going public i.e. IPO's
- Multi-Billion USD infrastructure projects in GCC and OIC Countries



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# Thank You



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