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THE EFFECTS OF ISLAMIC FINANCIAL INSTRUMENTS AND INFLATION ON ECONOMIC GROWTH: THE MEDIATING ROLE OF THE HUMAN DEVELOPMENT INDEX IN JAVA, INDONESIA

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Abstract

This study aims to analyze the effect of Zakat, Infaq, and Sadaqah (ZIS) fund distribution, sharia financing, and inflation on economic growth with the Human Development Index (HDI) as a mediating variable. The approach used is a quantitative approach with panel data, and data processing is carried out using the help of EViews 13 software through the path analysis method. The analysis techniques used include multiple linear regression, t-test, F-test, and mediation analysis. The results of the study indicate that ZIS fund distribution and sharia financing have a positive and significant effect on HDI and economic growth. Conversely, inflation shows an insignificant effect on both variables. IPM has been empirically proven to mediate the relationship between ZIS distribution and sharia financing on economic growth. This finding indicates that improving the quality of life of the community through IPM has an important role in driving sustainable economic growth.

Keywords: ZIS, sharia financing, inflation, Human Development Index, economic growth

1. Introduction

One of the main metrics used to evaluate a region's development is economic growth. Economic growth indicates how well a region is adjusting to the well-being of its people and its capacity to produce more goods and services. Therefore, economic growth is a key metric for evaluating the development success of a country or region, which is related to the economy's capacity to increase the production of goods and services, thereby increasing income and social welfare. Studying regional economic growth is crucial for understanding the dynamics and challenges that exist. (Todaro & Smith, 2020)

Java, despite its small size, is a significant center of Indonesia's economic growth. Reynaldy (2024) in his writing, Java Island contributed 57.04% to Indonesia's Economic Growth in the second quarter of 2024, making it a major economic center. The island's population is concentrated at more than 150 million people, approximately 58% of Indonesia's total population. This has a significant impact on the urbanization of other islands. Java controls up to 60% of national export-import activities and is the center of Indonesia's industrial growth. Its economic activities are centered on service products, supported by the development of facilities and infrastructure. The primary economic sector is dominated by islands outside Java, while the secondary and tertiary sectors are more dominated by Java. (Reynaldy, 2024; Rohman, 2021)

Figure 1. Economic Growth



Source: Central Statistics Agency

This growth reflects the economic recovery after the COVID-19 pandemic, although the growth rate has not fully returned to pre-pandemic levels. Overall, this graph shows a rapid post-crisis recovery, but with the challenge of maintaining high growth (Widiastuti & Silfiana, 2021) . The Human Development Index (HDI) is another aspect that impacts economic development. The Human Development Index and economic growth are causally related in two directions. In addition to helping achieve the core goals of development, human development also plays a crucial role in the process of stable economic growth in the long term . In the study of Imsar et al., (2023), the Human Development Index (HDI) was negatively correlated with the poverty rate in Indonesia from 2010 to 2021. The HDI serves as a connecting factor that strengthens the relationship between the other three variables. Then, in the study of Hasibuan et al., (2023), Zakat and Infaq/Sadaqah had a significant positive effect on economic growth through the HDI as a mediating variable. In this case, the authors used the HDI as an intervening variable in this study. (Ezkirianto & Alexandi, 2018; Maratade et al., 2016)

The Islamic social finance industry, which encompasses programs such as zakat and ZIS (Islamic Supervisory Fund), has significant potential to support equitable wealth and income distribution, as well as reduce social disparities. ZIS functions as a Social Safety Net (SNS), ensuring the fulfillment of basic community needs, reducing disparities, increasing economic activity, and encouraging the wise use of financial

resources. With proper management, the Islamic social finance industry can contribute significantly to inclusive and equitable economic development. This is evidenced by research on the impact of ZIS fund distribution, including research by Qoyyim & Widuhung (2020) and Novalia et al. (2020) found that the distribution of ZIS funds had a partial positive impact on Indonesia's economic growth. (Nurrohman & Prawito, 2020)

One of the Islamic financial instruments is financing provided by Islamic banks. The growth of Islamic finance is undoubtedly influenced by the progress of the banking sector. The banking sector plays a crucial role in driving economic growth by directing financial resources to the real sector. As a contribution to economic growth, Islamic financing not only supports SMEs but also plays a crucial role in creating jobs and alleviating poverty. By minimizing speculative elements in economic activity, this financing system provides a more stable and sustainable impact on the economy and ensures a more equitable distribution of wealth. (Wahyuningsih & Nurzaman, 2020)

The profit-sharing concept in Islamic financing encourages more responsible and long-term investments, which ultimately contribute to the overall welfare of society, reduce economic inequality, and create long-term economic stability (Mu'arrif, 2024). This is evidenced by the results of several studies, the results of research by Jamili, (2017) , Prastowo, (2018) and research by El Ayyubi et al., (2018) show that Islamic Bank financing significantly drives Indonesia's economic growth. Likewise, research supports the previous conclusion that Islamic banking financing drives economic growth .

One of the key elements influencing a country's economic development is inflation. Both positive and negative impacts of inflation are felt by the economy. If an economy is in recession, Bank Indonesia can raise inflation to stimulate growth. High inflation has a beneficial impact on growth by reducing poverty levels. However, high inflation rates may have negative impacts in the form of slowing economic growth (Satria, 2017) . Inflation has varying effects in several studies. In Pangesti & Susanto's (2018) study, it had a significant negative effect on the Human Development Index (HDI). In contrast, Anggraini's (2016) study found that this variable had no significant and negative effect on economic growth. (Anggraini, 2016; Pangesti & Susanto, 2018)

This study analyzes several factors suspected of influencing economic growth in Java, namely Islamic financial instruments and inflation, with the Human Development Index (HDI) as a mediating variable. By examining the development of Islamic financial instruments, the inflation rate, the condition of the HDI, and the dynamics of economic growth during the 2019–2024 period, this study aims to analyze the empirical relationship between these variables. However, the direction and strength of the influence of Islamic financial instruments and inflation on economic growth, both directly and through the HDI as a mediating variable, have shown mixed results in previous studies. Therefore, more comprehensive and quantitative research is needed to obtain a more accurate picture of the role of Islamic financial instruments, inflation, and the HDI in driving economic growth in Java. Therefore, this study aims to determine and analyze the influence of Islamic financial instruments and inflation on

economic growth, both directly and indirectly through the Human Development Index (HDI) as a mediating variable in Java during the 2019–2024 period.

