

THE ISLAMIC CAPITAL MARKET

Source: Bacha, Obiyathulla Ismath. (2017). *The Islamic capital market*. In Baharom Abdul Hamid, Mansor H. Ibrahim & Sazalina Kamarudin (Eds.), *Islamic finance: the new normal* (pp. 173-189). Kuala Lumpur, Malaysia: RAM Holdings Berhad.

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INTRODUCTION

1 Capital markets play an important role in modern economics

2 Enhance risk sharing and minimise macroeconomic vulnerability

EQUITY MARKET

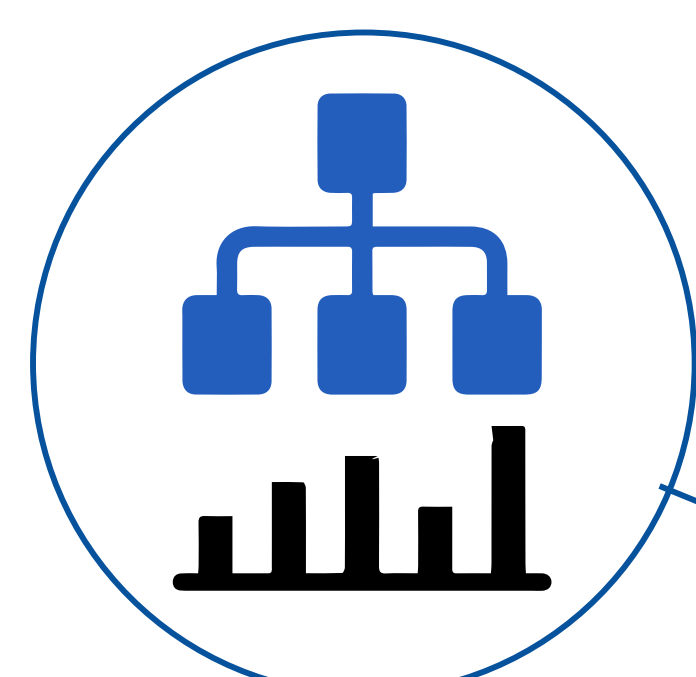
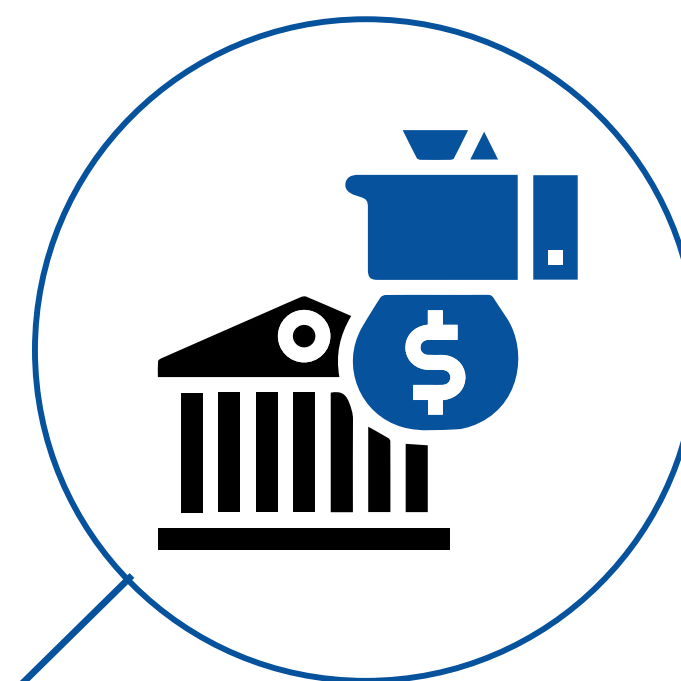
Enable firms to go public by listing their shares and raising equity capital

BOND MARKET

- Essentially the market for debt
- Bonds are designed for medium and long-term debt financing

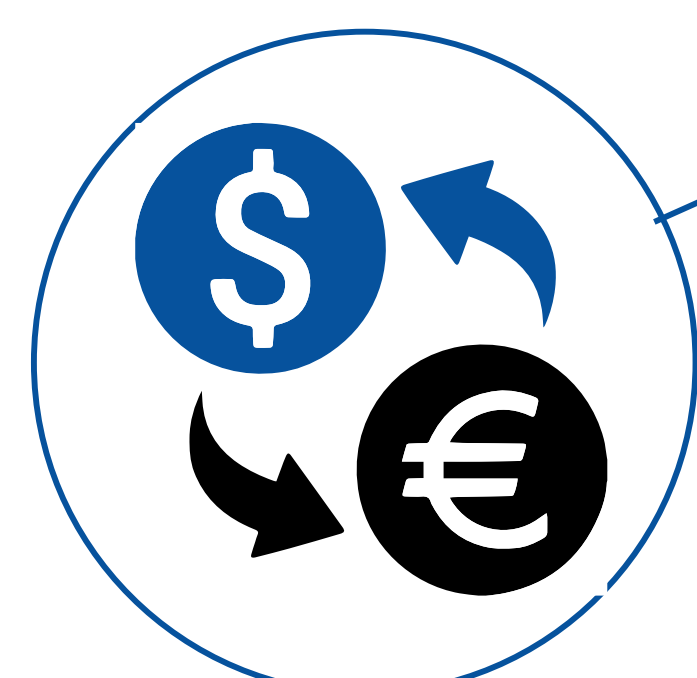
DERIVATIVE MARKET

The need for derivatives and its role within capital markets arises from the need to manage risk



