

DOES ZAKAT AS AN ISLAMIC SOCIAL FINANCE INSTRUMENT, MAINTAIN PUBLIC PURCHASING POWER?

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Abstract

The decrease in public purchasing power within Indonesian society in 2024 has emerged as a critical issue that may precipitate a broader economic crisis. This study aims to examine the function of zakat in enhancing public purchasing power and fostering economic stability through wealth redistribution. Zakat, as an Islamic social financial mechanism, has the potential to mitigate income inequality by augmenting the financial resources of marginalized groups, thereby increasing their aggregate expenditure. This study utilizes a literature review approach, adhering to the PRISMA model to systematically identify and analyse relevant articles. The findings suggest that productive zakat, which prioritizes economic empowerment through the allocation of business capital and training, exerts a substantial influence on the long-term economic independence of its beneficiaries. Moreover, zakat operates as an automatic stabilizer within the economy, aiding in the maintenance of public purchasing power, particularly during periods of economic strain. This study corroborates the hypothesis that zakat functions as a mechanism for income redistribution and has a multiplier effect that increases demand for goods and services, thereby promoting inclusive economic growth. Therefore, zakat has the potential to function as a strategic solution for enhancing public purchasing power, maintaining economic stability, and strengthening overall socio-economic resilience.

Keywords: Zakat, Purchasing Power, Economic Stability, Economic Empowerment, Islamic Economics.

Introduction

Consumer purchasing power is a significant indicator of social welfare and economic stability within a nation (Razak 2020). In recent years, global purchasing power has faced considerable challenges due to economic instability, income inequality, and the impact of global crises, including pandemics, inflation, and other growing concerns (Ahmed Shaikh 2018; Karim 2010). The decrease in consumer purchasing power in Indonesia in 2024 has emerged as a critical issue with significant implications for economic slowdown. Household consumption, a substantial contributor to economic growth, recorded growth rates below 5% in the first three quarters and reached only 4.91% in the third quarter of 2024 (Rachman 2024). This phenomenon has contributed to an overall economic slowdown, with the growth rate reaching 4.95% (Rachman 2024). Furthermore, the deflationary trend observed over a period of five consecutive months from May to September of 2024 has served to compound concerns regarding public purchasing power. The government has characterized this deflation as a positive outcome of price control measures. However, many argue that it indicates a decline in consumer demand (Deviyana 2024). Further analysis reveals that the decrease in public purchasing power in 2024 is more pronounced than in previous years. The middle class has undergone a substantial decline, with a decrease from 57.33 million individuals (representing 21.45% of the population) in 2019 to 47.85 million individuals (accounting for 17.13% of the population) in 2024. The real estate industry witnessed a 25% decrease in sales, the retail sector confronted persistent deflationary pressures, and the automotive sector encountered difficulties due to consumers' limited ability to procure vehicles (Nurhadi 2024). Concurrently, income stagnation is evident, with 40 million workers earning less than Rp5 million per month, while average wage growth from 2020 to 2024 is around 4.9% (Nurhadi 2024).

The Consumer Price Index (CPI) experienced a decline from 106.37 in May to 105.93 in September 2024, suggesting a deflationary trend within the economy. Concurrently, the Manufacturing Purchasing Managers' Index (PMI) signalled a contraction over a period of three consecutive months (BPS 2024), indicating a decline in manufacturing activity due to diminished demand. This issue was further exacerbated by increased layoffs, with 54,000 documented cases in September 2024. Furthermore, the average savings balance in accounts below Rp100 million experienced a significant decline, reaching Rp1.5 million. This represents a decrease of up to fifty per cent from the figure recorded in 2019 (Jelita 2024). The decrease in public purchasing power has exerted significant pressure on the middle class, which serves as the primary foundation of consumption in the economy. While the middle class is not classified as *mustahik* (those entitled to receive zakat), zakat exerts an indirect influence on the public purchasing power of the middle class by enhancing overall economic stability. The distribution of zakat to the *mustahik* has the potential to increase aggregate demand, thereby stimulating production activities and generating an economic multiplier effect that strengthens the consumption ecosystem. Consequently, zakat can play a pivotal role in maintaining socio-economic balance, thereby indirectly augmenting the purchasing power of the middle class.

However, in this case, unaddressed public purchasing power gaps have the potential to cause a chain reaction in the national economy. A decline in purchasing power will result in a decrease in consumer spending (Dora et al. 2021). A decline in consumer spending has been shown to result in a corresponding decline in production levels, which can lead to a

reduction in the workforce and an increase in unemployment (Lurweg 2009). This condition will also precipitate a slowdown in economic growth and a decline in demand for goods and services (Spahiu et al. 2023). In the long term, the potential ramifications encompass an escalation in structural poverty, a diminution in domestic consumption, social unrest stemming from the exacerbation of inequality, and the possibility of a more profound recession. This scenario has the potential to intensify social fragmentation and diminish national economic resilience. This dynamic has the potential to precipitate more severe economic disasters, as cautioned by economist Yanuar Rizky, who draws parallels between this scenario and the 1998 Asian financial crisis (Jelita 2024). Consequently, the strategic integration of zakat within the national economic framework is imperative to stimulate consumer spending and ensure economic stability.

In the context of Islamic economics, zakat serves as a viable social financial instrument, facilitating wealth transfer and promoting socio-economic stability. The objective of zakat is to promote equitable distribution of wealth, alleviate poverty, and increase purchasing power through various socio-economic mechanisms (Bilo dan Machado 2020; Ahmed Shaikh 2018). The redistribution of wealth from the affluent to the impoverished (*mustahik*) has been identified as a potential solution to alleviate economic inequality and poverty (Sarif, Ali, dan Kamri 2020). This redistribution has been demonstrated to increase the purchasing power of low-income communities and generate an economic multiplier effect through increased demand for products and services (Suprayitno 2013; Razak 2020). As demonstrated in the extant research, zakat has become a fundamental component of fiscal policy in countries such as Sudan and Malaysia, resulting in a significant increase in the purchasing power of the population (Bilo dan Machado 2020). In Sudan, zakat is a significant component of household income and serves as a crucial social safety net, providing cash assistance to beneficiaries and increasing local consumption (Bilo dan Machado 2020). In Malaysia, the productive zakat has been utilized to support various sectors, including education, training, and business ventures. This has enabled beneficiaries to achieve economic independence and enhance their purchasing power (Razak 2020).

