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## THE INFLUENCE OF FISCAL CAPACITY, IHDI AND UMP ON ECONOMIC GROWTH IN JAVA ISLAND IN THE PERSPECTIVE OF ISLAMIC ECONOMICS

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**ABSTRACT**

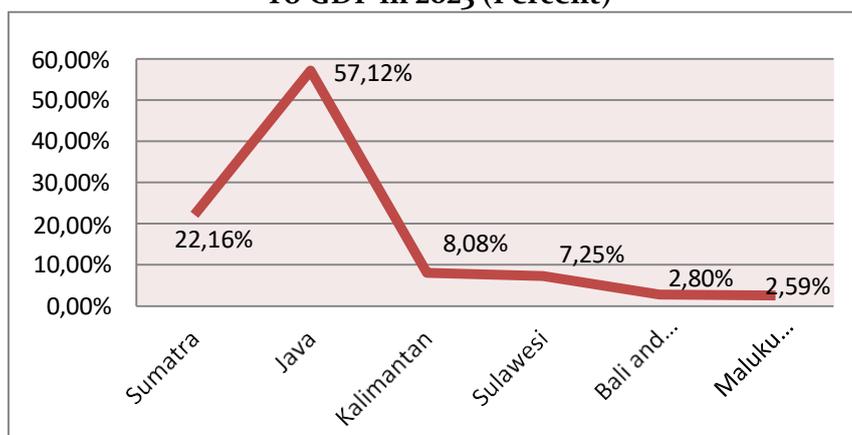
This study aims to analyze the effect of IHDI Fiscal capacity, and UMP on economic growth. The approach used is quantitative method with VECM analysis technique. The object of research includes six provinces in Java during the period 2008-2023, with saturated sampling method in data selection. The results show that fiscal capacity and UMP have a positive and significant influence on economic growth, both in the short and long term. Meanwhile, the IHDI did not show a significant effect on economic growth in the analyzed period. these results, it is hoped that this study can contribute to various parties. For regulators in the six provinces sampled, these findings can be used as one of the references in the formulation of economic policies. For academics, this research can enrich insights in regional economic studies. For the general public, the results of this study can increase understanding and economic literacy related to factors that affect economic growth in Java.

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## A. INTRODUCTION

The economy of a region can be said to be successful if its people are able to feel prosperous as a positive result of economic activity (Jhingan, 2012). Economic growth is a quantitative measure that describes economic development over time (Normasyhuri, Habibi, and Anggraeni 2021). Economic growth is measured based on Gross Regional Domestic Product (GRDP) at constant prices produced by a region each year. GRDP at the provincial level is the result of the accumulation of GRDP generated by all districts / cities in the region each year. (Syaputra, Syafri, and Nurhayati 2024) Increased economic growth in a region reflects that the region's economy is progressing well. Conversely, if the economy of a region does not develop optimally, this can trigger various social and economic problems. Indonesia as a developing country has a big challenge in optimizing economic growth, especially in regions that play an important role in the national economy. Java is the economic and political center of Indonesia and accounts for more than half of the national Gross Domestic Product (GDP), so economic conditions in Java have a significant impact on national economic stability and development.

**Chart 1**  
**GRDP contribution of six islands in Indonesia**  
**To GDP in 2023 (Percent)**



Source: Central Bureau of Statistics (BPS)

Based on the graph above, it can be seen that Java Island in 2023 is the island with the highest GRDP in Indonesia at 57.12%, followed by Sumatra Island with GRDP of 22.16% and Maluku & Papua Island with the lowest GRDP contribution of 2.59%.

During the period 2008-2023, economic growth rates in the six provinces of Java fluctuated. 2020 was the lowest point due to the impact of the COVID-19 pandemic, which caused a significant decline in the region's economy. However, after experiencing a contraction in that year, the six provinces began to show recovery with an increase in economic growth. In 2023, the Special Region of Yogyakarta recorded the highest economic growth in Java at 5.07%, followed by West Java and Central Java which recorded growth of 5.00% and 4.98% respectively. Meanwhile, East Java has an economic growth rate of 4.95% which makes East Java the province with the lowest GRDP on the island of Java.

