

Conventional and Sharia Compliant Index in United Kingdom. Similarities and Differences _____

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Abstract

Global economic crises have revealed the structural weaknesses of the conventional financial system, prompting growing interest in more sustainable alternatives. Islamic finance has emerged as a credible and reliable financial framework. Grounded in the principles of Sharia law, it prohibits interest (riba) and promotes risk-sharing among parties, making it a distinctive model in mitigating the effects of economic crises. Islamic indices are not merely financial indicators; they also embody ethical and religious values, encompassing only those companies that comply with Sharia principles. The primary objective of an Islamic index is to achieve lawful (halal) profit while managing risk through ethical means. Islamic indices tend to exhibit greater stability and lower volatility, responding differently to financial shocks compared to conventional indices. This abstract aims to analyze the contribution of Sharia-compliant economic activities to the financial stability of the United Kingdom and to assess the key differences between Islamic and conventional finance, highlighting the potential for a more resilient and sustainable financial system. The study adopts a

comparative and analytical approach, employing both qualitative and quantitative methods to examine the role of Islamic finance during periods of economic crisis and to compare its performance with that of conventional finance. Initially, a literature review is conducted, analyzing scholarly studies on both Islamic and conventional financial systems. Moreover, the relationship between the UK stock market index (FTSE) and GDP (2007–2024) is examined to determine whether economic growth exerts a positive influence on the performance of the British financial market. Particular attention is also devoted to assessing the impact of the UK's GDP on the performance of the FTSE Shariah Index, which represents British enterprises operating in accordance with Islamic financial principles.

Keywords: *Islamic Index, Volatility, Risk Management , Halal , Current GDP.*

Introduction

In recent decades, financial globalization and the development of international capital markets have created a broad landscape for diversification, innovation, and the integration of different financing models. Among the concepts that have gained particular attention in this context is Islamic finance, a system that intertwines religious principles with modern market mechanisms, offering an alternative approach to conventional finance. Within this framework, Shariah-compliant indices have emerged as important instruments for measuring the performance of markets operating in accordance with Islamic law, positioning themselves as a key component of the global capital market structure. In parallel, conventional indices such as the FTSE 100, S&P 500, and MSCI World continue to represent the traditional standard of performance in Western capitalist markets.

This study aims to analyze the structural, conceptual, and performance-related similarities and differences between conventional stock indices and Shariah-compliant indices, focusing on how each model reflects the philosophy, institutional structure, and regulatory mechanisms of the financial system it represents. The introduction establishes the theoretical and historical foundations for understanding the evolution of these two financial systems, which, despite being based on different principles, have created important bridges of collaboration in modern global markets.

Conventional finance has its roots in the capitalist system, where the primary goal is profit maximization and efficient capital allocation through market mechanisms. This approach relies on interest as a fundamental instrument of lending and on risk distribution through derivatives, bonds, and speculative investments. In contrast, Islamic finance is based on moral and ethical principles prescribed by Shariah, which prohibits *riba* (interest), *gharar* (excessive uncertainty), and *maysir*

(speculation). Instead of interest, financial relationships are structured around profit-and-loss sharing, emphasizing cooperation, transparency, and fairness.

The development of Shariah-compliant indices began in the 1990s, driven by increasing demand for Shariah-compliant products in the Gulf countries, Southeast Asia, and North Africa. The creation of the Dow Jones Islamic Market Index (DJIM) in 1999, followed by the FTSE Shariah Index and MSCI Islamic Indexes in the United Kingdom, marked the beginning of the institutionalization of Islamic capital markets. These indices follow principles similar to those of conventional benchmarks but exclude companies engaged in Shariah-prohibited activities, such as alcohol production, gambling, interest-based banking, weapons, and pork-related products. They also impose limits on debt and interest levels in the balance sheets of included companies.

Comparing conventional and Shariah-compliant indices is highly relevant not only to understand differences in financial philosophy but also to analyze their relative performance and sensitivity to systemic risks. Empirical studies have shown that although Shariah-compliant indices face selection constraints, they often exhibit greater stability during financial crises, as their limited exposure to banking and speculative sectors reduces their vulnerability to sudden market fluctuations.

Conversely, conventional indices tend to be more elastic during periods of economic growth, as they include high-profit sectors such as finance, energy, and technology. Therefore, the comparison between the two models is not merely an analysis of gains and losses but also of stability, ethics, and macroeconomic impact. For researchers and policymakers, this comparison can help identify practices that promote sustainable development and responsible capital management.

