JIEBR | Journal of Islamic Economics & Business Review
E-ISSN xxx-xxxx
Vol. II No. 2 Oktober 2026

FISCAL POLICY IN AN ISLAMIC ECONOMY
Principles & Macroeconomic Outcomes

Mia Jumiati
UIN Sunan Gunung Djati Bandung
azizahmj17@gmail.com

Abstrak
Kebijakan fiskal konvensional yang sangat bergantung pada utang berbunga dan instrumen pajak sering kali berujung pada inflasi, ketimpangan pendapatan, dan krisis sistemik. Artikel ini bertujuan untuk menganalisis kerangka teoretis kebijakan fiskal dalam ekonomi Islam dan dampaknya terhadap indikator makroekonomi. Menggunakan metode studi literatur komprehensif, artikel ini mengevaluasi prinsip-prinsip syariah seperti larangan riba, optimalisasi zakat, dan pengeluaran berbasis Maqasid Syariah. Hasil pembahasan menunjukkan bahwa secara teoretis, fiskal Islam beroperasi sebagai automatic stabilizer yang pro-pertumbuhan. Secara empiris dan konseptual, instrumen fiskal Islam terbukti mampu mendorong pertumbuhan ekonomi melalui investasi sektor riil (Sukuk dan Wakaf), menekan inflasi melalui mekanisme peredaran uang yang adil, dan mengurangi ketimpangan (Rasio Gini) melalui redistribusi kekayaan via zakat dan pajak progresif berbasis keadilan.

Kata Kunci:
Kebijakan Fiskal Islam, Makroekonomi, Zakat, Sukuk, Pertumbuhan Ekonomi,

Abstract
Conventional fiscal policy, heavily reliant on interest-bearing debt and taxation instruments, often leads to inflation, income inequality, and systemic crises. This article aims to analyze the theoretical framework of fiscal policy in an Islamic economy and its impact on

Keywords:
Islamic Fiscal Policy; Macroeconomics; Zakat; Sukuk; Economic

E-ISSN XXX-XXXX

macroeconomic indicators. Using a comprehensive literature review method, this article evaluates Sharia principles such as the prohibition of riba, zakat optimization, and Maqasid al-Shari'ah-based expenditure. The discussion reveals that, theoretically, Islamic fiscal policy operates as a pro-growth automatic stabilizer. Empirically and conceptually, Islamic fiscal instruments have been proven capable of driving economic growth through real-sector investment (Sukuk and Waqf), curbing inflation through equitable money circulation mechanisms, and reducing inequality (Gini Ratio) through wealth redistribution via zakat and justice-based progressive taxation.	*Growth; Inequality.*

Conventional fiscal policy, historically designed to stabilize business cycles and promote economic growth, is now facing serious structural dissonance. In recent decades, the global fiscal system's dependence on interest-based sovereign debt and fiat money creation has triggered destructive macroeconomic consequences. The unsustainable accumulation of sovereign debt, inflationary pressures from monetary expansion unsupported by the real sector, and widening wealth inequality reaching extreme levels (Piketty, 2014; Stiglitz, 2015) indicate that the conventional fiscal paradigm has reached the limits of its elasticity. Interest-bearing debt not only burdens future generations through crowding-out effects but also creates debt-deflation cycles vulnerable to systemic crises.

In responding to these market and state failures, Islamic economics offers a fundamental paradigm shift rather than mere instrumental modification. Fiscal policy in Islamic economics cannot be reduced to a tool for engineering aggregate demand (Keynesian) or supply-side intervention; rather, it is rooted in a comprehensive epistemological and ontological framework. Grounded in the principles of Tawhid (the Oneness of God), Khilafah (vicegerency), and Tazkiyah (purification/growth), Islamic fiscal policy positions the state as a facilitator obligated to ensure distributive justice and the fulfillment of basic needs (Chapra, 2008). Askari (2014), in Introduction to Islamic Economics, affirms that the core of the Islamic economic system is justice ('adl) and the absolute linkage between the financial sector and the real sector. Therefore, Islamic fiscal policy is designed to prevent the concentration of wealth among a small elite (Q.S. Al-Hashr: 7) and to ensure that every transaction and state intervention has a tangible impact on the welfare (falah) of the community.