2. Literature review

2.1. Human Development Theory – Amartya Sen

The Human Development Theory put forward by Amartya Sen and Mahbub ul Haq from UNDP (*United Nations Development Programme*) in 1990 focuses on increasing individual capabilities, namely a person's ability to live a meaningful life and make choices that benefit him or herself. According to Amartya Sen, human flourishing is not just about increasing income; it also means giving people more flexibility in their roles and actual capacities. This way of thinking is called the " *Capability Approach* ," and it argues that meaningful freedom is crucial for growth and well-being. By highlighting key elements such as agency or transformative factors, Garcés (2022) elaborates on this idea further. He explains how these factors influence a person's capacity to act. The opportunity to choose this function. The degree to which an individual can transform resources into functions depends on a number of factors, including the social context and individual characteristics. In this context, the HDI is a key indicator for assessing development success, with three main dimensions: education, life expectancy, and standard of living. (Yoon, 2021; Garcés, 2022)

2.2. Islamic Public Finance *Theory*

Public finance theory in Islamic economics, particularly as it relates to the instruments of zakat, infaq, and shadaqah (ZIS), focuses on the redistribution of wealth with the aim of achieving maslahah (benefit) and reducing socio-economic inequality. Zakat, as a social obligation for Muslims, plays a primary role in distributing wealth to those in need, while infaq and shadaqah serve as voluntary contributions to support societal welfare. (Hasbi et al., 2023)

Islamic Public Finance is a conceptual framework rooted in Islamic sharia principles, particularly the Qur'an and the Sunnah of the Prophet Muhammad (peace be upon him). This theory has no single originator, but rather has evolved through the interpretations of Islamic scholars and economic thinkers since the 7th century AD. Its development can be divided into three main phases (Sulaeman, 2024) :

1) Prophetic Period (622-632 AD): During this period, the Prophet Muhammad SAW as a spiritual and political leader implemented financial principles in accordance with sharia.
2) Rashidun Khulafaur Period (632-661 AD): After the prophetic period, the caliphs who succeeded the Prophet Muhammad SAW continued and developed existing financial principles.
3) Islamic Dynasty Period (Umayyad, Abbasid, to Ottoman): In this period, it became more developed and structured.

2.3. *Financial Intermediation* Theory

The theory of financial intermediation refers to the role of financial institutions in transferring funds from those with surplus funds to those in need for investment or other economic activities. The *"supply-leading"* theory , derived from Schumpeter's (1934) ideas , as published in a journal by Ledhem & Mekidiche (2021) , states that progress in the financial sector can be a major

driving force for economic growth (Ledhem & Mekidiche, 2021) . Sharia financing supports the productive sector and reduces dependence on the conventional financial system, which can increase the risk of economic instability. A study by Azwar et al. (2024) shows that the use of sukuk as a Sharia-based financing instrument has the potential to boost Gross Domestic Product (GDP) growth by funding productive government projects. This theory has four main principles, as follows:

1) Transaction Cost Reduction, financial institutions collect funds from small savers to be allocated to large-scale projects.
2) Mitigation of Information Asymmetry, adverse selection and moral hazard problems are addressed through credit screening and regular monitoring.
3) Liquidity Transformation, banks convert short-term savings into long-term financing.
4) Risk Management, for example, portfolio diversification reduces systematic risk. (Azwar et al., 2024)

2.4. Economic growth

The dependent variable in this study is economic growth. According to Chendrawan (2017) , the rate of economic growth is a measure of the increase in real national income, namely national income calculated based on constant prices. The increase in the production of goods and services of a country compared to the previous year is indicated by the growth of real national income. According to Iskandar in the book by Wau et al., (2022) , economic growth is defined as a substantial increase in national income in the long term (by increasing per capita income). According to Kuznets in the journal Nurrohman & Prawito, (2020) economic growth is an increase in a country's capacity to provide various economic goods to its citizens in the long term.

2.5. ZIS (Zakat, Infaq and Alms)

Zakat is one way to achieve social balance in the world by helping the rich help the poor and the strong help the weak. If managed properly, zakat can be a potential source of money that can be useful for advancing the general welfare of all society. The link between the concept of zakat, linguistically and terminologically, is very original and very close; specifically, wealth paid for zakat becomes blessed, grows, increases, is pure, and is done well (Wahyuningsih & Nurzaman, 2020) . Scholars explain infaq as a good deed or anything given by someone to meet the needs of others, can be in the form of goods such as food, drink, or other necessities, and distributes or gives something to others only based on sincerity and the will of Allah SWT (Rohmah et al., 2025) . Islamic thought on alms has a broad definition that includes all good deeds, both material and immaterial, and is not limited to donating tangible goods to those in need. Alms is a voluntary giving to those in need, with the intention of getting closer to Allah. (Iswandi, 2016)

2.6. Sharia Financing

The word "cost," which refers to the expenditure of money for a specific purpose, is the root of the word "financing." *Financing,* on the other hand, is the provision of a sum of money or the equivalent of a promissory note based on a contract between a bank and another party that requires the financed party to return the sum of money or the equivalent of the promissory note after a certain

period of time in exchange for payment or profit sharing. Finance refers to expenditure or financing, namely money provided to support planned expenditures, whether undertaken alone or in collaboration with others. However, in a limited sense, financing refers to the provision of funds to clients by financial institutions such as Islamic banks (Widyastuti & Mumtaz, 2020) . Sharia financing is the provision of funds or financing by financial institutions in accordance with Sharia standards. Financial transactions must be free from riba (interest) and gharar (uncertainty, excessive speculation), and must be supported by real assets, not just interest-bearing debt as in the traditional system. This method provides returns to lenders through profit sharing or margins from sales and purchases, rather than fixed interest rates. (Muthoifin et al., 2025)