This indicates that zakat functions as a strategic instrument for enhancing economic stability by fortifying the public purchasing power of economically vulnerable groups, including low-income households, the unemployed, and informal workers. Despite the fact that numerous studies have examined the impact of zakat on poverty alleviation (Mongkito & Samdin, 2025, wealth distribution (Ridwan, Asnawi, dan Sutikno 2019), and welfare enhancement (Ridwan, Asnawi, dan Sutikno 2019), there is a paucity of research that has specifically investigated how zakat contributes to the maintenance of sustainable public purchasing power. The present study aspires to address this lacuna by means of a thorough examination of the mechanisms of zakat as a means of enhancing public purchasing power and stabilizing the economy within the context of contemporary economic dynamics confronted with public purchasing power pressures. The present study aims to examine the function of zakat in enhancing public purchasing power and promoting economic stability, focusing on three main factors. Firstly, zakat functions as a mechanism for wealth redistribution, thereby increasing the purchasing power of the populace. Secondly, the effective implementation of zakat has the potential to enhance the economic well-being of the *mustahik* in a sustainable manner. Thirdly, the role of zakat as an automatic stabilizer in the economy, especially during periods of economic tension. The present study endeavours

to provide pragmatic insights that will facilitate the enhancement of zakat management and contribute to the expansion of the extant literature on Islamic economics and wealth redistribution strategies in response to the identified issues.

Literature Review

Islamic Social Finance Theory (Zakat)

Zakat represents a fundamental pillar of the Islamic social finance framework, aimed at establishing an equitable and inclusive method for wealth redistribution. Zakat in Islam seeks to redistribute wealth to assist marginalised individuals and mitigate poverty (Haji-Othman, Yusuff, dan Moawad 2021; Hunjra, Arunachalam, dan Hanif 2024). Zakat serves as a poverty reduction mechanism that fosters financial inclusion, stimulates entrepreneurship, and bolsters small enterprises. Thus, zakat promotes social justice and mitigates economic inequalities (Khan et al. 2019; Hunjra, Arunachalam, dan Hanif 2024). This transfer method allows zakat to substantially influence the public purchasing power of recipients, resulting in wider economic advantages. The distribution of Zakat can contribute to the attainment of the Sustainable Development Goals (SDGs), especially in poverty alleviation and the improvement of social welfare (Abubakar dan Aysan 2022; Haji-Othman, Yusuff, dan Moawad 2021). In Kedah, Malaysia, zakat distribution has demonstrated alignment with the attainment of SDGs; nevertheless, its efficacy is contingent upon the management's performance and the adequacy of zakat collection (Haji-Othman, Yusuff, dan Moawad 2021). During crises, such as the COVID-19 epidemic, zakat has been recognised as a mechanism to address both health and economic issues. Zakat programs can offer medical aid, establish social safety nets, and encourage micro and small enterprises (Ascarya 2022). Moreover, studies indicate that zakat enhances financial inclusion by mitigating financial exclusion and broadening access to the banking sector. The augmented utilisation of digital platforms for zakat transactions significantly improves the accessibility and efficiency of zakat management (Beik dan Arsyianti 2021; Khan et al. 2019).

The integration of zakat with Islamic commercial finance, encompassing *waqf* and *sadaqah*, might augment socio-economic wellbeing and financial stability. Islamic banks in Malaysia have shown that zakat donations enhance corporate social responsibility and positively influence their financial performance (Ascarya dan Suharto 2021; Rosman, Haron, dan Othman 2019). Consequently, zakat is an essential component of Islamic social finance, possessing considerable potential to advance social justice, financial inclusion, and sustainable development. To optimise its effects, issues of transparency and efficiency must be resolved via technology innovation and proficient administration (Nasri, Aeni, dan Haque-Fawzi 2019).

Purchasing Power

Purchasing power denotes the quantity of products and services that may be acquired with a single unit of funds. This idea is significant in economics as it directly influences consumer behaviour, inflation, and economic policies. A fundamental idea in purchasing power is Purchasing Power Parity (PPP), which posits that, over time, exchange rates will adjust to equalise the costs of a basket of equivalent goods and services between two nations (Vo dan Vo 2023). Purchasing Power Parity (PPP) is employed to evaluate economic productivity and living standards among countries (Ravallion 2018; Vo dan Vo 2023). The

Purchasing Power Standard (PPS) is employed in the European Union for economic analysis, albeit it has regional constraints that may impact policy precision (Cadil dan Mazouch 2011). Public purchasing power significantly affects customer behaviour. An increase in public purchasing power in Indonesia has prompted the middle class to transition towards luxury items, whilst in Malaysia, elevated purchasing power has stimulated demand for organic rice (Othman, Samah, dan Musa 2021). Inflation, income levels, and exchange rates substantially influence purchasing power (Vo dan Vo 2023). Inflation diminishes buying power by increasing the prices of goods and services, as demonstrated by inflation influenced by energy and food prices in OECD nations (Causa et al. 2023). In contrast, elevated income levels can augment purchasing power, exemplified by the heightened purchase of durable goods among the rural middle class in China (Yuan, Wan, dan Khor 2012). Fluctuations in exchange rates are essential, especially in nations with substantial international trade engagement.

In reality, the comprehension of public purchasing power is utilised in multiple ways. In policymaking, purchasing power parity (PPP) can function as an early warning mechanism for economic crises by forecasting current account challenges and liquidity shortages (Allsopp, Rammal, dan Zurbruegg 2005). In business, market tactics are frequently modified in response to fluctuations in purchasing power, as demonstrated in the non-life insurance sector in Sub-Saharan Africa, which adjusts to evolving consumer preferences (Cheteni, Matsongoni, dan Umejesi 2024). Moreover, consumer assistance initiatives, exemplified by the Supplemental Nutrition Assistance Program (SNAP) in the United States, seek to augment the purchasing capacity of low-income households by providing double value incentives at farmers' markets, so encourage nutritious dietary practices (Zhao et al. 2020). The concept of purchasing power, encompassing multiple dimensions, is essential for comprehending economic dynamics, consumer behaviour, and effective governance (Lu et al. 2020). Within the framework of Islamic social finance theory, zakat is perceived as a mechanism that enhances the purchasing power of disadvantaged people by the direct transfer of income from affluent individuals to those in need (Razak 2020; Bilo dan Machado 2020). This redistribution mechanism mitigates income inequality and enhances the purchasing power of low-income populations, hence stimulating the consumption of products and services in the economy (Ahmed Shaikh 2018). Zakat functions not only as a religious duty but also as a strategic instrument to bolster the local market by enhancing aggregate demand.