Theoretically, Islamic fiscal architecture offers a unique macroeconomic transmission mechanism. The prohibition of riba (Q.S. Al-Baqarah: 275) fundamentally severs the chain of fictitious credit expansion, compelling deficit financing instruments such as Sukuk to always be backed by real assets. On the revenue side, instruments such as zakat, kharaj (land tax), and cash waqf function not only as sources of state revenue but also as automatic stabilizers and structural wealth redistribution instruments (Mirakhor & Zaidi, 2020). The classical thought of Ibn Khaldun (1377/2015) regarding low tax incentives to stimulate production, as well as the Maqasid al-Shari'ah concept articulated by Al-Ghazali (1100/2010) limiting state expenditure to matters that protect the essential dimensions of human life, provide a philosophical foundation highly relevant to modern economic challenges.

Despite the rapid expansion of literature on Islamic economics, a significant research gap remains in the discourse on fiscal policy. Most contemporary studies tend to be fragmented; micro-level studies predominantly focus on the effectiveness of zakat collection (Hidayat & Pratama, 2024), while financial studies concentrate on Sukuk contract structures (Obiyathulla & Al-Amine, 2023). Research that comprehensively synthesizes classical-contemporary theoretical frameworks and simultaneously evaluates their impact on the three main macroeconomic indicators—growth, inflation, and inequality—remains extremely limited. Furthermore, much of the existing literature is trapped in theoretical romanticism without critically connecting it to conceptual and empirical evidence regarding macroeconomic outcomes within the current dual financial system.

This article aims to bridge this gap by conducting an in-depth analysis of the theoretical framework of fiscal policy in Islamic economics and its implications for macroeconomic stability. This article argues that Islamic fiscal policy, through the synergy between optimizing redistributive instruments (zakat/waqf) and asset-based financing (Sukuk), inherently operates as a pro-growth, anti-inflationary, and egalitarian engine. Through a comprehensive

E-ISSN XXX-XXXX

literature review method and critical synthesis, this article evaluates how Sharia principles are translated into fiscal instruments and how these instruments theoretically and empirically influence the dynamics of Gross Domestic Product (GDP), price levels, and the Gini Ratio. The findings of this study are expected to provide theoretical contributions to the literature on Islamic macroeconomics and policy recommendations for formulating a more resilient and just State Budget (APBN).

Literature Review

1. Epistemological and Ontological Foundations of Islamic Fiscal Policy

Fiscal policy in Islamic economics cannot be understood solely through the lens of neoclassical instrumentalism or Keynesian interventionism. Epistemologically, Islamic fiscal policy is rooted in the concept of Tawhid (the Oneness of God), which rejects the dichotomy between economic activity and moral-spiritual values. Askari (2014), in Introduction to Islamic Economics, affirms that the ontology of Islamic economics rejects egoistic individual utility maximization and replaces it with the maximization of falah (holistic well-being). Within this framework, the state holds the mandate of Khilafah (vicegerency) to ensure that market mechanisms operate along the track of justice ('adl).

Unlike the laissez-faire paradigm that constrains the role of the state, or the socialist paradigm that dominates it, Islamic economics offers a "third way" grounded in Maslahah (public interest). Al-Mawardi (2009), in Al-Ahkam al-Sultaniyyah, formulated that state fiscal intervention is justified when markets fail to provide public goods or when distributional distortions occur. Chapra (2008) expanded this concept by integrating it into Maqasid al-Shari'ah, whereby every state budget allocation must measurably protect religion, life, intellect, progeny, and wealth. Therefore, Islamic fiscal policy is not merely an aggregate stabilization tool but an instrument of social engineering to achieve distributive justice and inclusive growth.

2. Architecture of Fiscal Instruments: Revenue and Expenditure Dynamics

a. Revenue Side: Zakat, Kharaj, and Productive Waqf

State revenue instruments in Islam are designed to prevent wealth concentration and promote productivity. Zakat, theoretically, functions as a progressive wealth tax. Mirakhor and Zaidi (2020) conceptually demonstrated that zakat acts as a macroeconomic automatic stabilizer; it automatically absorbs excess liquidity during economic booms (through increased commercial zakat bases) and redistributes it during recessions to maintain the purchasing power of lower-income groups.

