

The Influence of Global Financial Trends on Zakat via Stock Investment: A Comparative Study between the United Arab Emirates and Indonesia

Dewi Suryani Sentosa
Syiah Kuala University
dewi.suryani@usk.ac.id

ABSTRACT

The purpose of this study was to analyze and compare the influence of global financial trends on zakat through stock investments between the United Arab Emirates and Indonesia, as developed and developing countries. Also, this study would prove a theory that states return in the stock market, which is called market value would affect the nisab of zakat. This study used secondary data in qualitative research which tried to describe how zakat on stock was influenced by global financial trends. The global financial indicators which would be analyzed such as GDP, DJIA, UAE stock market, and Jakarta Composite Index. For this work, UAE and Indonesia as developed and developing countries were used as a case study. The Information on global financial trends post-COVID was collected since it made a huge trend. The results of the study indicated that global financial trends have a significant influence on the stock market. But the fluctuation in the stock market which had the potential to create market value as a nisab requirement did not influence zakat significantly. The research implies that zakat can be utilized as a promising investment alternative in the face of ever-changing global financial trends. This study contributes to the literature on zakat and stock investment and serves as a reference for practitioners, researchers, and decision-makers in global finance and investment.

Keywords: Global Financial Trends, Zakat, Stock Investment

INTRODUCTION

Islam is committed to advancing economic justice and equality through the zakat redistribution mechanism. Because of how crucial the process was, zakat was addressed in several dalil. Every Muslim was required to pay zakat to satisfy religious obligations. However, zakat is now strongly linked to economic goals and is not only associated with the issue of religiosity (BI, 2016). In the last few years, technology had altered how individuals do financial sector transactions. This circumstance led zakat to use technology to facilitate economic progress while coordinating the distribution of Zakat. The relevance of technology to alleviate economic growth with coordination of Islamic social finance (Zakat) disbursement. Technology was used to provide, improve, and deliver zakat funds. The zakat had undergone a significant transformation, especially regarding the investment of zakat funds. (Azizah & Choirin, 2019)

The system of financial sectors had changed as a result of technological advancements, including zakat. One popular form of zakat was through stock investments in the capital market. An Islamic scholar named Yusuf Al-Qardawi first proposed the concept of stock zakat many years ago (Yusuf, 2000). The application of zakat had been repositioned in several nations, from a yearly required ritual into a crucial tool to achieve socioeconomic justice (Retsikas, 2014). (Qaraḍāwī & Kahf, 1999) offered advice for zakat practitioners using *ijtihad*. Zakat required contemporary activities like online banking or other financial services. The zakat center would need to work with some financial institutions (Sarif, 2009).

Zakat on the stock was affected by dividend and current market value on the day when the zakat reached haul (Bonyan, 2023). The dividend is the size and pattern of cash distributions over time to shareholders. It is the process of giving out part of a company's profit, to the group of the shareholders (Lease et al., 2000). While market value is also commonly used to refer to the market capitalization of a publicly traded company, and is calculated by multiplying the number of its outstanding shares by the current share price (Chen, 2021).

Previous studies had focused on the law and management theory of zakat on stock. However, there was limited research on the influence of global financial trends on zakat on stock, especially by comparing countries. Also, to prove a theory stated in (Bonyan, 2023), that zakat was affected by current market value, which led to stock market value.

To provide empirical evidence on this issue, this research provided an exploratory view that aims to examine the influence of global financial trends. It consisted of a few indicators such as global GDP, DJIA (Dow Jones Index Average), and the stock market in UAE and Indonesia. By examining data from the countries, this research aims to explore the influence of global financial trends on zakat practices through stock investments. United Emirates Arab and Indonesia, as a developed and developing countries, respectively, that examination was crucial for this study's comparative analysis since it offered a wider viewpoint. This also contributed to the development of a complete body of knowledge and influences the course of future study. The research could help policymakers create strategies and laws that would encourage zakat on the stock. This study would provide valuable insights for zakat institutions, practitioners, researchers, and policymakers. Evaluate the potential of zakat as a promising investment alternative in the face of ever-changing global financial trends, and identify the implications of this potential for practitioners, researchers, and decision-makers in the global finance and investment sector.