The Correlation Between Zakat and Purchasing Power through Wealth Redistribution

Zakat funds can catalyse economic growth, particularly when allocated to consumption, investment, or governmental spending. The increase in consumption will enhance aggregate demand, thus stimulating overall economic activity (Abdussalam, Gunawan, dan Hasanah 2025; Ben Jedidia dan Guerbouj 2021; Wahyuningsih dan Nurzaman 2020). Effective zakat administration can transition beneficiaries from dependence on assistance to self-sufficiency, thereby diminishing poverty rates and augmenting their purchasing power (Abderrahim dan Fadma 2024; Azzahra, Majid, dan Suriani 2023; Embong, Taha, dan Nor 2013). Research reveals that zakat can enhance equitable wealth distribution, as evidenced by agent-based modelling simulations (Abderrahim dan Fadma 2024). Zakat influences the economy through many mechanisms. The direct cash assistance from zakat allows recipients to fulfil essential necessities and

elevate their living standards, hence augmenting their economic engagement (Embong, Taha, dan Nor 2013; Ridwan, Asnawi, dan Sutikno 2019). Secondly, zakat payments are frequently allocated to invest in human resources, including education and healthcare, thereby improving workforce quality and augmenting recipients' income (Abdussalam, Gunawan, dan Hasanah 2025; Ridwan, Asnawi, dan Sutikno 2019).

Third, zakat fosters economic stability by promoting a more equitable distribution of wealth, which is essential for sustainable economic growth (Abdussalam, Gunawan, dan Hasanah 2025; Azzahra, Majid, dan Suriani 2023). The efficacy of zakat in augmenting public purchasing power and fostering economic progress is significantly dependent on proficient management. The government and zakat institutions must guarantee transparency and accountability in the collection and distribution of funds (Abdussalam, Gunawan, dan Hasanah 2025; Ridwan, Asnawi, dan Sutikno 2019). Furthermore, it is imperative to enhance public awareness, particularly among *muzakki* (the zakat payers), to promote adherence to zakat payment (Ben Jedidia dan Guerbouj 2021; Ridwan, Asnawi, dan Sutikno 2019). Integrating zakat with comprehensive economic strategies is essential to enhance its efficacy, such as by amalgamating zakat with additional social protection initiatives (Azzahra, Majid, dan Suriani 2023; Wahyuningsih dan Nurzaman 2020). Consequently, zakat possesses considerable potential to augment buying power and stimulate economic growth via efficient wealth transfer. The efficacy of zakat as a tool for economic development necessitates proficient management, elevated public awareness, and strategic alignment with comprehensive economic and social policies.

Research Methods

This paper utilizes a qualitative research method that is grounded in a comprehensive literature review to assess zakat and public purchasing power, with a particular emphasis on theoretical frameworks, methodological approaches, and salient issues (Yang 2024). This comprehensive approach aims to enhance understanding and encourage further research and models related to the role of zakat in public purchasing power. A comprehensive data collection process was executed through a meticulous analysis of diverse documentation, encompassing personal archives and online records. This encompassed journals, books, reports, official documents, and print media (McCulloch 2004). The objective of this analysis was to derive findings pertinent to zakat as an Islamic social financial instrument, with a focus on its role in preserving public purchasing power.

The present study employs the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) model to systematically map the extant literature, thereby ensuring the reliability and usability of the results for other researchers, policymakers, and practitioners. PRISMA is a guideline developed to improve the quality of reporting in systematic reviews and meta-analyses. The PRISMA statement was initially formulated by Moher et al. (2009). However, the PRISMA model has been extensively adopted and adapted to suit the specific research objectives of various studies. For instance, Zouridaki et al. (2024) incorporated the PRISMA framework in their literature review, highlighting its versatility and adaptability in different research contexts. This study employed an array of keywords to navigate the Scopus database and identify relevant articles. Given the paucity of keywords related to TITLE-ABS-KEY ("Zakat" AND "Purchasing Power") within the Scopus database, a combination of manual searching and screening was undertaken to

identify literature pertinent to the subject. Figure 1 illustrates the flow of literature collection. The collected data were then analysed by presenting findings from the literature in the form of theories and models, and subsequently analysed in depth to generate findings that address the research questions.

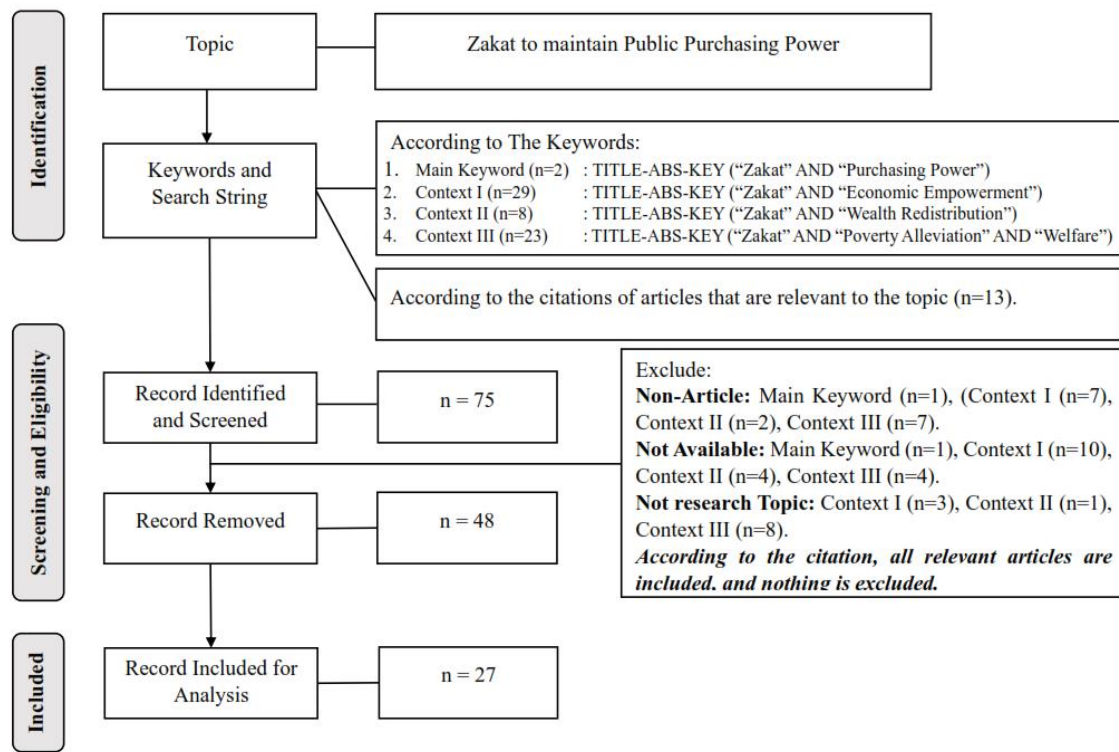


Figure 1. PRISMA Adoption: Data Processing and Search Strategy

Source: Author's (2025)