Over the last decade, Islamic finance has become an integral component of the global financial system, managing over USD 3 trillion in Shariah-compliant assets (Islamic Financial Services Board, 2024). A significant part of this development is represented by Islamic investment funds and Shariah stock indices, which attract investors from diverse countries, including non-Muslims seeking ethical and sustainable investment opportunities.

At the same time, conventional markets have begun integrating concepts of ethical and responsible finance (ESG – Environmental, Social, Governance), which in many respects align with the principles of Islamic finance. This conceptual convergence underscores the fact that the divide between “conventional” and “Islamic” models is becoming less ideological and more functional, fostering new research on harmonizing financial market practices.

The objectives of this study are as follows:

1. To analyze the historical performance of selected conventional indices (e.g., FTSE 100) and Shariah-compliant indices (e.g., FTSE Shariah Index) over the period 2007–2024.

2. To identify correlations and structural deviations between the two indices during periods of economic crises and recoveries.
3. To assess whether Shariah-compliant indices provide higher stability during financial uncertainty and whether they can be considered an effective alternative to traditional investments.
4. To derive theoretical and practical implications for investors, financial institutions, and policymakers seeking to promote diversification and ethical investment practices.

This comparison will rely on quantitative analyses (percentage changes, volatility, average growth rates, and inter-market correlations) as well as a qualitative interpretation of the fundamental principles underlying each financial system. Based on these objectives, two hypotheses can be formulated:

- H1:** The FTSE Shariah Index exhibits a closer relationship with the United Kingdom's Gross Domestic Product (GDP) over the analyzed period (2007–2024).
- H2:** The FTSE Shariah Index demonstrates lower volatility compared to the conventional FTSE 100 index, reflecting reduced risk for investors.

This study aims to provide both an academic and practical contribution to the literature on the integration of Islamic and conventional financial markets. Theoretically, it emphasizes that, although Islamic finance is rooted in religious principles, it constitutes a rational and competitive economic model that seeks a balance between profit and social responsibility. Practically, the study will assist investors in understanding the structural and performance differences between the two models, offering a foundation for more diversified and sustainable investment strategies.

In a broader context, this analysis highlights the role of ethics and values within the global financial system. In the face of recurrent economic and financial crises, the search for more sustainable forms of capitalism has elevated alternative models, such as Islamic finance, to serious consideration in international policy discussions. In this sense, the comparison between conventional and Shariah-compliant indices is not merely an economic exercise but also a reflection on the moral and institutional evolution of global markets.

In summary, this study seeks to demonstrate how two different approaches to capital and risk—conventional and Islamic—can yield comparable results in terms of performance while differing in stability and ethical orientation. An empirical analysis of data from 2007–2024 allows for evidence-based comparison, contributing to an understanding of how financial systems can coexist and cooperate in an increasingly integrated global economy.

This study represents a significant step toward academic dialogue between conventional and Islamic finance, emphasizing that the diversity of economic models is not only a theoretical asset but also a practical opportunity for building a more equitable, ethical, and crisis-resilient financial system.

Literature Review

A dynamic and growing economy is considered healthy only when its rules, institutions, organizational operations, and the behavior of individuals and collectives are in compliance with Shariah (Iqbal & Mirakhor, 2011). The authors emphasize that a risk-sharing-based financial system is precisely what Shariah prescribes as an alternative to interest-based lending. Special attention is therefore given to ethical and institutional norms.

Risk-sharing is also regarded as a fundamental principle of the Islamic financial system. Unlike conventional finance, where interest-based lending transfers the majority of risk to the borrower, Islamic finance is designed to create mechanisms in which risk and reward are shared fairly. Such an approach enhances financial stability and resilience. Due to its focus on real economic activities, the risk associated with speculation and interest-based loans is generally lower in the Islamic system. Islamic finance is viewed as an integral part of the broader economic system and social relations. Some of its instruments include contracts linked to real projects, where profits and losses are equitably shared. Special attention is given not only to the profitability of Islamic financial institutions but also to their social impact.

Islamic indices are instruments that measure the performance of selected stocks in accordance with Islamic finance principles, excluding companies that are non-compliant with Shariah (Abbes, 2012). These indices are not merely financial indicators; they also reflect ethical and religious values, as they include only companies that comply with Shariah principles. The primary goal of an Islamic index is not to maximize profit, but to achieve lawful (halal) gains and manage risk ethically. Abbas also notes that these indices exhibit a more stable structure and respond differently to financial crises compared to conventional indices, emphasizing Shariah compliance, exclusion of prohibited activities, and a balance between risk, return, and ethics in investment.