From the background of research, this study has four stages:

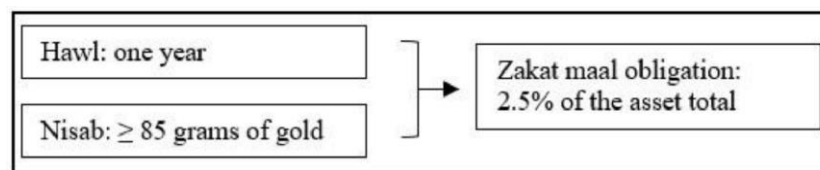
1. to analyze the influence of global financial trends on zakat, specifically through stock investments in the capital market between UAE and Indonesia as developed and developing countries.
2. to prove the theory state that zakat was influenced by stock market value or called market capitalization in empirical evidence between two counties.

LITERATURE REVIEW

DEFINITION OF ZAKAT

Zakat is a specific responsibility that Allah, the Almighty, has imposed on Muslims and is paid based on a set amount of money to certain worthy categories of people. This mandate appears in several passages of the Holy Qur'an in *At-Taubah*: 103, *Al-Baqarah*: 267, *An-Nur*: 56, and *Adz-Zaariyat*: 19. Purification of the money from any Shariah violations and obtaining Allah's favor are its two main goals (NCB). "These are the people who, if we give them power in the land, will establish the *Salah*, pay the zakat, enjoin what is right, and forbid what is evil" (Al-Hajj: 41). The objective of zakat is a function to bridge the wealth gap between the rich and the poor. It is believed that this redistribution of wealth within society will provide the poor's more purchasing power and enable them to make contributions to the economic cycle, promoting economic growth and enhancing the well-being of others (Yunita, 2021).

Figure 1. The requirement of Zakat Maal



In Islamic principles, capital cannot be separated from the obligation of zakat although capital is a part of Islamic finance which this finance aims to decrease poverty and promote sustained growth (Krichene, 2013). 4 Muslims must provide zakat a portion of their wealth for those who deserve recipients. Thus, social justice is a principle of the Islamic zakat requirement (Subekti et al., 2022).

"Religious forms of charity" or "financial worship" have traditionally been important in South Asia in supporting philanthropy and charity at the individual and institutional levels, with zakat serving as the main source of financing in Muslim communities (Kirmani, 2012). Religious ideals and beliefs may be crucial in inspiring social workers, people, and organizations to meet people's needs and partially cover the social service gaps left by the government (Kirmani, 2012).

These are two considerations to clarify the most important zakat rules regarding stocks:

1. Investor possesses shares with the intent to trade, buy and sell on the market, those have the same rule; when a year has elapsed since trading, an investor should pay zakat, on the whole, the shares based on market price if it reaches the nisab. Additionally, if an investor was unable to sell all or a portion of the shares due to a low price or suspension of stock trading, the investor is exempt from paying zakat on the remaining portion of the shares as long as no sales are made within the calendar year. When the stock market becomes stagnant, it is advised that investors hold off on selling until the market stabilizes and prices begin to rise. However, if the investor decides to sell the shares with the first intention of trading, zakat is still due on the price of the shares for one year only after the sale.

2. An investor owns the zakat for the aim of sharing in its yearly profit or for saving, and the business pays zakat on its operations, in this case, no zakat is payable to the shareholders to avoid duplication. However, if the business does not pay zakat, the following is how the ruling is transmitted to the shareholders: Zakat is determined using the value of the firm's zakat assets and is based on an accurate estimation of the yearly budget of the company; And if it is impossible to obtain this information, the shareholder must exercise prudence and pay zakat on the portions of each share of the zakatable assets that are relevant to them to avoid continuing to be held responsible. The Sharia Committee of the Zakat Fund has issued a fatwa stating that zakat changes depending on the company's activities as follows if the shareholder is unable to understand what applies to each share of zakat: (i) Shares of service companies: If a quorum is reached, zakat is applied to them based on the annual earnings allocated to the shareholders. (ii) Stocks of businesses: Dealing with the dealer as in the first point releases the shareholder from obligation and frees them from worrying about zakat. In my perspective, if the market value of the shares was moderate and not particularly high or low, then the shareholder should pay the zakat of the shares based on that market value.

Calculate Zakat on Shares

Regarding the zakability of stock investment, it is calculated based on the current market value on the day when the zakat is due and added to income distributions from the year in the form of dividends if the entire sum exceeds the nisab (zakat threshold). While based on a lunar year, the appropriate rate is $[2.5 \times (365/354)] = 2.58$ percent for a 365-day year with a personal wealth zakat rate of 2.5 percent, as stated by Islamic Development Bank (Subekti et al., 2022). Zakat's payment will be 2.5% of the whole amount. For instance, for a total investment fund, of \$10,000 in shares and those are now worth \$15,000, investors would pay \$375, which is 2.5% of it (Bonyan, 2023).