2.7. Inflation

Inflation is an economic condition characterized by widespread and sustained increases in the prices of goods and services over a period of time. This price increase not only changes the general price level in the economy but also reduces the real value of money and people's purchasing power (Mishkin, 2022). An increase in the price of just one or two commodities cannot be considered inflation unless it significantly affects the prices of other goods or causes them to increase. A general increase in commodity prices caused by a mismatch between production, pricing, money creation, and other aspects of commodity procurement programs and people's income levels is called inflation. (Purba & Tarigan, 2021)

2.8. HDI (Human Development Index)

The Human Development Index (HDI) is viewed by Mahbub Al Haq (UNDP) as a process that expands human choices. The definition or concept of human development essentially encompasses various aspects of development. When analyzing and understanding the concept of human development, it is important to consider the human perspective beyond economic progress. Todaro and Smith (2020) explain that human development is a process that aims to expand the capabilities and opportunities of society by improving the quality of health, education, and income, thereby improving the welfare and quality of life of the population. According to research by Rahmawati (2019) , it is a measure of the welfare of a region or nation based on three factors: average years of schooling, per capita expenditure (gross national income per capita), and life expectancy at *birth* .

3. Research Methods (bold 12 pt)

The research method includes the approach used is a quantitative approach with panel data, this study has 36 observation data. According to Sekaran & Bougie, (2016) in *Research Methods for Business* explains that the minimum number of samples acceptable in quantitative research is 30, because this number is considered to have represented a normal distribution according to *the Central Limit Theorem* . By referring to these provisions, this study uses 5 variables with panel data from 6 provinces for 6 years, resulting in 36 observations. This number has exceeded the minimum limit of 30 observations, so it can be declared to meet the requirements for analysis using panel data. In this study, researchers collected data in the form of information that will be obtained from this study using secondary data. Secondary data refers to information that has been shared with the data collector, either directly or indirectly such as business financial reports, government reports, previous research,

etc. Information from various sources that support the authorship of this research is used to collect secondary data . The data sources for the secondary data collection approach of this research are the Financial Services Authority (OJK), Statistics Indonesia (BPS) and National Zakat Agency (BAZNAS) Reports for 2019–2024.

The model used as an analytical tool in this study is the path analysis method *to* determine whether the mediating variable can mediate between the independent and dependent variables in this study. The analytical techniques used include multiple linear regression, t-test, F-test, and mediation analysis. The sample selection system in this study uses a *purposive sampling method* . It is hoped that with this method, the obtained sample will be more in line with the objectives and design of the study. *Purposive sampling* is a sample selection technique based on predetermined criteria. Data were processed using Microsoft Excel and Eviews 13 by following certain steps. (Sujarweni, 2017)

4. Results and Discussion

4.1. Results

1) Model Estimation Selection Test

The selection of estimation models in this study was carried out using the Chow Test, the Hausman Test, and the Lagrange Multiplier Test to determine the most appropriate model. There are two equation models in this study:

Sub-Structure Coefficient Model 1

$$Zit = \alpha + \beta1(X1it) + \beta2(X2\ it) + \beta3(X3it) + \varepsilon it$$

Sub-Structure Coefficient Model 2

$$Yit = \alpha i + \beta1(X1it) + \beta2(X2\ it) + \beta3(X3it) + \beta4(Z\ it) + \varepsilon it$$

Where this research has 2 sub-models, sub-structure model 1, which includes the influence of ZIS fund distribution, Sharia financing, and inflation on HDI, as well as sub-structure model 2, which includes the influence of ZIS fund distribution, Sharia financing, inflation, and HDI on economic growth.

a. Chow Test

The Chow test is a test that aims to determine the most appropriate model between *the Common Effect Model* (CEM) or *the Fixed Effect Model* (FEM). In estimating panel data, the basis for the Chow test is that if *the cross-section chi-square* is <0.05, then the more appropriate model is CEM. Conversely, if *the cross-section chi-square* is >0.05, then the more appropriate model is FEM. (Ghozali & Ratmono, 2017)

Table 1. Chow Model 1 Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	69.52243	(5.27)	0.0000
Cross-section Chi-square	94.68195	5	**0.0000**

Source: Eviews 13, (Data processed, 2025)

If we look at the table above, it can be seen that sub-structure model 1 has a *cross-section chi-square result* of 0.0000 < 0.05, so the model used is FEM and a Hausman test must be carried out.

Table 2. Chow Model 2 Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	79.99185	(5.26)	0.0000
Cross-section Chi-square	100.66489	5	**0.0000**

Source: Eviews 13, (Data processed, 2025)

If we look at the table above, it can be seen that the sub-structure model 2 has a *cross-section chi-square result* of 0.0000 < 0.05, so the model used is FEM and the Hausman Test must be carried out.

b. Hausman test

The Hausman test is a test that aims to determine the most appropriate model between the FEM and *the Random Effects Model* (REM) in estimating panel data. The basis for the Hausman test is that if the probability is <0.05, the more appropriate model is the FEM. Conversely, if the probability is >0.05, the more appropriate model is the REM. (Ghozali 2018)

Table 3. Results of Hausman Model 1 Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	5.6139084	3	**0.1320**

Source: Eviews 13, (Data processed, 2025)

Judging from the table above, the sub-structure model 1 *cross-section value* is 0.1320 > 0.05, so the model used is REM and continued with the Lagrage Multiplier Test.