Islamic indices are composed of equities and instruments selected according to Shariah principles, representing the performance of companies that operate ethically and in accordance with Islamic law. They exclude businesses involved in prohibited activities such as alcohol, gambling, interest (riba), and pork products. Company selection is carried out through Shariah screening, which evaluates financial structure and revenue sources to ensure compliance with Islamic

principles (Bhoyroo, 2019). These indices aim to create sustainable and Shariah-compliant investment opportunities, integrating financial markets with Islamic moral values.

Islamic indices employ a control process that excludes companies with high debt levels, prohibited activities, interest income, or significant use of conventional instruments, ensuring Shariah compliance (Ayedh & Iqmal Hisham, 2019). The authors stress that Shariah compliance requires a thorough analysis of financial structure, income sources, and capital management, rather than mere exclusion of specific companies. Some existing Shariah screening methods are not fully aligned with Shariah principles, necessitating more rigorous and standardized criteria.

Islamic indices are constructed by filtering conventional index data to include only companies that meet Shariah-compliant screening, thereby providing a targeted selection for Islamic investment (Kazan, 2016). Kazan emphasizes that Islamic indices are not merely replicas of conventional indices but are carefully curated through a Shariah-compliance process, highlighting the unique selection of companies that meet Islamic criteria rather than focusing solely on financial performance.

Islamic enterprises are business organizations operating according to Shariah principles, avoiding interest (*riba*) and prohibited (*haram*) activities, with a focus on justice and social responsibility (Chapra, 2000). Chapra underscores that ethical and social responsibility are central to the functioning of Islamic enterprises. These enterprises create economic value while respecting Islamic ethics and financial principles, including risk-sharing and profit from permissible activities (Iqbal & Mirakhor, 2007). Profits should arise only from Shariah-compliant sources and activities, balancing economic gain with adherence to Islamic principles.

Islamic enterprises avoid speculation, excessive debt, and investments in prohibited sectors to ensure fairness and ethical business conduct (Usmani, 2002). Usmani further notes that interest, gambling, and speculative transactions concentrate wealth in the hands of a few, creating monopolies or market distortions that impede natural market functioning. Excessive profit without real production, as in financial speculation or usury, leads to unequal distribution of economic power and undermines market competitiveness.

Professionals structuring Islamic financial products must balance product efficiency with Shariah compliance and credibility in Islamic financial markets (Al-Gamal, 2006). Al-Gamal argues that Shariah compliance should reflect core Islamic values—justice, risk-sharing, and prohibition of exploitation—rather than being limited to formal contractual manipulations. Modern Islamic finance often modifies conventional products to appear Shariah-compliant without altering their economic essence, which can compromise authenticity and investor trust. He advocates for a profound transformation toward ethics and practice fully aligned with Shariah principles.

A notable advantage of Islamic finance is its integration of the financial sector with the real economy. Conventional debt-driven systems often fail to achieve this connection. In Islamic finance, every financial asset corresponds to a real or potential asset, whereas conventional debt-based financial assets multiply independently of real assets, increasing susceptibility to speculation and instability (Siddiqi, 2006). Thus, Islamic finance offers a more sustainable alternative closely linked to the real economy, reducing systemic and speculative risks, and enhancing resilience to financial crises.

Furthermore, economic thought has long recognized the ethical dimensions of financial activity. Adam Smith, often considered the “father of modern capitalism,” was in fact a professor of moral philosophy emphasizing the ethical foundations of economics (Subbarao, 2009). Economics, according to Smith, is inseparable from morality, serving the common good through justice, empathy, and integrity.

Finally, empirical studies highlight the positive role of Shariah supervisory boards while underscoring the need for effective regulatory and enforcement mechanisms (Mollah & Zaman, 2015). Independent, experienced, and committed Shariah boards enhance the performance of Islamic finance institutions, but their effectiveness depends on clear implementation frameworks and institutional oversight.

Methodology

This study includes a comparative analysis that relies on both quantitative methods (percentage changes, volatility, average growth rates, and inter-market correlations) and a qualitative interpretation of the fundamental principles underlying each financial system.