In an Islamic perspective, economic growth is understood as a continuous process in the development of factors of production aimed at improving human welfare. Therefore, Islam views economic growth as something that has deep value and meaning. However, increased production cannot be categorized as economic growth in

accordance with Islamic principles if it includes goods or services that have a negative impact or endanger human life. concept of economic growth in Islam does not simply focus on increasing the output of goods and services, but also emphasizes the importance of moral aspects, good morals, and a balance between the interests of the world and the hereafter. This principle is in line with the values described in the Qur'an, one of which is in QS. Al-A'raf verse 96, which describes how economic blessings can be achieved through faith and piety to Allah.

وَلَوْ أَنَّ أَهْلَ الْقُرَىٰ آمَنُوا وَاتَّقَوْا لَفَتَحْنَا عَلَيْهِم بَرَكَاتٍ مِّنَ السَّمَاءِ وَالْأَرْضِ وَلَٰكِن كَذَّبُوا فَأَخَذْنَاهُم بِمَا كَانُوا يَكْسِبُونَ  
"If the people of the lands had believed and feared, We would have opened to them blessings from the heavens and the earth, but they denied (the messengers and Our verses). So, We tormented them for what they had always done." (QS. Al-A'raf [7]: 96

Based on the above verse, the main aspect that brings prosperity is devotion and submission to Allah SWT. If a community upholds the principles of faith and devotion, Allah promises them abundant sustenance and economic progress, whereas disobedience and disbelief will lead to disaster.

One of the indicators used in calculating the economic growth rate of a region is fiscal capacity. The fiscal capacity of a region is its financial capacity. The higher the fiscal capacity, the greater the budget that can be allocated to support development, provided that budget management is carried out wisely and in accordance with priority needs. Differences in financial potential between regions often create financial disparities that lead to development inequality between regions. Based on the regulation of the minister of finance No 120/PMK.07/2008-2023. It shows that the fiscal capacity in the six provinces in Java Island in 2023 is categorized as having high fiscal capacity, DKI Jakarta being the province with the highest fiscal capacity index compared to other provinces. In an effort to increase regional independence, local governments need to actively explore and optimize sources of original revenue. In order to increase local own-source revenue (PAD), it is necessary to evaluate and analyze the potential sources of PAD so that the revenue can be managed sustainably without disturbing the allocation of available factors of production. (Umasangadji, Soamole, and Samiun 2022) .

An increase in local own-source revenue (PAD) reflects the ability of a region to manage finances independently, especially in carrying out public service functions and supporting sustainable development. One of the efforts that the government can make to improve community welfare is through strategic planning in developing the quality of human resources. To assess the level of community welfare, an indicator known as the Human Development Index (HDI) is used. Since 1990, the United Nations (UN) has introduced the Human Development Index (HDI) and periodically publishes it in the Human Development Report (HDR). HDI serves as the main measure in evaluating the success of development of a region and can be used to determine the level or classification of development in various regions. (Yanti, Reski Wahyu 2022)

Based on data from BPS, the province with the highest Human Development Index in Java is DKI Jakarta, which reached a value of 82.46. Meanwhile, East Java recorded the lowest HDI with 73.38. This difference reflects the development gap between regions in Java Island, which is influenced by disparities in access to infrastructure between urban and rural areas. HDI itself consists of three main components, namely the health

dimension measured through life expectancy, the education dimension which includes average years of schooling and expected years of schooling, and the economic welfare dimension represented by per capita expenditure. Overall, each aspect of the HDI has improved in quality, but still shows inequality in development. Therefore, HDI is often used as an indicator in assessing the economic development gap in Indonesia, with the main focus on the level of health, education, and decent living standards.