On the other hand, there is a second calculation, zakat on stock investments can be considered from the profit only. The zakat can be calculated as 5% or 10%. In this case, the profit from stock investments resembles that from a crop (Subekti et al., 2022). Qaradāwī & Kahf, 1999 supported classifying stock investments as transferable assets liable to zakat at 2.5 percent and 10 percent. Table 1 describes an example of calculating zakat on investment in stocks. The example is partially drawn by Mirza (Rahman, 2014).

Table 1. An example of Zakat Calculation on Investment in Stock:

Item	Date	Market Value
Beginning-of-Year Balance	August 1 st , 2013	\$190,004
Dividends	August 2013- July 2014	\$1,050
New Investments	August 2013- July 2014	\$93,225
Year-End Balance	July 31 st , 2014	\$359,509
Calculation of Adjusted Year-End Value & Gain/Appreciation		
Year-End Value	July 31 st , 2014	\$359,509
Plus Dividends	August 2013- July 2014	+\$1,050
Year-End Value plus Dividends	July 31 st , 2014	\$360,559
Less New Investment	August 2013- July 2014	-\$93,225
Adjusted Year-End Value	July 31 st , 2014	\$267,334
Less Beginning-of-Year Value	August 1 st , 2013	-\$190,004
Year's Gain/Appreciation	August 2013- July 2014	\$77,330
Calculation of Zakat		
(2.58 percent Zakat on Year-End Value)		
Including New Investment	$\$360,559 \times .0258$	\$9,302
Excluding New Investment	$\$267,334 \times .0258$	\$6,897
(10.3 percent Zakat on Year's Gain/Appreciation)		
	$\$77,330 \times .103$	\$7,965

Source: (Subekti et al., 2022)

An investor should be aware that stock investments that adhere to Sharia compliance are long-term investments. Significant capital has an impact on the long-term duration (Abdalloh, 2019). Investors will retain a portfolio for a longer period in a larger capital. Investment is successful if the portfolio makes a profit. Investors should also be aware of the zakat duty that exists (Subekti et al., 2022)

Zakat duty is paid from halal stock. Muslim scholars said that a company's activity determines whether shares are permissible (halal) or impermissible (haram). Dealing in stocks and stakes is also prohibited / haram if a company manufactures or sells haram products such as alcohol or pork, haram services such as gambling or promiscuous behavior, engages in riba or interest-based contracts, also engages in few illegal activities such as short selling and margin transaction. On the other hand, it is regarded as halal to purchase shares of a corporation if it does not engage in any unlawful actions (Bonyan, 2023).

Global Financial Trend

The pandemic in 2020 precipitated a catastrophic investment contraction-a fall far worse than that seen in the global recession brought on by the global financial crisis in 2009. However, because of extensive fiscal assistance packages and significant monetary easing, investment declined in advanced economies in 2020. After a significant recovery in 2021, it is anticipated that investment growth would slow down, but remain below the average rate over the past two decades (World Bank Group, 2023). In 2020, the pandemic-related decline in investment was historically significant and far more severe than in industrialized nations (IMF, 2023).

The global economy shrank to its lowest point in decades with a 3.2% decline in 2020, during the COVID-19 pandemic. The years 2021 and those that follow it present a light of optimism for the economy as limitations loosen and people return to their spending habits. Indonesia, which has the biggest Muslim population in the world, is well-positioned to dominate Islamic philanthropy. In terms of trade and

investment, Indonesia is in a strong position with the opportunity to further build on its advantages. The COVID-19 outbreak caused Indonesia to experience its first recession in more than 20 years. In 2020, the GDP contracted by 5.4%. Drops in private consumption (-1.5%) and investment (-1.6%) were the main contributors to this, which were only slightly offset by an increase in net exports (1.1%). The World Bank predicts that the economy will begin to recover in 2021 and gradually pick up steam in 2022. In 2021, growth is anticipated to be 4.4%. In 2022, growth may pick up to 5.0%, spurred by lower. (Dinar Standard, 2022).

RESEARCH METHOD

The study aims to analyze the influence of global financial trends on zakat practices through stock investment in UAE and Indonesia as developed and developing countries. The study used a qualitative descriptive methodology to examine how global financial indicators such as global GDP, DJIA, and the stock market of UAE and Indonesia affect zakat on the stock. Official websites, which are respectable and dependable sources, were used to gather secondary data. Accessing pertinent online content, including papers, studies, and statistical data about the topic under study, was a step in the data-collecting process.