The table below presents the data on the conventional FTSE 100 index points, the year-over-year percentage changes, the FTSE Shariah-compliant index, and the Gross Domestic Product (GDP) of the United Kingdom with the corresponding changes. The analysis begins with annual data from 2007, which marks the first year of quotation for the FTSE Shariah-compliant index.

TABLE 1: FTSE 100, FTSE Sharia Index and Current GDP in USD

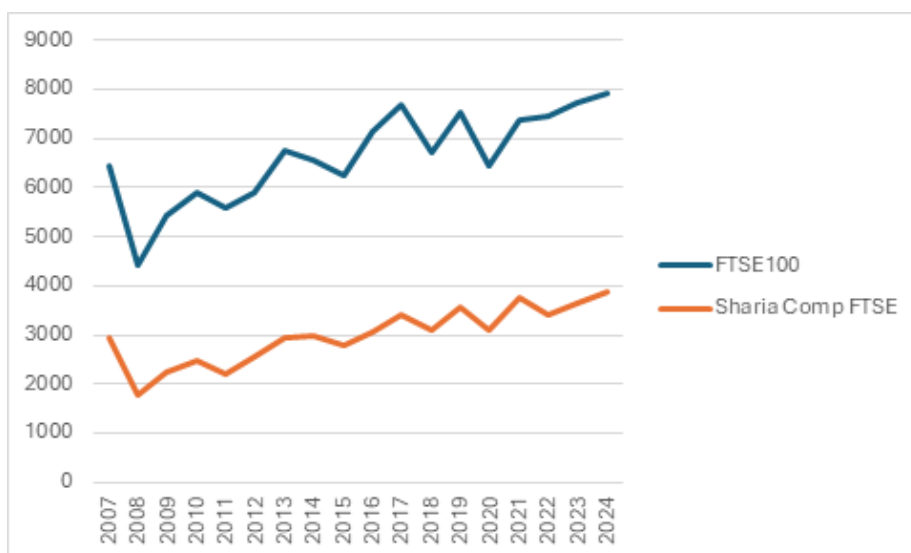
Year	FTSE100	Change%	Sharia Comp FTSE	Change%	Current GDP	Change%
2007	6456	—	2,950	—	3090510204082	—
2008	4434	-31.3	1,780	-39.70%	2929411764706	-5.21%
2009	5413	22.1	2,250	26.40%	2412840006232	-17.63%
2010	5899	9	2,490	10.70%	2485482596185	3.01%
2011	5572	-5.5	2,220	-10.80%	2663805834828	7.17%
2012	5898	5.9	2,560	15.30%	2707089726615	1.62%
2013	6749	14.4	2,940	14.80%	2784853502534	2.87%
2014	6566	-2.7	2,990	1.70%	3064708247921	10.05%
2015	6242	-4.9	2,770	-7.30%	2927911140917	-4.46%
2016	7143	14.4	3,040	9.70%	2689106566900	-8.16%
2017	7688	7.6	3,420	12.50%	2680148052335	-0.33%
2018	6728	-12.5	3,110	-9.10%	2871340347582	7.13%
2019	7542	12.1	3,580	15.10%	2851407164908	-0.69%
2020	6460	-14.3	3,100	-13.40%	2696778386608	-5.42%
2021	7385	14.3	3,760	21.30%	3143323050707	16.56%
2022	7452	0.9	3,390	-9.80%	3114042471144	-0.93%
2023	7733	3.8	3,640	7.40%	3369861888973	8.22%
2024	7920	2.4	3,870	6.30%	3643834188783	8.13%

Source: London Stock Exchange, World Bank Data 2025.

The data presented in the table for the period 2007–2024 provide a clear overview of economic and financial dynamics in the UK and international markets, reflecting the impact of economic cycles on capital markets and Gross Domestic Product (GDP). The FTSE 100 index, representing the largest companies listed on the London Stock Exchange, and the FTSE Shariah-compliant index, including firms adhering to Islamic finance principles, exhibit significant fluctuations throughout the analyzed period closely linked to macroeconomic developments.

In 2008, as a result of the global financial crisis, both indices experienced substantial declines: the FTSE 100 fell by 31.3%, while the Shariah-compliant FTSE dropped by 39.7%. This period also coincided with a significant contraction in GDP, which decreased by 5.21%, reflecting the slowdown in global economic activity. However, in the following year (2009), a partial market recovery was observed – the FTSE 100 rose by 22.1%, and the Shariah-compliant index increased by 26.4% – although GDP remained at low levels due to the delayed effects of the crisis on the real sector.