The Human Development Index (HDI) measurement method developed by UNDP as a tool to assess the welfare of a country still focuses on material and social aspects alone. This approach is considered not to fully reflect the concept of welfare in Islamic

economics. One of the main weaknesses in the measurement is the absence of religiosity as an important indicator in assessing the quality of human development. This shortcoming prompted the birth of a new concept that is more in line with Islamic principles in assessing the welfare of society, namely the *Islamic Human Development Index* (IHDI). This index is designed to include spiritual and religious dimensions in measuring welfare, thus providing a more holistic picture that is in line with Islamic teachings. (R. M. Putri and Karjadi 2021)

The I-HDI includes aspects based on maqashid sharia, which describes the components that support the welfare of the people or the common good. To achieve *falah*, which is happiness in this world and the hereafter, humans must be able to fulfill their basic needs. According to Al-Syatibi, there are five main aspects that form the basis of the welfare of life, namely protecting religion (*ad-dien*), protecting the soul (*an-nafs*), maintaining the mind (*al-'aql*), protecting offspring (*an-nasl*), and managing property (*al-maal*). These five aspects are fundamental elements in human life. If one of them is not fulfilled properly or there is an imbalance in its fulfillment, then true happiness will not be achieved perfectly. (Auda 2008) .

In addition to Fiscal Capacity, IHDI, UMP is also a factor that affects economic growth. In setting the minimum wage, the government considers various factors, such as the need for a decent living (KHL), the ability for growth and business sustainability, labor market conditions, the consumer price index, comparison of minimum wages between regions, economic growth, and regional per capita income.

Based on these considerations, the government conducts a review every year before setting the minimum wage in each region. If these aspects are not considered, it can have a negative impact on the regional economy hamper growth, and potentially lead to economic inequality. According to data from the Central Bureau of Statistics, the Provincial Minimum Wage (UMP) in Java Island continues to increase every year. DKI Jakarta was recorded as the province with the highest UMP in 2023, which amounted to Rp. 4,901,798, while Central Java became the province with the lowest UMP, which was Rp. 1,958,169. This minimum wage increase does not occur suddenly, but through a process involving the Wage Council formed by the governor in each province. In determining the amount of UMP, several main factors are taken into consideration, such as the level of labor productivity, the standard of Decent Living Needs (KHL), and economic growth in the region. (Prasetyo and Permatasari 2021) . So that the minimum wage set can meet the living needs of workers. Determining wages in accordance with economic conditions and workers' needs is very important so that people's purchasing power is maintained and supports regional economic stability. If the wage policy does not pay attention to these factors, it can potentially hamper economic growth and cause inequality in development in a region. (Nurkhaerani 2024)

Based on research by Nazikha and Rahmawati (2021), in this study fiscal capacity on economic growth has a positive influence. This means that the higher the fiscal capacity, the greater the level of economic growth. (Resi Salma Nazikha & Rahmawati, 2021) not only capacity affects economic growth, the Islamic Human development index also has an effect. in research by Desmawan and asko (2022) it is explained that the human development index variable population has a significant positive effect on economic growth in banten province (Desmawan, Putri Naura Amalia Asko 2023)

.However, this research is not in accordance with the research of Ainul mustain, et al (2023) which states that the Human development index has no effect on economic growth, because the human development that has been carried out is apparently unable to encourage economic growth in the luwu raya district. (Ainul mustain I ketut Patra & Riang maming, 2023)

In addition to the variables of fiscal capacity and IHDI, another variable that affects economic growth is the Provincial Minimum Wage according to research conducted by Putri et al. (2023) states that the Provincial Minimum Wage has a significant influence on economic growth (N. A. Putri et al. 2023) wage increases that will have a positive impact on employment opportunities and also have an impact on economic growth. Based on this background, it can be concluded that the optimal fiscal capacity of IHDI and UMP is expected to increase income and become a driving factor for economic growth in Java. Therefore, it is necessary to analyze the effect of each of these factors on the economic growth of Java Island and how the problem is seen from the point of view of Islamic economics.

## **B. RESEARCH METHODS**

This research uses a quantitative approach, which tests hypotheses with numerical data and statistical analysis (Muhammad 2019). The research population includes all report data on fiscal capacity, Islamic Human Development Index (IHDI), Provincial Minimum Wage (UMP), and economic growth in six provinces in Java during the period 2008-2023. The sample in this study was determined through non-probability sampling technique with saturated sampling method, where all members of the population were used as samples. The data used is secondary data, namely Secondary data is information that has been collected and distributed by various official institutions in a format that can be used (Muhammad 2019). The main data sources come from the official websites of the Central Statistics Agency (BPS), the Ministry of Finance, and the United Nations Development Program (UNDP). To analyze the relationship between variables in this study, the Vector Error Correction Model (VECM) method was used. This technique allows the analysis of long-run and short- run relationships between independent and dependent variables in time series data (Prawoto 2017).