Table 4. Results of Hausman Model 2 Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	53.912333	4	**5.4898**

Source: Eviews 13, (Data processed, 2025)

Judging from the table above, the sub-structure model 2 *cross-section value* is 5.4898 > 0.05, so the model used is REM and continued with the Lagrage Multiplier Test.

c. Lagrage Multiplier Test

The Lagrage Multiplier test is a test that aims to determine the most appropriate model between REM or CEM in estimating panel data. The basis for making a decision for the Lagrage Multiplier test is if the *Breusch-Pagan value* > 0.05 then the more appropriate model is CEM. Conversely, if *the Breusch-Pagan value* < 0.05 then the more appropriate model is REM. (Ghozali 2018)

Table 5. Results of Lagrage Multiplier Model 1

	Hypothesis Test		
	Cross-section	Time	Both
Breusch-Pagan	38.82863 (0.0000)	0.079690 (0.7777)	38.90832 **(0.0000)**

Source: Eviews 13, (Data processed, 2025)

As seen from the table above, sub-structure model 1 has a *Breusch-Pagan result* of 0.0000 < 0.05. This indicates that the model used is REM, which means H0 is accepted.

Table 6. Results of Lagrage Multiplier Model 2

	Hypothesis Test		
	Cross-section	Time	Both
Breusch-Pagan	6.524516 (0.0106)	2.163506 (0.1413)	8.688022 **(0.0032)**

Source: Eviews 13, (Data processed, 2025)

As seen from the table above, sub-structure model 2 has a *Breusch-Pagan result* of 0.0032 < 0.05. This indicates that the model used is REM, which means H0 is accepted. These results are based on the decision-making basis by (Ghozali 2018) .

According to the results of the panel data model selection obtained, it can be concluded that the best model selection decision for sub-structure 1 and sub-structure model 2 is *the Random Effect Model* .

2) Classical Assumption Test

a. Multicollinearity Test

The multicollinearity test is performed to identify whether there is a violation of the classical assumptions regarding the linear relationship between independent variables in a regression model. If data exhibits multicollinearity, this can cause a change in the sign of the estimated parameters. The basis for this test is that if the correlation value is >0.80, multicollinearity is considered present. If it is <0.80, multicollinearity is considered absent.

Table 7. Multicollinearity Test Results for Model 1

	X1	X2	X3
X1	1	-0.07296210519902365	-0.05599186735764305
X2	-0.07296210519902365	1	0.1239954586369668
X3	-0.05599186735764305	0.1239954586369668	1

Source: Eviews 13, (Data processed, 2025)

Based on the results above, the correlation coefficient between each variable is no greater than 0.80. This indicates that there is no multicollinearity problem in this research's regression model. These results are based on the decision-making framework developed by Ghozali (2018).

Table 8. Multicollinearity Test Results for Model 2

	X1	X2	X3	Z
X1	1	-0.07296210519902361	-0.05599186735764306	0.4817313430620551
X2	-0.07296210519902361	1	0.1239954586369668	-0.5377663778142575
X3	-0.05599186735764306	0.1239954586369668	1	0.00479636315869663
Z	0.4817313430620551	-0.5377663778142575	0.00479636315869663	1

Source: Eviews 13, (Data processed, 2025)

Based on the results above, the correlation coefficient between each variable is no greater than 0.80. This indicates that there is no multicollinearity problem in this research's regression model. These results are based on the decision-making framework developed by Ghozali (2018).

b. Heteroscedasticity Test

Heteroscedasticity is a condition in which *the error variance* in a regression model is not constant, but rather depends on the independent variable or other factors. This violates the classical assumption of *Ordinary Least Squares* (OLS), which requires the residual variance to be constant or homoscedastic. As a result of heteroscedasticity, the coefficient estimates remain unbiased, but become inefficient, which can reduce the validity of statistical tests such as the t-test and F-test. One simple method to detect heteroscedasticity is if the significance value of the probability <0.05 then this indicates that the regression model is experiencing heteroscedasticity. Conversely, if the significance value of the probability is more than 0.05 then the model does not experience heteroscedasticity **.** (Ghozali & Ratmono, 2017)

Table 9. Results of Heteroscedasticity Test for Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.982378	1.156027	3.444882	**0.051615**
X1	-7.435655	1.730034	-0.429798	**0.670222**
X2	5.7102545	2.155078	0.264967	**0.792734**
X3	-0.02268	0.077535	-0.292527	**0.771771**

Source: Eviews 13, (Data processed, 2025)

Based on the results of the table above, the heteroscedasticity test for sub-structure model 1 shows that the probability value is >0.05. This

indicates that there are no symptoms of heteroscedasticity in the residual data.

Table 10. Results of Heteroscedasticity Test for Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-28011196	29114893	-0.962091	**0.34347**
X1	0.82980106	0.996054	0.833087	**0.41119**
X2	-0.18533081	0.857451	-0.216141	**0.83029**
X3	1087377.6	663787.9	1.638140	**0.11150**
Z	436364.15	378704.80	1.152254	**0.25802**

Source: Eviews 13, (Data processed, 2025)

Based on the results of the table above, the heteroscedasticity test for sub-structure model 2 shows that the probability value is >0.05. This indicates that there are no symptoms of heteroscedasticity in the residual data.