FIGURE 1: Comparison of the points of the two main indices



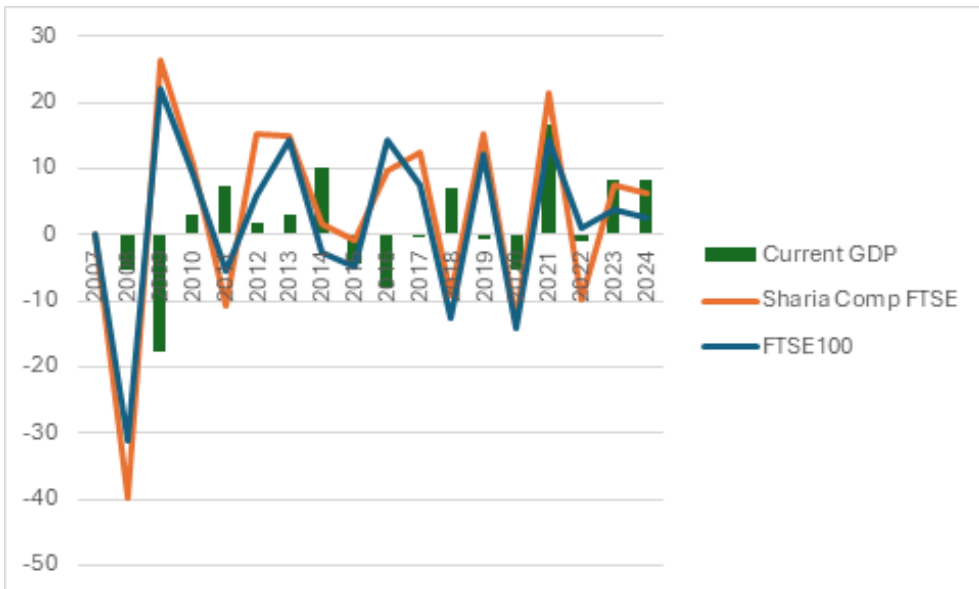
Source: London Stock Exchange

During the period 2010–2014, the data indicate a moderate stabilization of the markets, with varying growth rates. The FTSE Shariah Composite demonstrates higher growth rates compared to the FTSE 100, suggesting greater sensitivity to global growth and to non-financial sectors, which are more represented in this index. At the same time, GDP reflects a gradual recovery, with average positive growth rates around 3–4%, indicating increased consumption and investment following the crisis.

In 2020, the COVID-19 pandemic caused another significant shock to financial markets and the economy. The FTSE 100 declined by 14.3%, while the FTSE Shariah Composite fell by 13.4%, alongside a 5.42% decrease in GDP. This illustrates a moderate positive correlation between financial market movements and real economic performance, a phenomenon well-documented in economic literature linking financial and business cycles.

Following 2020, a strong recovery is observed. In 2021, the FTSE 100 rose by 14.3%, the FTSE Shariah Composite increased by 21.3%, and GDP recorded a 16.56% growth, reflecting the revival of aggregate demand and the impact of fiscal and monetary stimulus measures. During the 2022–2024 period, both markets and GDP maintained a positive trajectory, with more moderate growth, signaling the onset of an economic normalization phase after the pandemic crisis.

FIGURE 2: Index changes relative to current GDP growth



Source: London Stock Exchange, World Bank Data 2025

In conclusion, the data indicate that financial markets and the real economy have generally moved in the same direction, although with varying intensities. The FTSE Shariah Composite has demonstrated greater elasticity during recovery periods, while the FTSE 100 has exhibited higher stability during periods of uncertainty. Meanwhile, GDP has reflected the lagged effects of these developments, confirming the interrelationship between financial market performance and the economic cycle. This analysis supports the conclusion that financial stability is a fundamental prerequisite for long-term sustainable economic growth.

Analysis

The analysis examines the results of a linear regression between the FTSE index and current GDP. In this model, the relationship between the UK stock market index (FTSE, as the dependent variable) and the current Gross Domestic Product (CURRENTGDP, as the independent variable) is analyzed for the period 2007–2024. The method employed is Ordinary Least Squares (OLS), based on a total of 18 observations. The primary objective is to assess whether economic growth positively influences the performance of the UK financial market.