A descriptive analysis was performed after the original data was collected to show the identified trends. To detect important trends or conclusions, the descriptive analysis included analyzing the data using tables, graphs, and other techniques. Additionally, a comparison of the indicators was done to look at the similarities and differences between the indicators of global financial trends that affect the zakat on the stock.

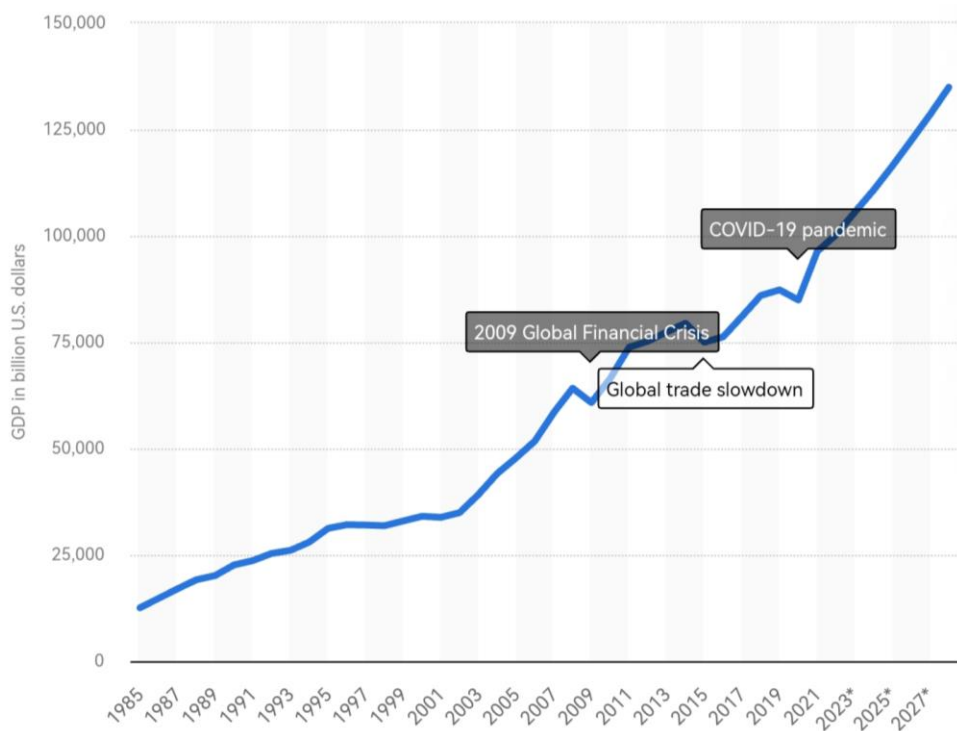
Data Collection

This study compare data from UAE and Indonesia as developed and developing countries. Data was collected from various sources for the duration of 3 years after the pandemic (2020-2022) such as many official portals (investing.com, UAE stock market, macrotrends.com, International Monetary Fund, Dinarstandard). The data involves gathering information on the amount of zakat paid from stock investments, as well as the values of the identified global financial indicators such as Global Financial Indicators (GDP, DJIA, Investment Growth) and UAE and Jakarta Stock Exchange Composite.

1. Global GDP

Figure 2. Global GDP

Conference Paper



Source: www.statista.com

The statistic displays global GDP from 1985 to 2022 with predictions until 2028. The global GDP was around 85.97 trillion dollars in 2020, which is two trillion less than in 2019. Based on the picture above, this study summarized the data as follows,

Table 2. Global GDP in Billion US Dollars

Year	Value	Change %
2019	87823.60	
2020	84894.92	-3.30%
2021	96314.46	11.85%
2022	100218.4	3.89%

Source: www.statistica.com

2. Dow Jones Industrial Average (DJIA) Indicator

The DJIA index updates could help index management businesses in creating the best announcement policies as well as individual and institutional investors in creating efficient trading strategies (Biktimirov & Xu, 2019). The following is the DJIA annual report.