## **C. RESULTS AND DISCUSSION**

### **Data Stationarity Test**

In this study, the Augmented Dickey Fuller (ADF) method was used to carry out the Stationarity Test (Unit Root Test) (Prawoto, 2017). It is considered stationary at that level of significance if the probability value (P-Value) is less than 0.05.

**Table 4 ADF Test Results Using the First Difference Level**

Variables	ADF- Statistic	Prob	Description
Economic Growth	-4.95404	0.0109	Stationary
Fiscal Capacity	-2.53841	0.0056	Stationary
IHDI	5.01723	0.0000	Stationary
UMP	-4.29279	0.0000	Stationary

Source: data processing results (2025) with Eviews 10

The table above shows that all research variables are stationary at the first difference level.

### Optimum Lag Length Test Results

**Table 5 Optimum Lag Length Test Results**

Lag	LogL	LR	PFE	AIC	SC	HQ
0	-107.581	NA	0.000261	3.099486	3.225968	3.149839
1	-84.8303	42.34241	0.000216*	2.911955*	3.544362*	3.163718*
2	-71.3476	23.59480	0.000233	2.981878	4.120211	3.435052
3	-53.1803	29.77421*	0.000222	2.921675	4.565934	3.576260

Source: data processing results (2025) with Eviews 10

Referring to Table 5, it can be noted that the lag with the highest number of asterisks (\*) indicates the optimum lag. In this test, the lag with the highest number of asterisks is lag 1.

### Stability Test Results

To confirm whether the VAR model is normal by calculating the roots of the polynomial function, if the absolute value is less than 1, the VAR model is said to be normal.

**Table 6 VAR Stability Test**

Root	Modulus
-0.525749	0.525749
-0.330835 - 0.173680i	0.373653
-0.330835 + 0.173680i	0.373653
-0.162949	0.162949

Source: data processing results (2025) with Eviews 10

Based on Table 6, the modulus value for the VAR model lies between 0.162949 to 0.525749. This result shows that the VAR model is stable at each lag length used.

### Cointegration Test Results

**Table 7 Cointegration Test Results**

Hypothesized o. of CE(s)	Eigenvalue	Trace Statistic	0,05 Critical Value	Prob.
None*	0.725543	263.4166	47.85613	0.0001
At most 1*	0.589877	162.5656	29.79707	0.0001
At most 2*	0.543344	93.04443	15.49471	0.0000

At most 3\*                      0.335721                      31.90612                      3.841466                      0.0000

Source: data processing results (2025) with Eviews 10

Based on the table presented, there is cointegration, characterized by a trace statistic that is greater than the critical value of 5%. Therefore, the model used is VECM.

### Causality Test Results

Engel-Granger causality test, which aims to see whether there is a reciprocal relationship between two variables and whether there is a significant causal relationship between these variables.

**Table 8**  
**Causality Test Results**

	Null Hypothesis	Obs	F-Statistic	Prob.	Relationship Direction
1	Capacity Does Not Granger Cause Growth	84	3.53706	0.0338	Significant
	Growth Does Not Granger Cause Capacity	84	0.70956	0.4950	No Significant
2	IHDI Does Not Granger Cause Growth	84	0.29549	0.7450	No Significant
	Growth Does Not Granger Cause Ihdi	84	1.22066	0.3005	No Significant
3	Ump Does Not Granger Cause Growth	84	0.05786	0.0438	Significant
	Growth Does Not Granger Cause Ump	84	0.13319	0.8755	No Significant

Source: data processing results (2025) with eviws 10

### VECM Model Estimation

Vector Error Correction Model (VECM) is an econometric analysis model that aims to determine whether there is a short-term and long-term relationship between variables, the steps that need to be taken are by comparing the t-statistic value with the t-Table, where if the t-statistic value is greater than the t-Table value, there is an influence between variables.