3) Regression Test

a. Sub-Structure 1

Table 11. Results of Regression Test Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	73.79419	1.678382	43.96746	0.0000
X1	7.160953	2.043607	3.504013	0.0014*
X2	8.152627	2.571807	3.170296	0.0033*
X3	0.136243	0.091081	1.49585253	0.1445

Source: Eviews 13, (Data processed, 2025)

The following is the equation for model 1:

$Zit = \alpha + \beta1(X1_{it}) + \beta2(X2_{it}) + \beta3(X3_{it}) + \varepsilon_{it}$

$Zit = 73.79419 + 7.160953(X1_{it}) + 8.152627(X2_{it}) + 0.136243(X3_{it}) + \varepsilon_1$

The results of the equation above can be explained as follows:

1) The positive (+) constant of 73.79419 indicates that in general, if the distribution of ZIS funds, sharia financing, and inflation remain constant, the HDI will have a value of 73.79419.
2) The regression coefficient for ZIS Fund Distribution (X1) which has a positive (+) value of 7.160953 can be interpreted that if the ZIS Fund Distribution variable increases, the HDI variable (Z) will also increase by 7.160953, and vice versa.
3) The regression coefficient for Sharia Financing (X2) which has a positive value (+) of 8.152627 shows that if the Sharia Financing variable increases, the HDI variable (Z) will also increase by 8.152627, and vice versa.
4) The regression coefficient for Inflation (X3) which has a positive (+) value of 0.136243 shows that if the Inflation variable increases, the HDI variable (Z) will also increase by 0.136243, and vice versa.

b. Sub-Structure 2

Table 12. Results of Regression Test Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.20034	0.768536	13.27244	0.0000
X1	0.081256	0.035994	2.257496	0.0312*
X2	7.185908	1.765008	4.071121	0.0003*
X3	0.002920	0.005200	0.561547	0.5785
Z	0.048695	0.011856	4.107019	0.0003*

Source: Eviews 13, (Data processed, 2025)

The following is the equation for model 2:

$Yit = \alpha_i + \beta1(X1_{it}) + \beta2(X2_{it}) + \beta3(X3_{it}) + \beta4(Z_{it}) + \varepsilon_{it}$

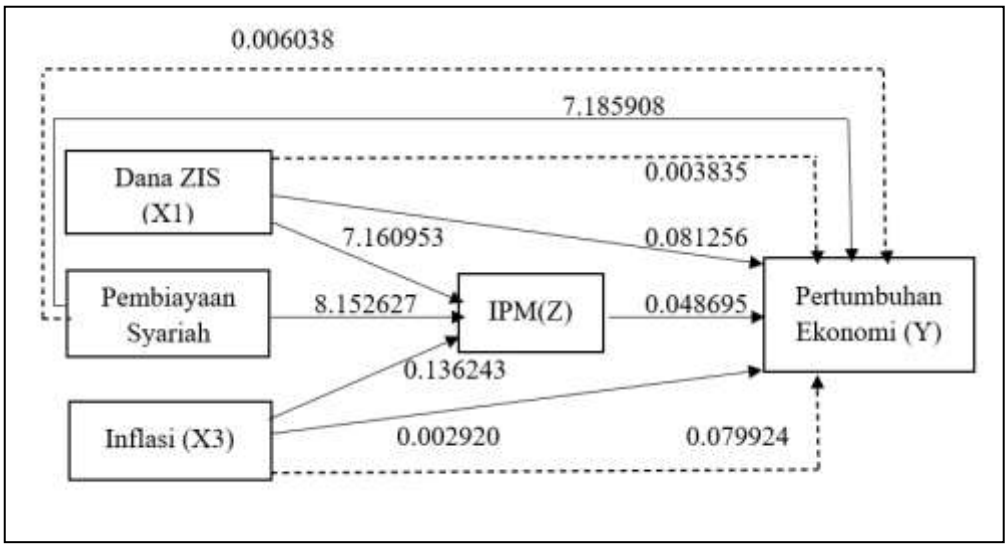
$Yit = 10.20034 + 0.081256\ (X1_{it}) + 7.185908\ (X2_{it}) + 0.002920\ (X3_{it}) + 0.048695\ (Z_{it}) + \varepsilon_2$

The results of the equation above can be explained as follows:

1) The constant with a positive value (+) of 10.20034 shows that in general, if the distribution of ZIS funds, sharia financing, inflation, and HDI remains constant (does not change), then Economic Growth will have a value of 10.20034.
2) The regression coefficient for ZIS Fund Distribution (X1) which has a positive value (+) of 0.081256 can be interpreted that if the ZIS Fund Distribution variable increases, the Economic Growth variable (Y) will also increase by 0.081256, and vice versa.
3) The regression coefficient for Sharia Financing (X2) which has a positive value (+) of 7.185908 shows that if the Sharia Financing variable increases, the Economic Growth variable (Y) will also increase by 7.185908, and vice versa.
4) The regression coefficient for Inflation (X3) which has a positive (+) value of 0.002920 shows that if the Inflation variable increases, the Economic Growth variable (Y) will also increase by 0.002920, and vice versa.
5) The regression coefficient for HDI (Z) which has a positive (+) value of 0.048695 shows that if the HDI variable increases, the Economic Growth variable (Y) will also increase by 0.048695, and vice versa.

4) Path Analysis

Figure 2. Path Analysis Results



Source: Author

5) Mediation Test (Sobel Test)

The Sobel test is a method for testing hypotheses regarding mediation or indirect influence from X to Y through Z calculated by multiplying the XZ path (a) by the ZY path (b), or ab, so that the ab coefficient can be expressed as (c - c'), where c is the influence of X on Y without considering Z. Meanwhile, c' is the coefficient of paths a and b, written as Sa and Sb, as well as the standard error. The size of the standard error for the indirect effect *is* Sab. In this study, the mediating variable to be tested is the HDI variable. The following is the calculation for the Sobel test:

a. The influence of ZIS fund distribution on economic growth through the Human Development Index (HDI)

1) Calculating indirect *effects*

Indirect effect = ab

= (7.160953 x 0.048695)

= 0.3487026063

2) Calculating *the standard error* of the indirect effect coefficient

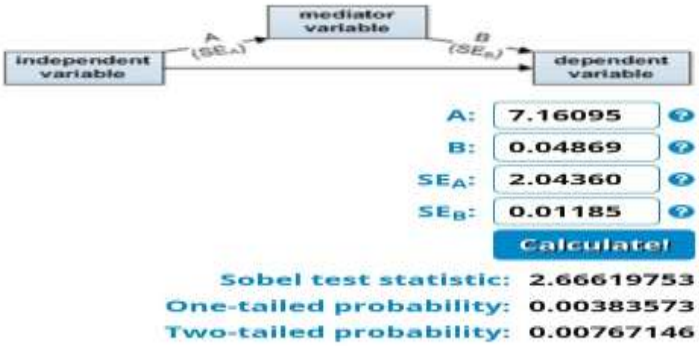
$Sab = \sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2}$