Beyond zakat, the instrument of kharaj (land tax) has profound macroeconomic implications. Ibn Khaldun (1377/2015), in Al-Muqaddimah, laid the theoretical foundation that moderate and equitable taxation expands the production base—a concept now known as the Laffer Curve. The contemporary relevance of this thought is validated by Yusof and Nor (2021), who demonstrate that real-asset-based tax structures such as kharaj prevent land speculation and encourage real-sector investment. In the modern era, this instrument has evolved into cash waqf and productive waqf. Karim et al. (2022) highlight that waqf has transformed from a consumptive philanthropic instrument into a long-term infrastructure financing mechanism that does not burden the state's balance sheet.

b. Expenditure Side: Maqasid-Based and Real-Sector Priorities

Islamic fiscal expenditure is constrained by the principles of efficiency and Maqasid al-Shari'ah. Al-Ghazali (1100/2010) emphasized that state spending must be proportional and must not lead to wastefulness (israf), which would ultimately burden the people with excessive taxation. In a contemporary context, Abdullah and Tariq (2021) showed that during crises (such as pandemics), Islamic fiscal expenditure is prioritized toward protecting life and wealth (social safety nets and health sector subsidies), simultaneously maintaining macroeconomic stability from supply-side shocks.

c. Prohibition of Riba and the Deficit Financing Paradigm

The most fundamental differentiation between Islamic and conventional fiscal policy lies in deficit financing. The conventional system relies on the issuance of interest-bearing bonds. El-Gamal and Senbet (2020) criticized that this system transfers risk unilaterally to debtors (the state/citizens) and creates fictitious monetary expansion that triggers asset bubbles.

In Islam, the prohibition of riba (Q.S. Al-Baqarah: 275) compels the state to finance deficits through instruments based on Profit and Loss

E-ISSN XXX-XXXX

Sharing (PLS) or leasing (Ijarah), embodied in the form of Sukuk. Askari (2014) argues that genuine Sukuk (not merely Sharia-compliant Sukuk that are legalistically compliant but substantively replicate bonds) endogenously link the financial sector with the real sector. Bashir and Iqbal (2023) reinforce this argument by demonstrating that a debt-free fiscal policy model theoretically breaks the debt-deflation cycle and prevents crowding-out of private investment, as the return on state investment is always correlated with the performance of the underlying real assets.

3. Synthesis of Macroeconomic Transmission Mechanisms

Contemporary literature has begun mapping how the above instruments transmit into key macroeconomic indicators:

Economic Growth: Islamic fiscal policy drives growth through the supply side and investment, rather than merely stimulating aggregate demand, which tends to be inflationary. Rahman et al. (2022) demonstrated that deficit financing through infrastructure Sukuk has a higher multiplier effect on GDP compared to conventional bonds, as funds are directly absorbed into the creation of productive assets. Alnour and Malik (2021) also found a significantly positive elasticity between zakat/waqf collection and GDP growth in OIC countries.

Price Stability (Inflation): In Islamic monetary theory, the money supply is endogenous and must be backed by real assets (asset-backed). Zulkafli and Hasan (2023) showed that the prohibition of riba and the optimization of zakat restrict the creation of fictitious credit money. Furthermore, zakat serves as a disincentive against money hoarding, which theoretically and empirically increases the velocity of money without triggering inflationary pressures (Ullah et al., 2020; Siddiqi, 2020).

Income Inequality: The redistributive impact is the comparative advantage of Islamic fiscal policy. Ismail et al. (2023), in their panel study, proved that the integration of zakat into state budgets significantly reduces the Gini Ratio. This occurs because zakat transfers purchasing power from groups with a high Marginal Propensity to Save (MPS) to groups with a high Marginal Propensity to Consume (MPC), which in turn structurally equalizes income distribution.