**Table 8**  
**Short-term VECM estimation results**

Variables	Coefficient	T-statistic	T-Table	Description	R-square
D(Economic growth)	1.099956	4.77420	1.9860	significant	(0,780132)
D(Fiscal Capacity)	0.222306	4.69063	1.9860	significant	
D(IHDI)	0.803734	1.86993	1.9860	insignificant	
D (UMP)	0.531197	2.64772	1.9860	significant	

Source: data processing results (2025) with Eviews 10

Based on the results in table 8, it shows that the overall t-statistic value is greater than the t-table value on the fiscal capacity variable and UMP has a significant effect on the economic growth variable in the short term, while the IHDI variable has no effect on the economic growth variable because the t-statistic value is smaller than the t-table value, namely  $1.86993 < 1.9860$ .

**Table 9 Long-run VECM estimation results**

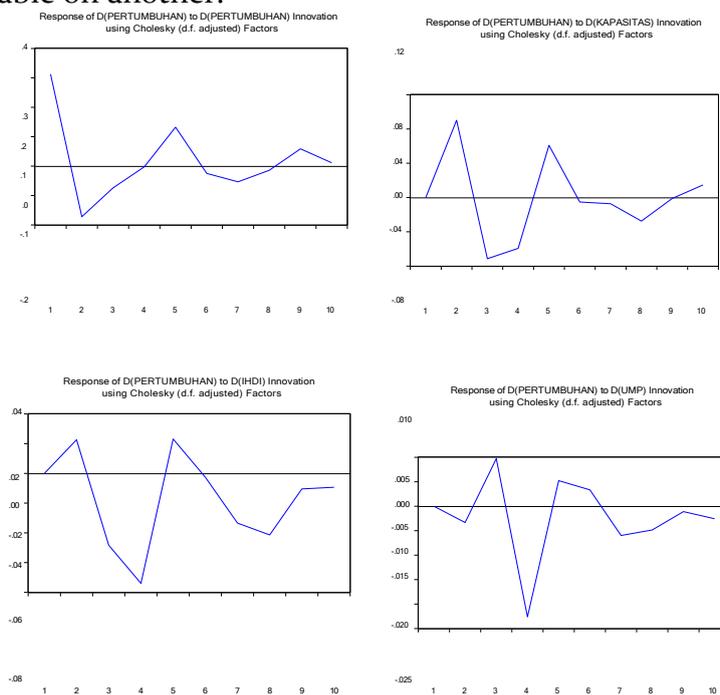
Variables	Coefficient	T Statistic	T Count	Description
Fiscal Capacity	0.92081	2.93328	1.98	significant
IHDI	0.23151	0.80147	1.98	Not Significant
UMP	5.13839	3.24986	1.98	Significant

Source: data processed by researchers (2025) with Eviews 10

Based on Table 9, in the long run, the fiscal capacity variable has a positive and significant effect on economic growth, indicated by a t-statistic value greater than the t-table ( $2.93328 > 1.9860$ ). Meanwhile, the IHDI variable has no impact on economic growth because the t-statistic value is smaller than the t-table ( $0.80147 < 1.9860$ ). The UMP variable affects economic growth, as evidenced by the t-statistic value that exceeds the t-table ( $3.24986 > 1.9860$ ).

### Impulse Response Function (IRF) Results

Impulse-Response Function (IRF) analysis is used to explain the impact of shocks that occur in one variable on another.



**Figure 1**  
**Growth Response**  
**on Fiscal Capacity IHDI and**

The figure above shows that the response of economic growth variables to shocks to economic growth variables, *the Islamic Human Development Index* and the Provincial Minimum Wage in the initial period to period 10 experienced a fairly volatile response due to the influence of economic growth variables, the Islamic Human Development Index and the Provincial Minimum Wage.

**Forecast Error Variance Decomposition (FEVD) Result**

*Forecast Error Variance Decomposition (FEVD)* aims to measure the contribution of the influence of exogenous variables on endogenous variables. The period used to measure this FEVD is 10 periods.