Finding and Analysis

Wealth Redistribution and Public Purchasing Power Enhancement

Wealth Redistribution through Zakat

The findings of this study suggest that zakat serves as a highly effective mechanism for wealth redistribution, resulting in a substantial enhancement of the purchasing power of disadvantaged communities. This assertion is consistent with the findings of Hanifuddin et al. (2024), which indicate that economically disadvantaged individuals can benefit from zakat due to its role in redistributing wealth. By allocating zakat funds from affluent individuals to economically disadvantaged groups, zakat beneficiaries receive supplementary income that can be utilized to satisfy fundamental needs, such as food, education, and healthcare (Bilo dan Machado 2020; Razak 2020). The efficacy of this redistribution strategy has been demonstrated by its ability to directly reduce income inequality, increase aggregate consumption, enhance overall well-being, and fortify demand within the local economy. The distribution of wealth through zakat has been demonstrated to generate an economic multiplier effect. The allocation of financial resources to entities exhibiting a considerable marginal propensity to consume (MPC) has been demonstrated to result in zakat recipients utilizing these funds for fundamental daily

expenditures. This phenomenon, in turn, has been shown to precipitate an augmentation in demand for products and services within the local economy (Ahmed Shaikh 2018).

For instance, in Sudan, the zakat program is compulsory on a national scale and has successfully reached a significant proportion of impoverished households, thereby establishing a social safety net that enhances the purchasing power of vulnerable communities (Bilo dan Machado 2020). In its implementation, zakat, the most significant source of social protection in Sudan, has provided assistance in various forms, ranging from unconditional cash transfers, healthcare costs, seasonal assistance, and support for families during Ramadan to emergency aid (Bilo dan Machado 2020). Consequently, in 2016, zakat beneficiaries numbered 2.6 million households, with extensive coverage reaching the village level (Bilo dan Machado 2020).. Analogous observations have been documented in Malaysia, where zakat has been integrated into fiscal policy and functions as a social protection mechanism (Sarif, Ali, dan Kamri 2020). In Indonesia, the structured zakat redistribution program has been instrumental in promoting overall consumption and fostering domestic economic growth, particularly in rural areas where the zakat recipient population is more prevalent (Suprayitno 2013). A parallel can be drawn with Nigeria, where the government has established zakat committees in each state to ensure effective and efficient zakat collection. These committees are responsible not only for the management of zakat collection but also for the selection of eligible recipients, ensuring that zakat funds are distributed in an effective and direct manner that has a local impact on poverty reduction (Zauro, Saad, dan Sawandi 2020).

Through the implementation of redistribution mechanisms, zakat can directly contribute to the realization of sustainable development goals, including the alleviation of poverty, the attainment of food security, and the promotion of healthy and prosperous lives within Muslim-majority regions. The act of providing assistance to those experiencing financial disadvantage is a practice known as zakat, which has been identified as a catalyst for inclusive economic growth (Al-Daihani et al. 2025). This practice can serve as a pivotal instrument in enhancing the resilience of communities confronted with vulnerability. In this context, increased consumption plays a pivotal role in stabilizing overall public purchasing power. This finding lends further support to the hypothesis that direct redistribution of zakat leads to an increase in aggregate spending across society, thereby underscoring the role of zakat as a crucial component of a social safety net that enhances public purchasing power.

The Multiplier Effect of Zakat on Aggregate Consumption

Zakat exerts a considerable impact on aggregate consumption through its multiplier effect. The distribution of zakat payments to individuals with a high marginal propensity to consume (MPC) has been demonstrated to increase consumer spending, thereby stimulating demand for products and services in the economy (Ahmed Shaikh 2018). A study conducted by Suprayitno (2013) in Indonesia indicates that a 1% increase in zakat expenditure leads to a 0.36% increase in household consumption. This finding suggests a direct correlation between zakat and increased domestic consumption. The findings in Sudan and Malaysia support this conclusion, demonstrating that zakat recipients' consumption stimulates heightened demand for local goods and services, consequently reinforcing domestic markets (Bilo dan Machado 2020; Sarif, Ali, dan Kamri 2020). The efficacy of this effect is contingent upon the effectiveness of zakat distribution and the

recipients' comprehension of the productive utilization of cash (Gamon dan Tagoranao 2018). Consequently, this suggests that zakat not only addresses the immediate needs of recipients but also stimulates domestic demand within the economy. To enhance clarity on the multiplier mechanisms applied, case studies in countries such as Nigeria, Sudan, and Malaysia indicate that the success of zakat distribution depends not only on the amount of funds collected but also on the effectiveness of the monitoring system. Mechanisms such as data-driven monitoring ensure that funds continue to flow into the primary consumption sector, while the use of digital technology and periodic evaluations ensure that every rupiah of zakat directly contributes to increased purchasing power and the establishment of microenterprises (Bilo dan Machado 2020; Sarif, Ali, dan Kamri 2020; Zauro, Saad, dan Sawandi 2020).

As posited by Mawardi et al. (2023), the distribution of zakat has the potential to stimulate an increase in aggregate consumption, as evidenced by an uptick in the quantity of goods and services being consumed. This increase in aggregate consumption is widely regarded as an indicator of economic growth. An increase in GDP is indicative of an increase in the consumption level of the population, which aligns with the increase in income per region (Mawardi et al. 2023). A similar perspective is articulated by Widiastuti et al. (2021), who assert that the allocation of zakat enhances the public purchasing power of beneficiaries, thereby stimulating demand for goods and services, and consequently propelling national production. In this context, zakat has been shown to play a pivotal role in expanding aggregate consumption, as well as in asset redistribution policies and wealth creation, contributing to national economic growth.