$=\sqrt{(0.048695)^2 (2.043607)^2 + (7.160953)^2 (0.011856)^2 + (2.043607)^2 (0.011856)^2}$

= 0.13303392

3) Calculate the mediation value and probability value with *the online test calculator* , as follows:

Figure 3. *Sobel Test*



Source: danielsoper (data processed 2025)

b. The influence of Islamic financing on economic growth through the Human Development Index (HDI)

1) Calculating indirect *effects*

Indirect effect = ab

= (8.152627 x 0.048695)

= 0.39700

2) Calculating the standard error of the *indirect effect coefficient*

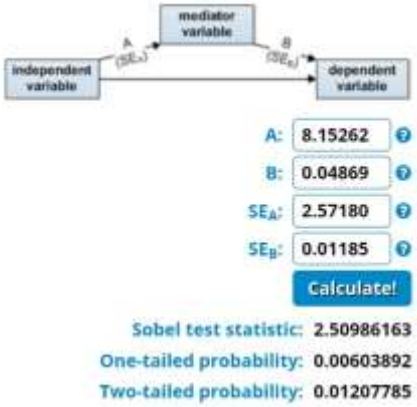
Sab = $\sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2}$

$=\sqrt{(0.048695)^2 (2.571807)^2 + (8.152627)^2 (0.011856)^2 + (2.571807)^2 (0.011856)^2}$

= 0.16110863

3) Calculating mediation value and probability value with *online test Calculator* , as follows :

Figure 4. *Sobel Test*



Source: danielsoper (data processed 2025)

c. The effect of inflation on economic growth through the HDI

1) Calculating indirect *effects*

Indirect effect = ab

= (0.136243 x 0.048695)

= 0.00663435

2) Calculating the standard error of the *indirect effect coefficient*

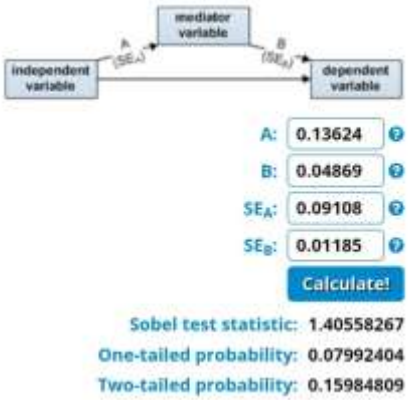
Sab = $\sqrt{b^2 Sa^2 + a^2 Sb^2 + Sa^2 Sb^2}$

$= \sqrt{(0.048695)^2 (0.091081)^2 + (0.136243)^2 (0.011856)^2 + (0.091081)^2 (0.011856)^2}$

$= 0.00484252$

3) Calculating mediation value and probability value with *online test Calculator* , as follows:

Figure 5. *Sobel Test*



Source: danielsoper (data processed 2025)

6) Hypothesis Test

a. T-Statistic Test

Sub-Structure 1

1) The Effect of ZIS Fund Distribution on Human Development Index The ZIS Fund Distribution variable (X1) has a coefficient value of 7.160953 and a probability of 0.0014 <0.05, so the ZIS Fund Distribution variable (X1) has a positive and significant effect on Human Development Index (Z), where if the ZIS Fund Distribution increases or decreases, it will affect the Human Development Index. With these results, the H4 hypothesis is accepted.
2) The Effect of Sharia Financing on Human Development Index (HDI), Sharia Financing (X2) has a coefficient value of 8.152627 and a probability of 0.0033 <0.05, so the Sharia Financing variable (X2) has a positive and significant effect on HDI (Z), where if Sharia Financing increases or decreases, it will affect HDI. With these results, the H5 hypothesis is accepted.
3) The Effect of Inflation on HDI The Inflation variable (X3) has a coefficient value of 0.136243 and a probability of 0.1445 > 0.05, so the Inflation variable (X3) has a positive and insignificant effect on HDI (Z), where if Inflation increases or decreases it will not affect HDI and vice versa. With these results, the H6 hypothesis is rejected.

Sub-Structure 2

1) The Effect of ZIS Fund Distribution on Economic Growth The ZIS Fund Distribution variable (X1) has a coefficient value of 0.081256 and a probability of 0.0312 <0.05, so the ZIS Fund Distribution variable (X1) has a positive and significant effect on Economic Growth (Y), where if the ZIS Fund Distribution increases or decreases, it will affect Economic Growth. With these results, the H_1 hypothesis is accepted.

2) The Effect of Sharia Financing on Economic Growth The ZIS Fund Distribution variable (X2) has a coefficient value of 7.185908 and a probability of 0.0003 <0.05, so the Sharia Financing variable (X2) has a positive and significant effect on Economic Growth (Y), where if Sharia Financing increases or decreases it will affect Economic Growth. With these results, the H2 hypothesis is accepted.
3) The Effect of Inflation on Economic Growth The Inflation variable (X3) has a coefficient value of 0.002920 and a probability of 0.5785 > 0.05, so the Inflation variable (X3) has a positive and insignificant effect on Economic Growth (Y), where if Inflation increases or decreases it will not affect Economic Growth and vice versa. With these results, the H 3 hypothesis is rejected.
4) The Effect of HDI on Economic Growth The HDI variable (Z) has a coefficient value of 0.048695 and a probability of 0.0003 < 0.05, so the HDI variable (Z) has a positive and significant effect on Economic Growth (Y), where if the HDI increases or decreases, it will affect Economic Growth. With these results, the hypothesis H 7 is accepted.

b. F Statistical Test

Sub-Structure 1

Table 13. Results of F Statistical Test for Model 1

Dependent Variable: Z
Method: Panel EGLS (Cross-section random effects)

R-squared	0.442011	Mean dependent variable	6.816971
Adjusted R-squared	0.389699	SD dependent var	1.142709
SE of regression	0.892705	Sum squared residual	25.50149
F-statistic	8.449587	Durbin-Watson stat	0.885466
Prob(F-statistic)	**0.000281**		

Source: Eviews 13, (Data processed, 2025)

Based on the results of the statistical analysis of the f test (simultaneous) in model 1 above, the Prob (F-statistic) value is 0.000281 < 0.05, so it can be concluded that simultaneously or together the independent variables, namely ZIS Fund Distribution, Sharia Financing, and Inflation, influence the HDI as a mediating variable.