4. Synthesis of Literature Gap (Research Gap)

Based on the above review, although the micro-literature on zakat (Hidayat & Pratama, 2024) and the financial literature on Sukuk structures (Obiyathulla & Al-Amine, 2023) are very rich, there remains a gap in the literature that synthesizes all three into a holistic macroeconomic analytical framework. This article is positioned to fill this gap by offering a conceptual model that connects Sharia principles (prohibition of riba, zakat, Maqasid) simultaneously to three macroeconomic outcomes (growth, inflation, inequality), thereby providing a more holistic and applicable picture for fiscal policy formulation in countries with a dual financial system.

Methodologhy Research

This study employs a qualitative research design utilizing a critical and comprehensive literature review approach. Rather than a mere descriptive summary, this methodology adopts a thematic synthesis framework to critically evaluate, compare, and integrate diverse theoretical and empirical perspectives on Islamic fiscal policy. The design is structured to bridge the gap between classical Islamic epistemological foundations and contemporary macroeconomic empirical evidence, specifically contextualized within the dual financial system of Indonesia.

Result

1. The Impact of Islamic Fiscal Policy on the Macroeconomy in the Contemporary Indonesian Context

The implementation of Islamic fiscal principles does not occur in a vacuum; it must be tested and adapted within the architecture of the modern economy. Indonesia, as the country with the world's largest Muslim population and a dual financial system, offers a crucial empirical and conceptual laboratory. This section analyzes the impact of Islamic fiscal policy on three main macroeconomic indicators, highlighting its relevance to contemporary fiscal challenges in Indonesia.

E-ISSN XXX-XXXX

2. Economic Growth and Fiscal Space Expansion: Transition from Interest-Bearing Debt to Productive Financing

The most pressing issue in Indonesia's current fiscal landscape is the burden of interest payments on debt, which continuously erodes fiscal space. In the State Budget (APBN), the interest payment position often absorbs more than 20% of total government spending, creating a crowding-out effect on productive expenditure such as infrastructure, education, and health (Bashir & Iqbal, 2023).

Within the Islamic fiscal framework, the prohibition of riba compels the state to transition from debt-based financing to asset-based/asset-backed financing. Theoretically, this transforms the deficit structure from one that is consumptive-expansionary to one that is investment-productive. In Indonesia, instruments such as Retail Sukuk (SR), Savings Sukuk (ST), and Green Sukuk have demonstrated this concept. Unlike conventional bonds that merely constitute an interest burden, Sukuk based on Ijarah (leasing) or Wakalah mandates the existence of an underlying asset that generates real cash flows.

Furthermore, contemporary innovations such as Cash Waqf Linked Sukuk (CWLS) revolutionize the deficit financing paradigm. CWLS enables the public to endow money, which is then invested in Sharia-compliant Government Securities (SBSN). The returns are used to finance social infrastructure (such as hajj dormitories or hospitals), while the principal endowment remains intact (Karim et al., 2022). Macroeconomically, this creates a dual multiplier effect: first, the state obtains infrastructure financing without interest burdens (expanding fiscal space); second, the state's real assets increase; third, the public receives philanthropic returns. This aligns with Askari's (2014) argument that economic justice can only be achieved if the financial sector is endogenously linked to value creation in the real sector.

3. Price Stability and Inflation Mitigation: Real-Asset-Based Fiscal-Monetary Synergy

Inflation, particularly food inflation, is a chronic challenge in Indonesia exacerbated by global supply chain shocks. In the conventional system, monetary expansion through the printing of fiat money to finance deficits often constitutes the root cause of structural inflation.

Islamic fiscal policy offers a different stabilization mechanism. First, from the money supply side, the asset-backed principle in the issuance of SBSN ensures that every addition of liquidity in the economy is balanced by the creation of real assets, thus preventing "too much money chasing too few goods" (Zulkafli & Hasan, 2023). Second, from the distributional side, zakat and religious social funds serve as shock absorbers. When inflation surges and the purchasing power of the lower class is eroded, the optimal distribution of zakat (through BAZNAS and LAZ) directly increases the Marginal Propensity to Consume (MPC) of vulnerable groups without triggering inflationary aggregate demand pressures, as the goods consumed are basic necessities with low elasticity (Mirakhor & Zaidi, 2020).