Zakat and Economic Empowerment

Zakat plays a crucial role in addressing issues of hunger, poverty, and social inequality. However, its distribution must be directed toward fostering economic independence rather than creating dependency on aid or charity, which is not encouraged in Islamic teachings (Gündoğdu 2019). In response to this, productive zakat has emerged as a strategic method to increase the long-term public purchasing power. Productive zakat, through business capital support and training, has been demonstrated to empower beneficiaries, enabling them to build sustainable income and improve their economic independence (Mas, Putra, dan Amalia 2024; Karmilah Karmilah, Askari Zakariah, dan Novita Novita 2024). Economic empowerment is a critical component of community development, with the potential to enhance the economic well-being of a community within a specific geographical area. This initiative is consistent with the social function of zakat, which is to promote socialization and reduce the economic disparity between the affluent and the impoverished (Arifin dan Anwar 2021). The economic empowerment approach endeavours to redress imbalances in the economic sphere experienced by vulnerable groups by integrating the demand and supply sides, thereby enabling them to procure goods and services at optimal prices (Gündoğdu 2019). Consequently, the strategic utilization of zakat can be achieved through business financing, which can address urgent financial needs and promote sustainable economic empowerment. This dual approach has been demonstrated to enhance the long-term well-being of zakat recipients and contribute to broader poverty alleviation efforts (Siregar, Syahbudi, dan Ilhamy Nasution 2024).

For instance, a study indicates that effective zakat initiatives, such as microenterprise financing, have increased zakat recipients' income by up to 50% in a year, enabling them to

meet their basic needs and increase their consumption (Razak 2020). In addition to fostering income growth, zakat institutions in Malaysia implement strategic measures in the form of ongoing mentoring and empowerment for *mustahik*. The program, formally known as the Ummah Economic Development Zone (UEDZ), is designed to enhance the economic well-being of the *mustahik* community, thereby facilitating their transition from recipients of zakat to contributors of zakat. The efficacy of this program has been demonstrated by the substantial increases in income and living standards experienced by *mustahik* agricultural entrepreneurs. With an initial objective of achieving a target income of RM3,000 per agropreneur by the conclusion of the second phase, the initiative has effectively augmented crop yields while concurrently reducing costs, a feat accomplished through the integration of contemporary agricultural technologies and the utilization of premium seeds. Consequently, in addition to economic growth, there was a decline in external aid dependency, accompanied by an increase in a sense of independence and ownership within the community (Majid et al. 2024).

Concurrently, in Indonesia, the government, through the agency of BAZNAS, has implemented a strategic approach to zakat management, with the objective of fostering the creation of meaningful employment opportunities and concurrently contributing to national economic growth (Sa'adah dan Hasanah 2021). The implementation of this initiative is evident in various programs, one of which is the empowerment of communities grappling with debt through the Bankziska initiative. The program offers a comprehensive training and mentorship curriculum, meticulously designed to assist participants in effectively managing their personal finances and business enterprises. The program is designed to equip participants with the skills necessary to develop financial plans, identify business opportunities, and cultivate the managerial competencies required to achieve economic independence (Hanifuddin, Kasanah, dan Eficandra 2024). An additional illustration of this phenomenon is the BMW SME program, which has been overseen by LAZISMU Surabaya since 2010. This program serves as a model for the effective utilization of zakat funds to promote economic empowerment. To date, this program has provided mentorship to approximately 120 businesses, yielding favourable outcomes in enhancing the economic autonomy of its beneficiaries. Despite the program's current state of optimization, particularly with regard to business mentoring and control mechanisms, it exhibits considerable promise in the effective management of ZISWAF funds (Setiyowati 2019).

Moreover, analogous outcomes have been documented in Banten Province, Indonesia, where the Z-Mart initiative, grounded in zakat, has augmented beneficiaries' income, thereby reinforcing their purchasing power (Amir & Setiawan, 2022). In the context of capital accumulation theory, the implementation of productive zakat has been shown to enhance the capital-labour ratio, thereby augmenting labour productivity and fortifying the beneficial economic cycle (Aliyu 2019). In addition, beneficiaries of productive zakat in multiple countries have exhibited an augmented capacity to generate employment opportunities, thereby reinforcing the positive impact of zakat on the purchasing power.

Zakat as an Automatic Stabilizer in the Economy

The practice of zakat distribution has undergone a transformation in line with the changing needs of Muslim communities. As a component of Islamic philanthropy, zakat is now regarded not exclusively as a social act of worship but also as a strategic instrument

for economic development and a response to technological advancements (Humaidi, Hariyanto, dan Azizah 2024). The relationship between zakat, business financing, and sustainable welfare constitutes a complex yet pivotal aspect of the Islamic economic system. The strategic implementation of zakat as a catalyst for business empowerment and community development can facilitate the establishment of a sustainable model that not only alleviates poverty but also fosters economic growth and social equality (Siregar, Syahbudi, dan Ilhamy Nasution 2024).

This study underscores the automatic stabilizing function of zakat within the economic framework. In periods of economic downturn, zakat plays a pivotal role in maintaining constant consumption levels despite declining public purchasing power. By allocating additional income to populations at risk, zakat ensures that economic security is maintained and essential services are accessible, even in times of financial hardship. Conversely, during periods of economic growth, zakat is allocated to long-term investments such as education and capacity building, which enhance sustainable purchasing power (Azam, Iqbal, dan Tayyab 2014). This demonstrates that zakat can adapt to economic fluctuations, thereby maintaining public purchasing power stability and promoting socio-economic sustainability. For instance, in Malaysia, zakat was utilized to support education and training during the period of the pandemic, thereby maintaining the purchasing power of zakat recipients and enhancing the economic resilience of the community as a whole (Razak 2020). These measures are intended to ensure the preservation of public purchasing power and to encourage aggregate consumption. This initiative underscores the pivotal function of zakat as an automatic stabilizer, demonstrating its capacity to mitigate economic volatility by expediting the allocation of assistance to the most vulnerable segments of society.

Furthermore, a study indicates that integrating zakat with endowments and microfinance can enhance public purchasing power. Research by Islam et al. (2020) and Butt et al. (2023) demonstrates that integrating zakat with microfinance initiatives can foster economic empowerment and alleviate poverty. This integration in Malaysia has increased productive activities among beneficiaries, strengthened sustainable income, and stimulated consumption (Razak 2020). This plan presents a comprehensive approach to optimizing zakat as a social financial instrument, with the potential to enhance public purchasing power. This stabilizing function underscores the capacity of zakat to address economic fluctuations, maintain public purchasing power, and promote social-economic sustainability.