**Table 10**  
**Variance Decomposition (VD)- Economic Growth**

period	SE	Response Of (Economic Growth)			
		Economic growth	Fiscal Capacity	IHDI	UMP
1	0.312377	100.0000	0.000000	0.000000	0.000000
2	0.368678	93.62746	5.987924	0.376427	0.008190
3	0.385942	88.13587	8.882915	1.910506	1.070763
4	0.398079	80.78773	10.57277	5.250329	3.389262
5	0.424613	78.38153	11.34937	4.911901	5.357198
6	0.425399	77.41782	11.32284	4.897332	6.362033
7	0.430139	77.12872	11.10340	5.394489	6.373431
8	0.433265	76.05074	11.34752	6.228309	6.380634
9	0.437346	75.3190	11.13738	6.169494	7.374209
10	0.437843	74.19803	11.22442	6.200751	8.376800

Source: data processing results (2025) with Eviews 10

Sourced from the results of the *VD* test, the Economic growth variable makes the largest contribution to itself, especially in the early period, with a figure of 100,000. after that it shrinks over time to reach 74,198 in period 10. This shows that fluctuations in economic growth are largely influenced by its own internal dynamics. Then the contribution of fiscal capacity to the variance of economic growth is relatively small, starting from 0.000 in period 1 and increasing slowly to 11,224 in period 10. The effect is not dominant compared to the economic growth variable. Furthermore, the effect of IHDI on the variance of economic growth is also relatively small, compared to fiscal capacity. IHDI began to contribute 1.910 in period 3 and reached 6.2007 in period 10. The UMP variable has an increasing contribution to the variance of Economic growth from 0.000 in period 1 to 8.376 in period 10. These results indicate that economic growth is mainly influenced by itself, with the largest contribution throughout the period. However, among the other dependent variables, fiscal capacity has a greater influence on the variance of economic growth than IHDI and UMP.

**The Effect of Fiscal Capacity on Economic Growth**

Based on the results of the long-term VECM estimation, the t-statistic is  $2.93328 > 1.9860$ . This shows that partially, fiscal capacity has a positive and significant effect on economic growth. so  $H_1$  is accepted. Meanwhile, the short-term VECM estimation results

show that the fiscal capacity variable has a significant effect on economic growth with a t-statistic of  $4.69063 > 1.98$ . This indicates that fiscal capacity partially has a positive and significant effect on economic growth. This means that an increase in fiscal capacity across Java Island will result in greater economic growth due to its positive effect. In other words, greater fiscal capacity is positively correlated with achievable economic growth.

This result is consistent with the fact that Java Island is the center of national economic activity, with the largest contribution to Indonesia's GDP, supported by the industry, trade, and services sectors. The high population density creates great potential for tax and levy collection, while the presence of advanced infrastructure improves connectivity and investment attractiveness. In addition, the presence of strategic industrial areas, such as Bekasi and Karawang, as well as major cities such as Jakarta, Surabaya, and Bandung, contribute significantly to local revenue. Local governments have also demonstrated better financial management capabilities, enabling budget allocations for infrastructure investment, education, and public services. These factors directly contribute to economic growth by creating jobs, increasing productivity, and encouraging new trade and investment, making Java the epicenter of national economic growth. The results of this study are in accordance with the endogenous economic growth theory, which states that internal factors such as investment in research and development, improving education standards and human resources, technological advances and public policy. Fiscal capacity is one of the public policies with the calculation of fiscal capacity is very helpful in determining which regions should receive grants, how much funds should be allocated, and for other purposes. This will certainly have an impact on the economic progress of a region. Local governments increase the allocation of PAD and capital expenditure to increase economic growth and community welfare by using regional resources and capabilities for regional development purposes. This research is in accordance with the research of Salma et al. That fiscal capacity has an influence on economic growth. (Salma Nazikha and Rahmawati 2021) strong fiscal capacity allows the government to fund projects that can attract private investment and improve public welfare which encourages economic growth.

### **The Effect of IHDI on Economic Growth**

Based on the results of the long-term VECM estimation, the t-statistic  $0.80147 < 1.98$ , then  $H_2$  is rejected. This means that partially IHDI has no significant effect on economic growth. And the short-term VECM estimation results show that the IHDI variable has an insignificant effect on economic growth with a t-statistic value of  $1.86993 < 1.98$ .