Dependent Variable: FTSE Method: Least Squares Date: 10/27/25 Time: 23:32 Sample: 2007 2024 Included observations: 18				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1841.642	1885.215	0.976887	0.3432
CURRENTGDP	1.65E-09	6.48E-10	2.551572	0.0213
R-squared	0.289221	Mean dependent var		6626.667
Adjusted R-squared	0.244798	S.D. dependent var		941.5610
S.E. of regression	818.2390	Akaike info criterion		16.35663
Sum squared resid	10712240	Schwarz criterion		16.45556
Log likelihood	-145.2096	Hannan-Quinn criter.		16.37027
F-statistic	6.510519	Durbin-Watson stat		1.226047
Prob(F-statistic)	0.021335			

This model examines the relationship between the UK stock market index (FTSE, as the dependent variable) and the current Gross Domestic Product (CURRENTGDP, as the independent variable) for the period 2007–2024. The Ordinary Least Squares (OLS) method was employed, based on a total of 18 observations. The primary objective is to assess whether economic growth positively influences the performance of the UK financial market.

The regression results indicate that the coefficient for CURRENTGDP is 1.65E-09, with a t-statistic of 2.55 and a p-value of 0.0213. Since this p-value is less than 0.05, the result is statistically significant at the 5% level, demonstrating a reliable relationship between GDP and the FTSE index. The positive coefficient suggests that GDP growth is associated with an increase in the FTSE index, in line with economic theory, which posits that economic expansion boosts investor confidence and increases stock market values.

On the other hand, the intercept ($C = 1841.64$) is not statistically significant ($p = 0.34$), indicating that the baseline FTSE level in the absence of GDP does not have practical economic interpretation. This is common in macroeconomic models, where such intercepts mainly serve to define the regression line rather than provide substantive explanation.

The R-squared value of 0.289 indicates that approximately 28.9% of the FTSE index variability is explained by fluctuations in GDP. Although this represents a moderate relationship, it remains meaningful for a model with a single independent variable. This suggests that other factors, such as inflation, interest rates, or market expectations, may also play an important role in determining FTSE movements.

The F-test results (F-statistic = 6.51; $p = 0.0213$) indicate that the model as a whole is statistically significant, confirming that GDP contributes substantially

to explaining FTSE performance. However, the Durbin–Watson statistic (1.22) suggests the potential presence of positive autocorrelation, which is typical in economic time series; therefore, additional testing (e.g., Breusch–Godfrey) is recommended to verify the model’s stability.

In conclusion, the results demonstrate a positive and statistically significant relationship between economic growth and capital market performance in the United Kingdom. The model confirms theoretical expectations regarding the link between economic activity and financial markets, although the explanatory power is moderate. To improve the model, it is recommended to include additional variables such as inflation, interest rates, and unemployment, as well as to consider logarithmic transformations to analyze percentage-based relationships between macroeconomic indicators and the FTSE index.

Dependent Variable: SHARIAFTSE Method: Least Squares Date: 10/27/25 Time: 23:34 Sample: 2007 2024 Included observations: 18				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-386.2251	1066.887	-0.362011	0.7221
CURRENTGDP	1.17E-09	3.66E-10	3.183341	0.0058
R-squared	0.387763	Mean dependent var		2992.222
Adjusted R-squared	0.349498	S.D. dependent var		574.1342
S.E. of regression	463.0605	Akaike info criterion		15.21803
Sum squared resid	3430800.	Schwarz criterion		15.31696
Log likelihood	-134.9623	Hannan-Quinn criter.		15.23167
F-statistic	10.13366	Durbin-Watson stat		1.115872
Prob(F-statistic)	0.005776			

This model aims to examine the impact of Gross Domestic Product (CURRENTGDP) on the performance of the Shariah-compliant FTSE index, which represents UK companies operating according to Islamic finance principles. The analysis was conducted using the Ordinary Least Squares (OLS) method for the period 2007–2024, with a total of 18 annual observations.

The regression results indicate a positive and statistically significant coefficient for CURRENTGDP, with a value of 1.17E-09, a t-statistic of 3.18, and a p-value of 0.0058. This demonstrates a strong and reliable relationship between economic growth and the performance of the Shariah FTSE index. In other words, GDP growth is associated with an increase in the Shariah FTSE index, reflecting that economic development also enhances investor confidence in markets that operate under Islamic finance principles.