Further Analysis

Zakat, a social financial instrument of Islamic origin, fulfils a pivotal function in preserving the public purchasing power through wealth redistribution mechanisms, economic empowerment, and consumption multiplier effects. The findings from this research study indicate that when effectively managed, zakat can have a significant impact on domestic consumption and socio-economic stability, particularly in countries with high income inequality (Bilo dan Machado 2020; Razak 2020). These findings are consistent with previous evidence indicating that zakat functions as a social safety net by transferring wealth from the wealthy to vulnerable populations, thereby increasing their purchasing power through higher disposable income (Bilo dan Machado 2020; Razak 2020). This indicates that groups with previously constrained public purchasing power due to

insufficient income are facilitated through redistribution mechanisms from higher-income groups. Consequently, they may accrue higher incomes, thereby amplifying their purchasing power. The redistribution of wealth through zakat has been demonstrated to have a positive effect on reducing economic inequality and supporting aggregate consumption. In the context of Islamic social finance theory, zakat increases the purchasing power of zakat recipients by transferring money to groups with a high marginal propensity to consume (MPC), thereby increasing spending on goods and services (Ahmed Shaikh 2018).

As an illustration, studies conducted in several countries have shown that zakat recipients tend to use zakat funds to meet basic needs, thereby creating a multiplier effect that supports local markets and stimulates economic growth (Suprayitno 2013). In Indonesia, the administration of zakat is overseen by the Zakat Community Development (ZCD) program, which is managed by BAZNAS. The program involves the distribution of micro-business capital assistance to *mustahik* in the form of livestock, production tools, and entrepreneurship training. These programs are managed in a transparent manner. The efficacy of the program in increasing *mustahik* income by 30% within a one-year period has been demonstrated, consequently augmenting *mustahik* consumption expenditure (Suprayitno 2013). In this context, zakat is distributed through two approaches: consumptive zakat and productive zakat. The purpose of consumptive zakat is to address the pressing needs of beneficiaries, thereby directly increasing their consumption and public purchasing power. Concurrently, productive zakat is allocated in the form of business capital, thereby empowering beneficiaries to develop their enterprises and become self-reliant. This approach enables them to meet their needs in a sustainable manner and to generate long-term public purchasing power. As previously outlined, effective zakat administration possesses the capacity to function as a substantial catalyst for local economic growth. In Surakarta City, the strategic allocation of zakat to programs focused on SME development, skills training, and economic infrastructure can function as a catalyst for sustainable growth. The impacts of this phenomenon include the creation of employment opportunities, an increase in the purchasing power of the community, and the promotion of business growth and investment (Muthoifin dan Anfas 2024).

An additional illustration of this phenomenon can be observed in the implementation of a biometric-based zakat distribution system in Sudan. This initiative has led to enhanced accuracy in fund distribution and a significant increase in household consumption among beneficiaries, reaching 18% within a year. Zakat funds provide a range of services, including cash assistance, subsidies, and support for productive activities for impoverished households. The number of benefits received is adjusted based on the type of assistance provided. Moreover, zakat encompasses the remission of educational fees and the provision of scholarships for students. In 2016, the program successfully supported approximately 80,000 students from low-income families in continuing their higher education (Bilo dan Machado 2020). Concurrently, in Malaysia, the implementation of good governance principles at the Selangor Zakat Agency (LZS), including financial transparency and the involvement of zakat recipients in decision-making, has been demonstrated to increase the income and consumption expenditure of *mustahik* by up to 25% through productive zakat programs (Razak 2020). A similar study conducted by Mohd Ali et al. (2015) demonstrated that zakat distribution in Kelantan effectively increased the daily and monthly income of zakat recipients, although it fell short of the international standard of

MYR 6.20 per individual per day. While an increase in income was observed, the impact on the poverty gap between the *fuqara* and *masakin* was limited. However, an analysis of poverty reveals significant improvements in income distribution, as evidenced by a decline in income inequality and poverty ratios following zakat distribution. This suggests that zakat plays a positive role in poverty reduction. The available data suggest that zakat has the potential to mitigate the impact of weakened public purchasing power, especially during periods of economic turmoil.

In Islamic economics, aggregate consumption is comprised of two categories: basic necessities (C_n) and luxury goods (C_1). Thus, the aggregate consumption function can be expressed as follows: $C = C_n + C_1$. The macroeconomic framework within Islam is characterized by two distinct components: *muzakki*, the term for zakat payers, and *mustahik*, the term for zakat recipients. The consumption of *muzakki* is formulated as $C_1 = a + bY(1 - z - f)$, where consumption depends on disposable income, after deducting zakat (z) and infak/sadaqah (i/f). The consumption of *mustahik* is formulated as $C_2 = zY + fY$, reflecting the income of *mustahik* derived from zakat and *infaq/sadaqah* (Chapra 2000; Ahmed Shaikh 2018). National consumption in the Islamic economy (C) is the aggregate of the consumption of *muzakki* and *mustahik*, which can be expressed as follows:

$$C = a + bY(1 - z - f) + zY + fY \dots (1)$$

This simplifies to:

$$C = a + b(\beta Y - \alpha Y) + \delta [(1 - \beta) Y + \alpha Y] \dots (2)$$

Where:

- C = National Consumption
- Y = National Income
- a = Autonomous Spending
- b = MPC of *Muzakki*
- c = MPC of *Mustahik* } ($0 < b < c < 1$)
- α = Zakat rate ($0 < \alpha < 1$)
- β = Proportion of total national income from the *Muzakki* ($0 < \beta < 1$)
- $(1 - \beta)$ = Proportion of total national income from the *Mustahik*
- Z = Proportion of zakat from the income of the *muzakki* ($0 < z < 1$)
- f = Proportion of *infaq/sadaqah* from the income of the *muzakki* ($0 < f < 1$)
- δ = MPC of the *Mustahik* (marginal propensity to consume of the *mustahik*)

Metwally (1995) argues that in Islamic economics, aggregate consumption is affected by disposable income, which grows with rising income. Nevertheless, consumption rises at a diminished up relative to income growth, resulting in a decline in both the Average Propensity to Consume (APC) and the Marginal Propensity to Consume (MPC). Zakat and *sadaqah* influence the gradient of the consumption function and elevate the intercept of autonomous consumption (Metwally 1995).