Table 14. Results of F Statistical Test for Model 2

Dependent Variable: Y_PE
Method: Panel EGLS (Cross-section random effects)

R-squared	0.752632	Mean dependent variable	0.348893
Adjusted R-squared	0.720714	SD dependent var	0.117419
SE of regression	0.062053	Sum squared residual	0.119368
F-statistic	23.57988	Durbin-Watson stat	0.864594
Prob(F-statistic)	**0.000000**		

Source: Eviews 13, (Data processed, 2025)

Based on the results of the statistical analysis of the f test (simultaneous) in model 2 above, the Prob (F-statistic) value is 0.000000 < 0.05, so it can be concluded that simultaneously or together the independent and mediating variables, namely ZIS Fund Distribution, Sharia Financing,

Inflation, and Human Development Index (HDI), influence Economic Growth as a dependent variable.

c. Coefficient of Determination Test

Sub-Structure 1

Based on the results of the coefficient of determination test for model 1, the *Adjusted R-Squared value* is 0.389699. This means that every change in the Human Development Index (HDI) can be explained by the variables of ZIS Fund Distribution, Sharia Financing, and Inflation by 38.9%, while the remaining 61.1% is explained by other variables outside this study.

Sub-Structure 2

Based on the results of the determination coefficient test for model 2, the Adjusted R-Squared value is 0.720714. This means that every change in economic growth can be explained by the variables of ZIS Fund Distribution, Sharia Financing, Inflation, and Human Development Index (HDI) by 72%, while the remaining 28% is explained by other variables outside this study.

4.2. Discussion

1) The influence of ZIS fund distribution on economic growth

Based on the results of the regression analysis of ZIS fund distribution on economic growth, it shows that the probability value is 0.0312 <0.05 with a t count of 2.257496 and a coefficient value of 0.081256, which means H1 is accepted, the ZIS fund distribution variable has a significant positive effect on economic growth in Java. The distribution of Zakat, Infaq, and Sedekah (ZIS) funds in Java reached 1,999 billion rupiah distributed to 6 provinces, this amount is greater than other regions. Java's advantage lies in its large economic base and more advanced OPZ/BAZNAS institutions, supported by a network of strategic partners such as universities, hospitals, business incubation institutions, and a strong MSME ecosystem, as well as a high level of digital channel adoption. This research is in line with the research of Qoyyim & Widuhung, (2020) , and Wahyuningsih & Nurzaman, (2020) where the distribution of ZIS funds has a significant and positive influence on economic growth. Based on the test results, it means that when the value of ZIS fund distribution is high, it will also influence high economic growth on the island of Java.

2) The influence of Islamic financing on economic growth

Based on the results of the regression analysis of Islamic financing on economic growth, it shows that the probability value is 0.0003 <0.05 with a t count of 4.071121 and a coefficient value of 7.185908, which means H2 is accepted, the Islamic financing variable has a significant positive effect on economic growth in Java. The influence of Islamic financing is stronger in Java because structurally national economic activity is indeed concentrated in this region. OJK Islamic Banking Statistics Data for December 2024 shows that six provinces in Java absorbed around IDR 401.98 trillion or 64.5% of the total national Islamic financing of IDR 623.10 trillion, with DKI Jakarta as the largest contributor of IDR 236.68 trillion. These results are in line with research by Jamili, (2017) and El Ayyubi et al., (2018) where regression shows that partially Islamic Bank Financing has a significant positive effect on Indonesian Economic Growth. Based on these results, it is proven that high sharia financing values will be followed by high economic growth as well.

3) The effect of inflation on economic growth

Based on the results of the regression analysis of inflation on economic growth, it shows that the probability value is 0.5785 > 0.05 with a t count of 0.561547 and a coefficient value of 0.002920, which means H3 is rejected, the inflation variable has a positive and insignificant effect on economic growth in Java. This indicates that economic growth is more influenced by other macroeconomic stability and people's purchasing power. Inflation has a positive but insignificant effect on economic growth in Java. This is supported by research by Kusumatrisna et al., (2022) where in their research it states that inflation does not affect economic growth if inflation is below the threshold value. This result is not in line with the research of Kartika & Pasaribu, (2023) which states that the inflation variable has a positive effect on economic growth. It can be concluded that the movement or rise and fall of inflation values will not significantly affect the movement of economic growth in Java.

4) The influence of ZIS fund distribution on the Human Development Index (HDI)

Based on the results of the regression analysis of ZIS fund distribution against the human development index, it shows that the probability value is 0.0014 < 0.05 with a calculated t value of 3.504013 and a coefficient value of 7.160953, which means H4 is accepted, the ZIS fund distribution variable has a significant positive effect on the human development index. The effectiveness of ZIS distribution in increasing the Human Development Index is more prominent in Java due to relatively complete education and health infrastructure, and more professional OPZ . This condition accelerates the conversion of ZIS into improvements in the quality of human resources and community income. These results are in line with the research of Wardani & Al Arif, (2021) which found that the ZIS fund distribution variable has a positive effect directly and indirectly through the variables and the Human Development Index. This means that the rise and fall of the ZIS fund distribution value will be followed by the rise and fall of the level of human welfare/growth as seen from the human development index.