Practically, given that GDP is measured in billions of pounds, an increase of £1 billion in GDP is associated with an approximate 1.17-point rise in the Shariah FTSE index. The intercept ($C = -386.22$) is not statistically significant ($p = 0.72$), indicating that a hypothetical zero GDP level does not yield meaningful economic interpretation. This is expected, as intercepts in macroeconomic models generally serve to determine the baseline of the regression line rather than provide substantive explanation. The R-squared value of 0.388 indicates that approximately 38.8% of the variability in the Shariah FTSE index is explained by changes in GDP. This represents a notable improvement compared to the conventional FTSE model ($R^2 = 0.29$), suggesting that the Shariah FTSE index is more sensitive to changes in economic activity. This may be due to its focus on financially stable and productive sectors, which benefit more directly from real economic growth.

Furthermore, the F-statistic of 10.13 ($p = 0.0058$) confirms that the model is statistically significant at the 1% level, validating that GDP has a substantial influence on the Shariah FTSE index. The Durbin–Watson statistic (1.12) indicates potential positive autocorrelation; therefore, it is recommended to check for time-dependent residuals using the Breusch–Godfrey test.

In conclusion, the results support the hypothesis that economic growth positively affects the development of capital markets based on Islamic finance principles. The model is significant both statistically and economically, demonstrating that the Shariah FTSE index consistently follows the growth trends of UK GDP. For a more comprehensive analysis, it is recommended to extend the model with additional macroeconomic variables such as inflation, interest rates, or foreign direct investment, and to use logarithmic transformations to assess relative elasticities between economic indicators and the index.

Dependent Variable: SHARAIIFTSE				
Method: Least Squares				
Date: 10/27/25 Time: 23:35				
Sample: 2007 2024				
Included observations: 18				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-926.8443	248.3572	-3.731900	0.0018
FTSE	0.591408	0.037126	15.92969	0.0000
R-squared	0.940687	Mean dependent var		2992.222
Adjusted R-squared	0.936980	S.D. dependent var		574.1342
S.E. of regression	144.1296	Akaike info criterion		12.88374
Sum squared resid	332373.4	Schwarz criterion		12.98267
Log likelihood	-113.9537	Hannan-Quinn criter.		12.89738
F-statistic	253.7549	Durbin-Watson stat		1.353186
Prob(F-statistic)	0.000000			

This model aims to examine the degree of dependence between the Shariah FTSE index (dependent variable) and the conventional FTSE index (independent variable) over the period 2007–2024, using a total of 18 annual observations. The objective is to assess whether movements in the general UK equity market are similarly reflected in capital markets operating according to Islamic finance principles.

The regression results indicate a very strong and statistically significant relationship between the two indices. The coefficient for the FTSE variable is 0.5914, with a t-statistic of 15.93 and a p-value of 0.0000, demonstrating significance at the 1% level. This implies that a 1-point increase in the conventional FTSE index is, on average, associated with a 0.59-point increase in the Shariah FTSE index. The relationship is positive, stable, and consistent with theoretical expectations, as Shariah-compliant indices operate within the same financial market and generally follow broader market trends.

The constant term ($C = -926.84$) is statistically significant ($p = 0.0018$), indicating that in the absence of movements in the conventional FTSE index, the Shariah FTSE index would be approximately 927 points lower. This reflects the narrower base of the Shariah FTSE, due to structural constraints of Islamic finance that exclude sectors such as interest-based banking, alcohol, and gambling.

The R-squared value of 0.9407 indicates that 94.1% of the variability in the Shariah FTSE index is explained by fluctuations in the conventional FTSE index, an exceptionally high result demonstrating a very strong correlation between the two markets. The Adjusted R-squared value of 0.937 further confirms the model's excellent explanatory power.

The F-test results ($F\text{-statistic} = 253.75$; $\text{Prob}(F) = 0.0000$) reinforce the overall significance of the model, highlighting the strong and consistent influence of the independent variable on the dependent variable. The Durbin–Watson statistic (1.35) is slightly below 2, suggesting a mild tendency toward positive autocorrelation, but not at levels that would raise major concerns.

In conclusion, the model shows that the Shariah FTSE index moves almost in parallel with the conventional FTSE index, reflecting that Islamic markets in the UK are closely integrated with the broader financial market. Despite structural limitations in the composition of the Shariah index, its performance is largely influenced by general economic factors and the investment climate. These findings underscore that Islamic finance is not isolated from conventional market dynamics, but follows broader trends with moderate sensitivity (elasticity of 0.59), indicating a stable yet conservative participation in overall capital market developments.