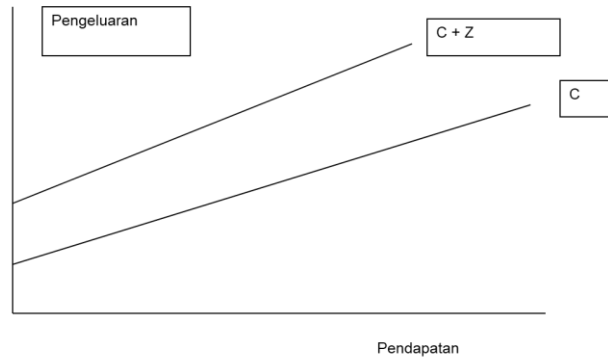


Figure 2. Aggregate Consumption in Islamic Economics

Source: (Metwally 1995)

In the Islamic framework, income redistribution via zakat amplifies overall consumption, as *mustahik* (zakat recipients) possess a greater marginal propensity to consume (MPC), resulting in a more pronounced rise in their consumption levels. The zakat obligation imposed on *muzakki* (zakat payers) further enhances national consumption. The redistribution of zakat and *sadaqah* (charity) diminishes the disparity between income and consumption, hence reducing the necessary investment to close this gap relative to traditional methods. In Islamic economics, zakat serves as a concrete multiplier effect, unlike Western economies that predominantly depend on interest as a fundamental element. According to Q.S. Ar-Ruum, verse 39:

"That which you give as riba to increase the wealth of people will not increase with Allah. But that which you give as zakat, seeking the face of Allah, it is those who multiply it." (Q.S. Ar-Ruum [30]: 39)

Zakat serves as a mechanism for redistribution that substantially enhances the economic welfare of society. According to this approach, the model illustrating Zakat's impact on public purchasing power can be articulated as follows.

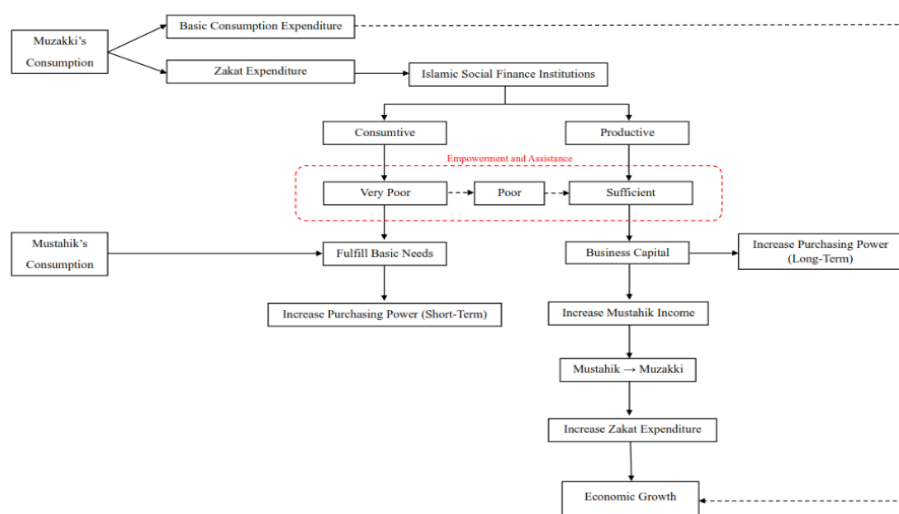


Figure 3. Zakat's Effect on Public Purchasing Power

Source: Authors' Compilation

This model illustrates how zakat, distributed by Islamic social finance institutions, functions as an economic empowerment tool that substantially influences an increase in public purchasing power and economic growth. The income of *muzakki* is allocated for basic consumption and zakat expenditure, which is then given to *mustahik* as consumptive and productive assistance. Consumptive assistance is a program designed to address the fundamental needs of individuals experiencing extreme poverty (Very Poor) by augmenting their short-term public purchasing power. Concurrently, productive assistance, encompassing business capital and skills training, is furnished to *mustahik* in the near-poor and moderately near-poor categories. The objective of this assistance is to empower them to augment their income. The implementation of an effective, productive zakat scheme necessitates the following steps: The establishment of criteria for productive beneficiaries is the first step in the process. Potential recipients are then selected based on their business potential. The provision of capital assistance, production tools, and skills training follows. Ongoing business assistance is then provided. Finally, achievements are evaluated, and beneficiaries are graduated to become donors. This method has the potential to develop beneficiaries into donors in the future, thereby creating a sustainable economic cycle.

The distribution of zakat has been shown to increase national consumption expenditure, as beneficiaries exhibit a higher marginal propensity to consume (MPC) in comparison to donors. This approach not only fosters inclusive economic growth but also fortifies the zakat system by expanding the donor base. In the long term, zakat has been shown to have positive effects on public purchasing power and to contribute to sustainable economic growth. This model is consistent with the perspectives of Chapra (2000) and Metwally (1995) on zakat. According to these scholars, zakat, as a fundamental mechanism in Islamic economics, has a stronger multiplier effect than conventional interest-based systems (*riba*). This, in turn, reduces economic inequality and improves societal well-being. Moreover, the implementation of zakat in a productive capacity introduces an additional dimension to its impact on public purchasing power. Productive zakat has been demonstrated to promote economic independence among beneficiaries and generate sustainable income by facilitating business capital and skills training (Karmilah et al., 2024; Mas et al., 2024). For instance, productive zakat initiatives in Malaysia and Indonesia, exemplified by Z-Mart, have demonstrated success in doubling the wages of beneficiaries, thereby increasing their purchasing power and stimulating local consumption (Amir & Setiawan, 2022; Razak, 2020). Consequently, the implementation of zakat in a productive manner engenders new employment opportunities, thereby amplifying the positive economic impact on zakat-receiving regions. In the context of capital accumulation theory, the implementation of productive zakat has been shown to enhance the capital-labour ratio, thereby promoting labour productivity and long-term purchasing power (Aliyu 2019).