Table 3. Dow Jones Industrial Average

Year	Average Closing Price	Year Open	Year High	Year Low	Year Close	Annual % Change
2023	33,335.67	33,136.37	34,302.61	31,819.14	33,762.76	1.86%
2022	32,898.34	36,585.06	36,799.65	28,725.51	33,147.25	-8.78%
2021	34,055.29	30,223.89	36,488.63	29,982.62	36,338.30	18.73%
2020	26,890.67	28,868.80	30,606.48	18,591.93	30,606.48	7.25%

Source: macrotrends.net/1358/dow-jones-industrial-average-last-10-years

The table above illustrates that Dow Jones Industrial Average has increased by 7.25% and 18.73% in 2020 and 2021, respectively. But it has decreased by 8.78% in 2022.

3. Stock market Index

Table 4. United Arab Emirates Stock Market

Year	Year Open	Year High	Year Low	Year Close	Annual % Change
2022	9105.940	10629.010	8236.830	10211.090	10%
2021	5045.316	8822.773	5045.193	8488.363	40%
2020	5,075.891	5,256.054	3,307.525	5,045.316	0,59%

Source: <https://tradingeconomics.com/united-arab-emirates/stock-market>

Table 5. Jakarta Composite Index

Year	Year Open	Year High	Year Low	Year Close	Annual % Change
2022	6585.26	7377.50	6509.88	6850.62	3.86%
2021	5997.83	6720.99	5735.47	6581.48	8.87%

2020	6313.03	6348.53	3918.34	5909.07	6.39%
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Source: investing.com

4. Zakat Amount Over the Year

Figure 3. Diagram Zakat on Stock in UAE

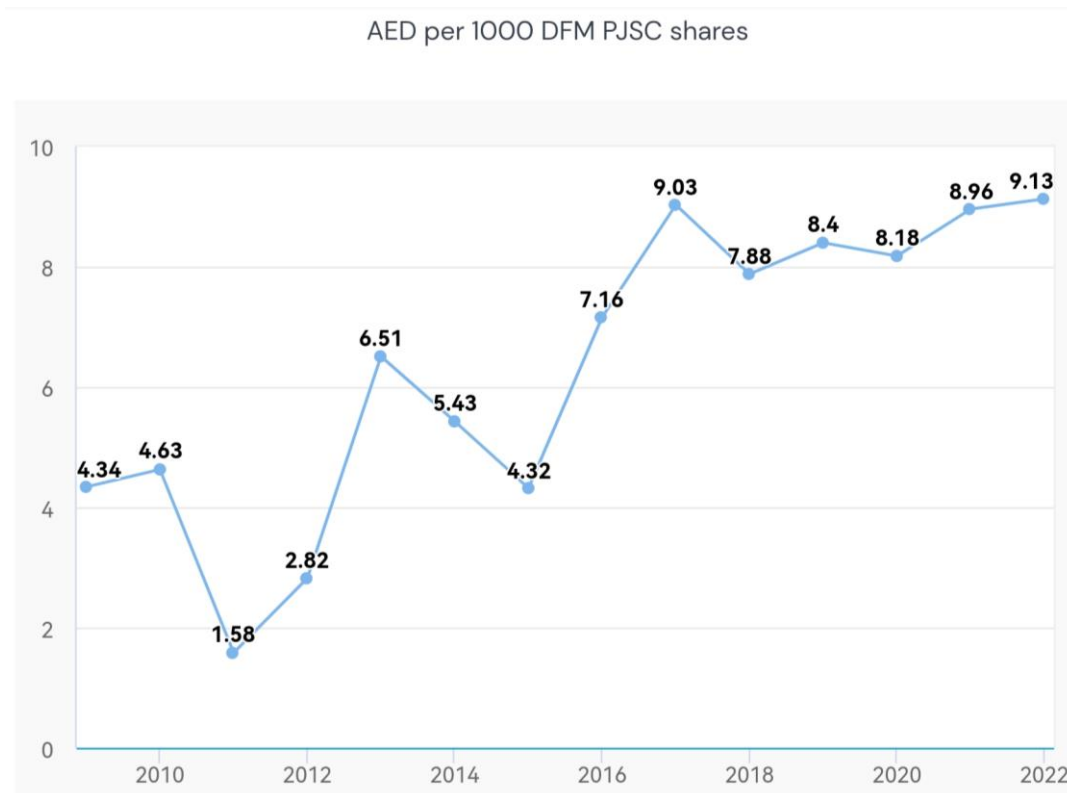
Source: <https://www.dfm.ae/en/investing/services/pjsc-zakat>

Table 6. Zakat on the stock in Indonesia

Zakat on Stock	2020	2021	2022
Indonesia	\$115,89	\$368,90	\$23.342,45

Source: Sharia Capital Market Report 2021, kumparan.com

Based on the explanation above, this study concludes several indicators that will be studied further to zakat stock, as follows:

1. GDP
2. DJIA
3. UAE Stock Market

4. Jakarta Composite Index

The theory stated that zakat was paid from one of the requirements namely current market value. If it could reach the nisab threshold, thus investor should pay zakat on the stock. Those aforementioned factors were very crucial since it was implicitly assumed that total investment value and return of stock transaction could affect the amount of zakat that investors should be paid when the nisab had reached. By combining data on the amount of zakat from stocks, the values of global financial indicators, and the stock data itself, an analysis could be conducted to examine whether there is a relationship between changes in stock value (as a result of global indicator movements) and the amount of zakat paid. This analysis could help in understanding how the influence of global financial trends on stock investments and the resulting zakat obligations.

RESULTS

The table below shows that the fluctuations in global GDP, DJIA, and the UAE stock exchange were moving in tandem. When global GDP and DJIA increased, the UAE stock exchange also increased. The increase in stock exchange returns affects the nisab value in Zakat, which means that investors should pay Zakat. However, it could be observed that when there was a decline in the UAE stock exchange in 2022, the zakat on stocks 2022 did not decrease but rather increased. It can be concluded that global financial indicators such as global GDP and DJIA could influence the UAE stock exchange, but the fluctuation of the stock market did not significantly affect the value of zakat on stocks in the United Arab Emirates as developed country.

Table 7. Result in UAE

Year	Global Financial Indicators			Zakat On Stock
	Global GDP	DJIA	UAE Stock Exchange	
2020	-3.30%	7.25%	0.59%	\$2.227,12
2021	11.85%	18.73%	40%	\$2.439,49
2022	3.89%	8.78%	10%	\$2.485,77

While in Indonesia, there was a correlation between the fluctuations in global GDP and DJIA. Both indicators appear to influence the value of the Jakarta Composite Index. The initial hypothesis in this study suggests that stock market returns could affect zakat value. When there was an increase in the Jakarta Composite Index from 2020 to 2021, there was also an increase in zakat on stocks in the same year. However, when there was a decline in the stock market value in 2022,

the zakat on stocks increased. It could be concluded that the stock market value did not significantly affect the zakat amount in Indonesia as a developing country.

Table 8. Result in Indonesia

Year	Global Financial Indicators			Zakat On Stock
	Global GDP	DJIA	Jakarta Composite Index	
2020	-3.30%	7.25%	6.39%	\$115,89
2021	11.85%	18.73%	8.87%	\$368,90
2022	3.89%	8.78%	3.86%	\$23.342,45

DISCUSSION

The main purpose of this study was to examine the relationship between stock market fluctuations and zakat payments in the UAE and Indonesia. By analyzing the impact of global GDP and DJIA on the stock exchanges, the study aimed to shed light on how these factors influence the amount of zakat paid by investors.

The importance of this study lies in its contribution to the understanding of the dynamics between global financial trends and zakat payments. Zakat is a significant aspect of Islamic finance, and understanding the factors that influence zakat payments in stock markets is crucial for policymakers, investors, and Islamic financial institutions. By investigating this relationship, the study provides insights into the complexities of zakat calculations and the role of stock market performance in determining zakat obligations.

The managerial implication of this study is the need for effective communication and education about zakat among investors and the general public. Islamic financial institutions and zakat collection agencies can play a crucial role in raising awareness and understanding of zakat's purpose, calculation, and impact. By providing clear and comprehensive information about zakat and its benefits, they can encourage more individuals to fulfill their zakat obligations willingly and accurately. Additionally, education programs can be developed to enhance financial literacy and empower individuals to make informed decisions regarding zakat payments and investments. By fostering a culture of zakat awareness and understanding, institutions can ensure a sustainable and equitable distribution of zakat funds and positively impact the socio-economic development of communities in need.

However, it is important to highlight the limitations of this study. Firstly, the study focused on a specific period and may not capture long-term trends or variations across different market conditions. Additionally, the analysis was limited to cross-sectional data, which may not fully capture the dynamic nature of stock market fluctuations and their impact on zakat payments. Future studies could

consider longitudinal data and employ more sophisticated econometric models to further explore this relationship.

Overall, this study provides valuable insights into the relationship between stock market dynamics and zakat payments. It reaffirms the importance of considering the unique socio-economic contexts of different countries in understanding zakat calculations and highlights the need for further research to enhance our understanding of this complex relationship.

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