Additionally, fiscal expenditure directed toward food self-sufficiency and industrial downstreaming (consistent with Maqasid al-Shari'ah principles in protecting life and wealth) will strengthen the aggregate supply side. Abdullah and Tariq (2021) noted that during crises, Islamic fiscal policy prioritizes social safety nets and real-sector subsidies, which empirically prove more effective in stabilizing prices than cross-subsidies that often miss their targets in the conventional system.

4. Wealth Redistribution and Inequality Reduction: Addressing the Low Tax Ratio through Philanthropic Instruments

Income inequality (measured by the Gini Ratio) and Indonesia's persistently low tax ratio (stagnating at approximately 9–10% of GDP) are two sides of the same coin in Indonesian fiscal policy. The conventional tax system is often indirectly regressive (through VAT) and faces low compliance from the informal sector.

Islamic fiscal policy offers a structural solution through zakat as a progressive wealth tax grounded in moral-spiritual foundations. Ismail et al. (2023) econometrically proved that zakat significantly reduces the Gini Ratio. In Indonesia, the potential zakat collection exceeds Rp 300 trillion annually, yet only approximately 5–6% is actually collected, indicating a missed opportunity in fiscal policy.

If zakat and waqf are integrated more systematically into the APBN—through, for example, more aggressive tax deduction schemes (gross income deductions) or direct integration of zakat funds for cross-subsidization—then the fiscal burden of poverty alleviation on the state can be reduced. This creates what is termed a shadow fiscal policy. Ullah et al. (2020) emphasized that the prohibition of wealth hoarding (kanz) in Islam compels the circulation of

E-ISSN XXX-XXXX

wealth. In the Indonesian context, the optimization of land and cash waqf for agriculture and MSMEs will democratize asset ownership, ultimately equalizing income distribution more effectively than conventional cash transfers alone.

5. **Implementation Challenges and Directions for Fiscal Policy Reform in Indonesia**

Although theoretically superior, the implementation of Islamic fiscal policy in Indonesia still faces structural constraints. First, there remain practices of Sukuk that substantively replicate conventional bonds (Sharia-compliant in legality, yet substantively containing elements of guaranteed return by the state), which according to Askari (2014) fails to fulfill the essence of justice and risk-sharing. Second, regulatory fragmentation exists among the Ministry of Finance, the Financial Services Authority (OJK), and BAZNAS in managing religious social funds. Third, macroeconomic Sharia literacy among policymakers remains low.

Therefore, fiscal policy reform in Indonesia should be directed toward: (1) A gradual transition from the issuance of conventional Government Securities (SBN) to truly project-based Sharia-compliant Government Securities (SBSN) to mitigate moral hazard risks; (2) Regulatory harmonization to integrate Islamic philanthropic funds (Zakat, Infaq, Sadaqah, Waqf/ZISWAF) into national development planning (RPJMN) as complementary fiscal instruments; and (3) The application of Maqasid al-Shari'ah principles in APBN performance evaluation, where fiscal success is measured not only by maintaining the deficit below 3% of GDP, but also by reductions in poverty, inequality, and improvements in the Human Development Index.

Conclusion

Fiscal policy in Islamic economics offers a paradigm that is fundamentally different from the conventional system. Theoretically, Islamic fiscal policy—grounded in the prohibition of riba, the optimization of zakat, and Maqasid al-Shari'ah-based expenditure—is designed to achieve justice and holistic welfare. Its macroeconomic impacts are highly significant: instruments such as Sukuk and Waqf drive economic growth through real-sector investment; asset-backed money mechanisms and zakat suppress the rate of inflation; and wealth redistribution through zakat and land taxation effectively reduces income inequality.

Future research is recommended to develop dynamic econometric models (such as an Islamic DSGE model) to quantitatively measure the multiplier effect of each Islamic fiscal instrument in the face of global economic shocks.

REFERENCES

Al-Ghazali, A. H. (2010). Ihya Ulum al-Din (Terjemahan). Jakarta: Republika.

Ibn Khaldun. (2015). The Muqaddimah: An Introduction to History (F. Rosenthal, Terjemahan). Princeton: Princeton University Press. (Karya asli diterbitkan 1377).

Al-Mawardi, A. H. (2009). Al-Ahkam al-Sultaniyyah: The Laws of Islamic Governance. London: Ta-Ha Publishers. (Karya asli diterbitkan sekitar 1050).