The estimation results of this study are not in line with the theory and hypothesis, where the *Islamic Human Development Index* (IHDI) is created from several macroeconomic-social indicators, where economic indicators are only part of other indicators in the formation of the IHDI. While economic growth is an indicator in seeing and measuring the economic development of a country or region, which in fact is measured using economic indicators that do not cover comprehensively. So that IHDI is not able to have a positive impact on economic growth, this is because IHDI is a composite index consisting of 5 maintenance indices in Maqashid Syariah theory, where each index is formed from socio-economic variables related to human development in a holistic and comprehensive manner. While economic growth is one of the indicators in measuring the success of development only from the economic side, one of the factors

included in the IHDI indicator is the crime rate which reflects religious guarding and on the island of Java the crime rate is still high which reflects social insecurity, reducing the quality of life of the community and hampering productivity and economic activity.

The results of this research are in line with the research of Ainul Mustain et al. (2023) which states that the *Islamic Human Development Index* (IHDI) does not affect Economic Growth. This study shows that the Human Development Index cannot be a driver of the rate of economic growth in Luwu Raya. (Mustain, Patra, and Maming 2023) A high IHDI value will have a positive impact on the economic growth of the region in general. Conversely, a low IHDI value indicates that the region has not carried out comprehensive and comprehensive development, especially in the aspect of religiosity. The religiosity aspect in one of the important indicators in the formation of the IHDI provides the most fundamental difference in relation to the success of comprehensive development in a region or country. Measurement of human development in a more holistic Islamic perspective includes all dimensions of human needs based on maqashid sharia which is more comprehensive about the pattern of development to be implemented, especially regions/areas with the largest Muslim population.

### **The Effect of Provincial Minimum Wage (UMP) on Economic Growth**

Based on the estimation results using VECM, the long-term analysis shows that the t-statistic value of 3.24986 exceeds the t-table (1.98), so it can be concluded that the Provincial Minimum Wage (UMP) has a significant influence on economic growth. In the short-term estimation, the t-statistic value of 2.64772 is obtained, which is also greater than the t-table (1.98). This indicates that the UMP continues to have a significant impact on economic growth in Java over a shorter period of time.

The findings of this study are in line with the concept of the *Efficiency-Wage* Theory, which suggests that an increase in wages can increase labor productivity. Higher wages also boost people's purchasing power, which in turn increases household consumption. This increase in consumption contributes to an increase in aggregate demand, which in turn can accelerate economic growth. This research is also in line with research conducted by Putri (2021) The results showed that the Provincial Minimum Wage variable had a significant and positive effect on the level of economic growth in Aceh Province. This can be explained that as the minimum wage increases, economic growth is also likely to increase (N. A. Putri et al. 2023) . Java Island is the center of the Indonesian economy and contributes the largest contribution to the national gross domestic product (GDP), with a high concentration of industry, trade, and services. In addition, high population density leads to a higher cost of living and social and economic pressures from urban communities cause the government to set higher UMPs. All these factors cause the minimum wage in Java to be higher than in other provinces, and the minimum wage in Java continues to increase. An increase in the minimum wage increases people's purchasing power, thus encouraging household consumption as the main driver of economic growth.

### **Islamic Perspective on Fiscal Capacity, Islamic Human Development Index and Provincial Minimum Wage on Economic Growth**

In Islam, economic growth is understood as a process of increasing production capacity that takes place on an ongoing basis and is managed in accordance with the right principles, so as to provide benefits for the welfare of mankind. Therefore, economic growth in Islam is not only oriented towards material aspects, but also contains strong

ethical and moral values. Increased production cannot be categorized as economic growth if it contains elements that are detrimental or have a negative impact on human life. In an Islamic perspective, economic growth is not only measured by quantitative figures, but must also be aligned with the balance between the needs of the world and the happiness of the hereafter. As mentioned in Surah Al- Qashash verse 77, humans are encouraged to "seek the happiness of the hereafter by utilizing the sustenance given by Allah, without forgetting part of the life of the world." This confirms that the ideal economic growth is one that provides broad benefits to society, without neglecting spiritual values and social welfare.