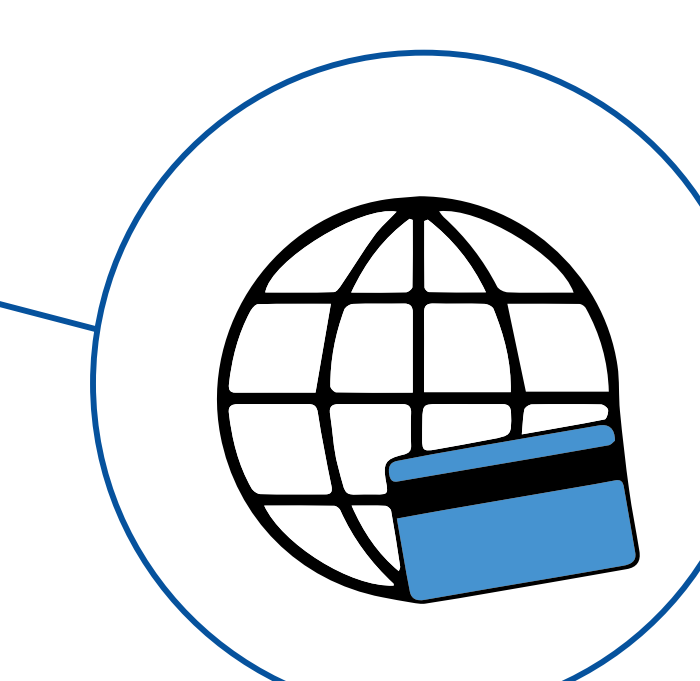
FOREIGN EXCHANGE MARKET

Plays the key role of enabling cross border transactions



INTERMEDIATION:

Capital markets intermediate in multiple ways - intermediating between deficit and surplus units

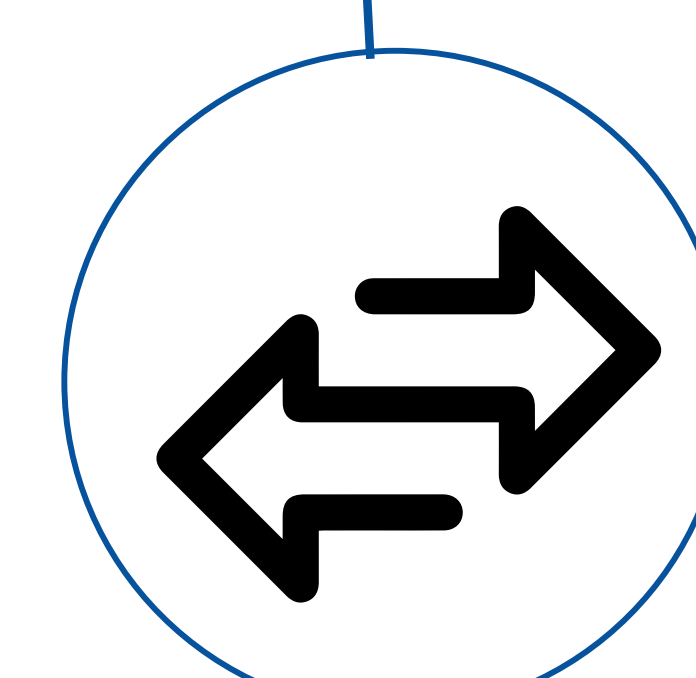


ENABLING THE PAYMENT SYSTEM:

Through the purchase and delivery of the instrument to make or settle payments



MEDIUM FOR MONETARY POLICY TRANSMISSION



ENABLING INTER-TEMPORAL TRANSFERS:

Transfers of wealth across time

ISLAMIC CAPITAL MARKETS

A capital market that operates within the tenets of the Shari'ah. It is governed by Shari'ah principles.

The Shari'ah requires that all financial instruments and transactions should be free of the five prohibitions:

- 1) **Riba** – interest/usury
- 2) **Rishwah** – corruption
- 3) **Gharar** – ambiguous contract
- 4) **Maysir** – speculation
- 5) **Jahl** – profiting from ignorance

Key advantages of Islamic capital markets:

- 1) Better resource allocation
- 2) Lower reliance on debt-based instruments and an emphasis on equity and risk-sharing instruments
- 3) Enhance national competitiveness (the export competitiveness of a nation's producers)