Askari, H. (2014). Introduction to Islamic Economics: Theory and Application. Hoboken: John Wiley & Sons.

Chapra, M. U. (2008). The Islamic Vision of Development in the Light of Maqasid al-Shari'ah. Jeddah: Islamic Development Bank.

Iqbal, M., & Mirakhor, A. (2018). An Introduction to Islamic Finance: Theory and Practice (2nd ed.). Hoboken: Wiley.

Khan, M. F. (2019). Islamic Economic System: Comparative Analysis with Capitalism and Socialism. London: Routledge.

Mirakhor, A., & Zaidi, I. (2020). Profit and Loss Sharing: Theory and Practice. London: Routledge.

Alnour, M., & Malik, O. F. (2021). "The impact of Zakat and Waqf on economic growth: Evidence from OIC countries". ISRA International Journal of Islamic Finance, 13(1), 45-62.

Hassan, M. K., & Lewis, M. K. (2020). "Macroeconomic stabilization and Islamic fiscal policy". Journal of Islamic Accounting and Business Research, 11(4), 789-810.

E-ISSN XXX-XXXX

Ismail, A. G., Rahman, M. M., & Abdullah, N. (2023). "Redistributive effects of Zakat on income inequality: A panel data analysis of Muslim-majority countries". Islamic Economic Studies, 31(1), 22-45.

Karim, Z. A., et al. (2022). "Productive Waqf and infrastructure financing: A macroeconomic perspective". Journal of Islamic Accounting and Finance Research, 13(2), 210-228.

Mirakhor, A., & Zaidi, I. (2020). "Zakat as an automatic stabilizer in the Islamic macroeconomic model". Thunderbird International Business Review, 62(5), 555-567.

Rahman, M., Hossain, M., & Ahmed, H. (2022). "Sukuk vs Conventional Bonds for Fiscal Deficit Financing: A Comparative Macroeconomic Analysis". Journal of King Abdulaziz University: Islamic Economics, 35(1), 3-24.

Siddiqi, M. N. (2020). "Inflation control in an Islamic framework: The role of fiscal-monetary coordination". International Journal of Islamic and Middle Eastern Finance and Management, 13(3), 401-418.

Yusof, M., & Nor, L. M. (2021). "Ibn Khaldun’s Laffer Curve in the context of Islamic taxation and economic growth". Journal of Islamic Economics, Banking and Finance, 17(1), 112-130.

Zulkafli, A. H., & Hasan, M. A. (2023). "Velocity of money and inflation dynamics in a dual financial system: The role of Zakat". Research in International Business and Finance, 64, 101-115.

Abdullah, M., & Tariq, S. (2021). "Islamic fiscal policy response during the global pandemic: A Maqasid Shariah approach". Journal of Islamic Accounting and Business Research, 12(5), 700-722.

Bashir, U., & Iqbal, M. (2023). "Debt-free fiscal policy models: Theoretical foundations and empirical viability". Islamic Economic Studies, 31(2), 88-110.

El-Gamal, M. A., & Senbet, L. W. (2020). "Risk sharing versus debt financing in Islamic macroeconomic models". Journal of Banking & Finance, 115, 105-120.

Hasan, Z. (2022). "Resource allocation and fiscal multipliers in Islamic economics". International Journal of Social Economics, 49(4), 550-568.

Hidayat, R., & Pratama, B. (2024). "Digital Zakat collection and its impact on state fiscal revenue: Evidence from Indonesia". Journal of Islamic Accounting and Finance Research, 15(1), 45-63.

Khan, T., & Mirakhor, A. (2024). "Maqasid Shariah Index and fiscal performance: A new paradigm for government budgeting". ISRA International Journal of Islamic Finance, 16(1), 12-30.

Obiyathulla, I., & Al-Amine, M. (2023). "Green Sukuk for sustainable fiscal policy: Macroeconomic implications". Journal of Sustainable Finance & Investment, 13(2), 890-912.

Ullah, S., et al. (2020). "Wealth circulation and the prohibition of hoarding: Macroeconomic implications of Islamic fiscal policy". Review of Islamic Economics, 24(2), 145-168.

E-ISSN XXX-XXXX