5) The influence of Islamic financing on the Human Development Index (HDI)

Based on the results of the regression analysis of Islamic financing on the Human Development Index (HDI), it shows that the probability value is 0.0033 <0.05 with a calculated t of 3.170296 and a coefficient value of 8.152627 , which means H5 is accepted, the Islamic financing variable has a significant positive effect on the HDI . These results mean that Islamic financing makes a significant contribution to economic expansion and investment in health and education, two areas that are important for the HDI. This funding contributes to increasing the overall HDI by improving the quality of life and expanding people's access to resources. The results of this study are in line with the findings of Wardani & Al Arif, (2021) and Siswantoro & Ikhwan, (2024) who show that Islamic financing has a strong direct and indirect influence on the HDI, through the mechanism of economic growth.

6) The effect of inflation on the HDI

Based on the results of the regression analysis of inflation on the human development index, it shows that the probability value is 0.1445 > 0.05 with a calculated t of 1.495852 and a coefficient value of 0.136243, which means that inflation has a negative effect on the HDI. H6 is rejected, the inflation variable

has a positive and insignificant effect on the human development index. The results of this study are in line with the research of Herman, (2021) which states that inflation does not affect the human development index in Pekanbaru. These results are not in line with the research of Pangesti & Susanto, (2018) which found that inflation has a significant negative effect on the Human Development Index (HDI).

7) The influence of HDI on economic growth

Based on the results of the regression analysis of the human development index on economic growth, it shows that the probability value is 0.0003 <0.05 with a calculated t value of 4.107019 and a coefficient value of 0.048695, which means H7 is accepted, the HDI variable has a significant positive effect on economic growth in Java. This is evidenced by research on the impact of economic growth on the HDI by Wardani & Al Arif, (2021) the results of the study on the variables of economic growth and HDI have a direct positive effect. The higher the quality of human resources associated with all components of the HDI as a basic indication of welfare, the higher the rate of economic growth. It can be concluded that a high human development index indicates a high or stable level of economic growth. (Karimah, 2021) .

8) The influence of ZIS fund distribution on economic growth through the Human Development Index (HDI)

Based on the calculation of the Sobel test of the variable of ZIS fund distribution on economic growth through the Human Development Index, the probability value of 0.001665 <0.05 is obtained, which means that the influence of ZIS fund distribution on economic growth through the Human Development Index H_8 is accepted, namely the distribution of ZIS funds with economic growth can be mediated by the human development index. Indirect contributions where the coefficient values of sub 1 and 2 (A × B = 0.3497) indicate that strengthening the Human Development Index contributes 34.49% of the overall influence of ZIS fund distribution on economic growth. This result is in line with research on the impact of ZIS fund distribution, including the results of Hasibuan et al., (2023) where the distribution of Zakat and Infaq/Sadaqah funds has a significant positive effect on economic growth through the Human Development Index as a mediating variable.

9) The influence of Islamic financing on economic growth through the Human Development Index (HDI)

Based on the calculation of the Sobel test of the Islamic financing variable on economic growth through the Human Development Index (HDI), the probability value obtained is 0.000033 <0.05, which means that Islamic financing has a positive and significant effect on economic growth in Java Island through the HDI. H9 is accepted, namely that Islamic financing and economic growth can be mediated by the human development index. This is evidenced by research on the impact of Islamic financing on economic growth through the HDI by Amalia et al., 2019, there is an indirect positive relationship between Islamic financing and the HDI through GDP. This indicates that Islamic financing by Islamic banks affects the HDI through GDP. Although this study emphasizes the effect of Islamic financing on the HDI through GDP, these results confirm that there is a mutually influential relationship, and indicate a significant relationship. (Amalia et al., 2019)

10) The effect of inflation on economic growth through the HDI

Based on the calculation of the Sobel test of the inflation variable on economic growth through the HDI, the probability value of 0.473423> 0.05 is obtained, which means that inflation has a negative effect on economic growth in Java Island through the HDI. H_{10} is rejected, namely inflation with economic growth cannot be mediated by the human development index. Inflation has a positive insignificant effect on economic growth supported by the theory from the perspective of Schumpeter & Keynes, (1936) regarding the dynamics of aggregate demand. In his work *The General Theory of Employment, Interest, and Money,* Keynes stated that an increase in real demand has the potential to encourage output growth and expand employment opportunities, and at a certain stage the accumulation of demand will also be reflected in an increase in the price level (inflation).

5. Conclusion and Suggestions

The results of the analysis show that the variables of ZIS fund distribution, sharia financing and HDI have a significant effect on economic growth in Java Island and ZIS fund distribution, and sharia financing have a significant effect on HDI. Meanwhile, inflation has no significant effect on economic growth and HDI in Java Island in 2019-2024. This shows that price fluctuations, inflation, during the period do not directly affect the HDI level and economic growth in Java Island. The variables of ZIS fund distribution, and sharia financing have a significant positive effect on HDI in Java Island. And ZIS fund distribution, sharia financing and HDI have a significant positive effect on economic growth in Java Island.

Path analysis found that the distribution of ZIS funds and Sharia financing on economic growth can be mediated by the Human Development Index (HDI) as an intervening variable. This indicates that increasing ZIS funds and Sharia financing contributes to improving economic growth and human development in Java. Based on the F-test (simultaneous), all variables in structural models 1 and 2 jointly influence the HDI and economic growth in Java.

The results of this study indicate that not all selected variables have a significant impact. Further research is recommended to add variables, use other primary or secondary data, expand the sample, and apply more diverse research methods. The author hopes that BAZNAS/BAZDA will optimize ZIS distribution and improve education for muzakki (recipients of zakat), Islamic financial institutions will expand access to productive financing, and the government will strengthen inflation control and support MSMEs, education, and skills training.

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