One of the factors that can encourage economic growth is fiscal capacity. In Islam, the role of the state has a great responsibility in ensuring the welfare and fulfillment of the needs of its people (Siswajanthi 2024) To achieve these goals, the state must manage and distribute income fairly and proportionally, while optimizing sources of income in accordance with sharia principles. The management and allocation of state revenues is known as fiscal policy. In the capitalist economic system, fiscal policy focuses on managing state revenues and expenditures in order to achieve certain financial targets. In other words, the government sets goals in the preparation of the State Budget (APBN) as a guideline in the management of state finances (tri setiyadi 2022) In contrast to the concept of APBN in the conventional system, Islam has a financial system that is realized in an institution called *Baitul Mal*. This institution plays a role in regulating state revenues and expenditures in accordance with sharia principles and has a function similar to the state budget, although the term is different in the concept of Islamic economics (M. Nur Arham, 2024) government revenue is the main source in financing all government activities in which related policies in realizing human development. Human Development has a central role in Islamic economics. The basic principles of Islamic law emphasize the importance of human resource development. Investment in education and skills development is a form of worship and fulfills the objectives of Islamic law (*maqasid al-syariah*) in maintaining religion (*ad-dien*), soul (*an nafs*) reason (*hifz al-aql*) offspring (*hifz an-nasl*) and wealth (*al- maal*). Human resource development based on Islamic values is expected to increase productivity, innovation and high work ethic, all of which contribute to sustainable and equitable economic growth.

In the perspective of Islamic economics, the determination of workers' wages is based on the principles of justice and the fulfillment of decent needs. The concept of justice in this system emphasizes the importance of transparency in the contract (agreement) and an agreement based on the willingness of both parties. This is in line with Allah's words in QS. Asy-Syu'ara (26:183), which emphasizes the prohibition of harming the rights of others and taking actions that cause damage on earth. The verse contains a moral message that each individual should not reduce the rights of others, including in terms of wages. In this context, the wages given to workers must be in accordance with the applicable standards and should not be far below the amount that should be received, so that the welfare of workers is maintained and no exploitation occurs. (Ghofur) 2020)

#### **D. CONCLUSION**

Economic growth is a quantitative indicator that reflects the development of an economy in a certain period of time compared to the previous period. One factor that plays a role in economic growth is fiscal capacity, which is the ability of a region to finance its various expenditure needs. The results showed that fiscal capacity has a positive and

significant effect on economic growth, both in the short and long term. This is evidenced by the t-statistic value which is greater than the t-table value, namely  $2.93328 > 1.9860$ . With the increased fiscal capacity of a region, it will reflect the ability of good financial management that will encourage the implementation of public service tasks and help increase economic development.

Furthermore, IHDI is a measure that describes human development in an Islamic perspective, based on the principles of Maqashid Sharia. Based on the research results, IHDI has a positive but insignificant relationship with economic growth, both in the short and long term. The insignificance of the effect is due to the nature of IHDI as a composite index that includes five main aspects of maintenance in Maqashid Syariah theory. Each of these aspects is composed of various socio-economic indicators that reflect broad and comprehensive human development. Meanwhile, economic growth itself focuses more on achievements from the economic side alone, so the existence of IHDI does not directly affect the increase in economic growth significantly. In addition to fiscal capacity and IHDI, another factor that plays a role in economic growth is the Provincial Minimum Wage. Based on the research conducted, UMP in the short and long term shows a positive and significant effect on economic growth. When workers receive decent and standard wages, their motivation and productivity increase. This increase in productivity boosts work efficiency and encourages more dynamic economic activity, thus contributing to overall economic growth.

## **E. ADVICE**

Based on the results of the analysis and conclusions previously described, there are several recommendations that can be given related to the findings of this study, namely as follows:

1. The government is expected to allocate regional financial budgets effectively and in accordance with the specific needs of each region in Java to encourage more optimal economic growth.
2. The government is expected to continue to ensure an increase in the Provincial Minimum Wage (UMP) every year so that people's purchasing power increases, which in turn will contribute to economic growth in Java.
3. For future researchers, it is recommended to examine other factors beyond the variables used in this study in order to obtain a more comprehensive understanding of the factors that influence economic growth in Java. The results of such research can serve as a basis for the government in formulating more appropriate policies. In addition, it is recommended to consider more diverse research methods and extend the research period to produce more accurate and in-depth findings.

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