Summary of the Analysis

The aim of the empirical analysis is to examine the relationships between economic development and financial market performance, including both the general equity market (FTSE) and the Shariah-compliant capital market (Shariah FTSE). Three regression models were tested for the period 2007–2024, providing a clear overview of the linear relationships between the key variables.

The first model ($\text{FTSE} \sim \text{GDP}$) shows a positive and statistically significant relationship between economic growth and the FTSE index. The GDP coefficient is $1.65\text{E-}09$ with a p-value of 0.0213, confirming that economic expansion positively influences stock market values. However, $R\text{-squared} = 0.289$ indicates that only about 29% of FTSE fluctuations are explained by GDP, suggesting that other factors such as interest rates, inflation, investor expectations, and international developments also affect the market. The relatively low Durbin–Watson statistic (1.22) signals potential positive autocorrelation, typical in time series data. Overall, the model confirms the existence of a positive but moderate link between economic activity and the UK stock market.

The second model ($\text{Shariah FTSE} \sim \text{GDP}$) demonstrates an even stronger relationship between GDP and the Islamic index. The GDP coefficient ($1.17\text{E-}09$) is positive and highly significant (p-value = 0.0058), while $R\text{-squared} = 0.388$, meaning that approximately 39% of the Shariah FTSE variability is explained by GDP. Compared to the first model, this indicates that the Shariah FTSE is more sensitive to economic developments, likely due to its structure being oriented toward productive and real sectors that benefit directly from GDP growth. The high F-statistic (10.13) and low probability (0.0058) confirm the overall significance of the model, suggesting that Islamic markets, though specialized, remain integrated with real economic trends.

The third model ($\text{Shariah FTSE} \sim \text{FTSE}$) provides the strongest and most robust results. The FTSE coefficient is 0.5914, with a t-statistic of 15.93 and p-value = 0.0000, demonstrating a very strong, positive, and statistically stable relationship between the two markets. $R\text{-squared} = 0.941$ indicates that over 94% of the Shariah FTSE variance is explained by changes in the conventional FTSE, showing an almost perfect correlation. This implies that the Shariah index closely follows general market movements, reflecting that, despite its ethical and religious foundations, it operates within the same dynamics as the conventional capital market. The negative intercept (-926.84) shows that, in the absence of FTSE movements, the Shariah index baseline would be lower, reflecting the sectoral limitations inherent to Islamic finance.

In conclusion, the comparison of the three models shows that:

- GDP positively influences both FTSE and Shariah FTSE, but more strongly the latter;
- Shariah FTSE is highly correlated with FTSE, sharing almost identical market trends.

These results indicate that markets operating under Islamic principles are not isolated but are integrated into the broader UK economy, reflecting overall economic development and investment climate. Empirical findings support the hypothesis that economic growth and financial market dynamics are key factors shaping the performance of Islamic markets, which, while maintaining their ethical characteristics, operate in harmony with conventional financial system trends.

Conclusions

This study examines the relationship between economic development and financial market performance in the United Kingdom for the period 2007–2024, comparing the conventional FTSE index with the Shariah-compliant FTSE index. Empirical results show a positive relationship between GDP and both indices, although the intensity of this link varies.

The first model demonstrates that GDP moderately affects the FTSE index ($R^2 = 0.289$), while the second model confirms a stronger relationship with the Shariah FTSE ($R^2 = 0.388$), due to its orientation toward real economic sectors. The third model reveals a very high correlation between FTSE and Shariah FTSE ($R^2 = 0.941$), indicating a deep integration between conventional and Islamic financial markets. These findings suggest that Islamic markets, while based on ethical principles, largely mirror the dynamics of traditional markets, becoming an integral part of the global financial system. The first hypothesis is confirmed: the Shariah FTSE index is more closely linked to the UK GDP over the analyzed period (2007–2024). The second hypothesis is rejected: the Shariah FTSE exhibits higher volatility than the conventional FTSE100, reacting more sensitively to economic changes. This higher level of instability reflects its narrower sectoral composition and orientation toward the real economy, which lacks the cushioning effect of conventional financial sectors.

In essence, a strong connection with the real economy does not necessarily imply lower risk. The Shariah FTSE's higher responsiveness to economic shifts highlights the trade-off between ethical alignment, exposure to real sectors, and market volatility.

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