

Update on the growth of Shariah compliant equities in Indonesia



INDONESIA

By Farouk Abdullah Alwyni

The growth of market capitalization of Shariah compliant stocks up until November 2016 was very favorable. The market capitalization of two Islamic indices in the country, the Jakarta Islamic Index (JII) and the Indonesian Shariah Equity Index (ISSI in its Indonesian abbreviation), both grew twice as fast as the market capitalization of all stocks traded on the Indonesian Stock Exchange (IDX) whose index is known in its Indonesian abbreviation as IHSG.

Between January and November 2016, the market capitalization of JII and ISSI grew 26% and 28.7% respectively, compared to 14.4% recorded by the IHSG (Table 1). The market capitalization of the ISSI stood at IDR3.29 quadrillion (US\$230.3 billion), and it accounted for 59% of the total IDX composite which is also known as the Jakarta Composite Index. Currently, there are 345 companies listed on the ISSI out of 535 listed on the IDX. The ISSI is a stock index that reflects the overall Islamic stocks listed on the IDX. It constitutes a whole constituency of Islamic stocks listed on the stock exchange and registered in the list of Islamic securities.

If the ISSI includes all Shariah compliant stocks listed on the IDX, the JII only includes 30 Shariah compliant stocks considered to have the largest market capitalization and the most liquid transaction. Both the ISSI and the JII are reviewed every six months, in the months of May and November for the ISSI, and January and July for the JII. As shown in Table 1, the market capitalization of the JII accounted for 66.5% of the ISSI.

Of 345 listed Islamic equities, the largest sector is the trade, services and investment sector which has 87 shares accounting for 25.2% of the total number

of listed Islamic equities. The second-largest sector in terms of the number of shares is the real estate, property and construction sector with 58 shares (16.8%), followed by the basic industry and chemistry sector with 52 shares (15.1%).

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The year 2016 showed marked improvement in terms of the growth of Islamic equities compared with 2015 when both the ISSI and the JII suffered a decline. In fact, although the economy has not reached its full potential yet, 2016 showed a general improvement in the economy compared with 2015 which showed a decline overall in the IHSG. Other than this, some calls in the last two to three years to strengthen the role of Islamic finance in the country may finally deliver some results through more awareness of, and increased investing in, Shariah compliant shares. ☺

Farouk Abdullah Alwyni is CEO of Alwyni International Capital and the chairman of the Center for Islamic Studies in Finance, Economics, and Development. He can be contacted at faalwyni@alwyncapital.co.id.

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AUSTRALIA: Christopher Aylward partner, Finance and Major Transactions, Madison Marcus Law Firm
BAHRAIN: Dr Hatim El-Tahir director of Islamic Finance Knowledge Center, Deloitte & Touche
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Table 1: Selected market capitalization of Indonesian indices (2013-November 2016) (IDR trillion)

Index	2013	2014	2015	November 2016
JII	1,672.1	1,944.5	1,737.3	2,188.8
ISSI	2,557.8	2,946.9	2,600.8	3,291.5
IHSG	4,219.0	5,228	4,872.7	5,575.4

Source: Financial Services Authority and the Indonesian Stock Exchange