A notable conclusion of this discussion is the multiplier effect of zakat on total consumption. The efficient distribution of zakat funds has been demonstrated to increase domestic consumption, thereby driving a positive economic cycle that stimulates market demand (Suprayitno 2013; Ahmed Shaikh 2018). The efficacy of this multiplier effect is contingent upon the education of zakat recipients in the effective utilization of funds and the implementation of sufficient oversight mechanisms. Poor administration and uneven distribution have been demonstrated to reduce zakat's overall effect on consumption, as evidenced by research in the Philippines (Gamon dan Tagoranao 2018). Zakat functions as

an automatic stabilizer in the economy, particularly during periods of economic recession and expansion. During periods of economic downturn, zakat functions as a stabilizer by augmenting the public purchasing power of vulnerable communities. Conversely, during periods of economic growth, zakat is allocated towards social investments, such as education and training, thereby enhancing long-term purchasing power (Azam, Iqbal, dan Tayyab 2014; Ben Jedidia dan Guerbouj 2021). These findings corroborate the notion that zakat functions as a form of social assistance and as an economic stabilization mechanism that is capable of adapting to economic fluctuations.

In a broader context, Herianingrum, Supriani, et al. (2024) have proposed a model illustrating zakat as a mechanism to promote economic growth within the framework of *Maqasid al-Syariah*, which aims to achieve socio-economic welfare and *falah* (success in this world and the hereafter). This model integrates zakat into the macroeconomic framework, ensuring that zakat functions as both a religious obligation and a mechanism for socio-economic development aimed at community empowerment and sustainability. The collection of zakat is contingent upon the increased productivity of companies owned by *muzakki* (zakat payers), which in turn results in increased income and greater zakat contributions. An augmentation in corporate income is expected to precipitate an escalation in production, labour demand, and consumption, thereby engendering a productive economic cycle. The subsequent model was proposed by Kumara and Ryandono in Widiastuti et al. (2022), which categorizes society into three economic layers based on their relationship with zakat: *mustahik* (recipients), pre-prosperous (neutral), and *muzakki* (payers). This model underscores the economic transition from *mustahik* to *muzakki* through targeted zakat assistance. The primary objective of the program is to achieve economic balance and reduce social inequality through sustainable wealth redistribution. This strategy endeavours to elevate the economically disadvantaged to a more affluent economic standing, thereby cultivating a more prosperous, inclusive, and equitable society. This strategy is predicated on the promotion of economic sustainability through the advocacy of wealth redistribution and the reduction of social inequality.

Moreover, this study identifies barriers to zakat management that hinder its effectiveness, including inadequate governance, limited transparency, and insufficient alignment with national economic objectives. The primary impediments to enhancing the efficacy of zakat have been identified (Al-Haddad et al. 2024; Gamon dan Tagoranao 2018). In certain instances, the misallocation of zakat can impede its capacity to augment public purchasing power and stimulate domestic consumption. A number of studies that address these issues include those by Herianingrum et al. (2024), who propose a *Muzakki-Mustahik* collaboration model to strengthen fundraising by Islamic social finance institutions. This model underscores the pivotal role of *muzakki*, encompassing both financial and non-financial contributions, which are subsequently allocated to *mustahik* for both consumptive and productive purposes. The objective is to establish a sustainable zakat system that fosters economic empowerment among *mustahik*, thereby transitioning them into *muzakki*, thereby creating an inclusive and self-sustaining zakat cycle. The objective of this concept is to elevate *mustahik* out of poverty by integrating consumptive assistance for basic needs with productive assistance for empowerment, thereby encouraging their long-term transformation into *muzakki*.

Subsequently, Widiastuti, Ningsih, et al. (2022) advanced a proposed integrated ZISWAF fund management model with the objective of enhancing community welfare. This model integrates the management of zakat, *infaq*, *sadaqah*, and *waqf* (ZISWAF) funds to improve community welfare within the framework of Islamic economics. Zakat funds are overseen by an *amil* for the purpose of meeting immediate needs and fostering community development, while waqf funds are allocated by a *nazhir* to the real and financial sectors in accordance with risk profiles. The allocation of these proceeds is determined by the severity of need, with economic rescue allocated to the poorest, recovery to the poor, and strengthening to the moderately poor. This approach is supported by a variety of factors, including human resources, research, regulations, branding, and digital technology. The objective is to establish economic resilience and distributive justice through collaboration between ZISWAF institutions, the government, and the community. The integration of zakat with other Islamic financial institutions, such as waqf and microfinance, is recognized as a significant strategy within this literature. This integration enhances the effectiveness of zakat in generating broad socio-economic impacts, as demonstrated in Malaysia and Indonesia, where the convergence of zakat and microfinance has facilitated economic empowerment and increased the purchasing power of beneficiaries (Islam et al. 2020; Butt, Sadaqat, dan Shear 2023). This plan provides a comprehensive method for zakat administration, thereby optimizing zakat's capacity as a social financial tool that enhances public purchasing power.

As demonstrated by the research studies and models previously referenced, zakat fulfils a strategic role within the economic ecosystem of a community. This strategic function involves the augmentation of public purchasing power through the implementation of wealth redistribution mechanisms, the promotion of productive zakat, and the facilitation of a consumption multiplier effect. To enhance its effectiveness, improvements in governance, efficient distribution, and alignment with national economic policies and other Islamic financial instruments are necessary. Zakat can function as a pivotal instrument in curtailing economic inequality, augmenting public purchasing power, and fostering inclusive economic development through systematic and innovative methodologies.

Conclusion

This study indicates that zakat exerts a significant influence on the augmentation of public purchasing power and the mitigation of economic inequality. Utilizing a systematic methodology grounded in empirical evidence from various countries that have effectively implemented zakat, it is evident that zakat functions not only as a tool for wealth redistribution but also as a strategic instrument capable of promoting inclusive economic development. From a macroeconomic perspective, zakat facilitates the transfer of resources from high-net-worth individuals to low-net-worth individuals, thereby increasing disposable income and overall consumption. This redistribution not only reduces income inequality but also generates an economic multiplier effect that increases demand for goods and services, particularly in areas with significant income disparities. Conversely, from a microeconomic vantage point, productive zakat proffers ancillary dimensions for economic empowerment. The provision of business capital and training through productive zakat has proven effective in fostering economic independence among beneficiaries, generating

sustainable income, and significantly increasing the public purchasing power. This concept has the potential to enhance the well-being of zakat recipients, while also cultivating their capacity to become *muzakki* (zakat payers) in the future, thereby contributing to the establishment of a sustainable economic cycle.

Moreover, zakat functions as an automatic stabilizer within the economy. During periods of economic downturn, zakat functions as a stabilizer by augmenting the public purchasing power of vulnerable communities through the provision of additional income. Conversely, during periods of economic growth, zakat can be allocated toward enhancing social investments, such as education and training, which offer long-term benefits by augmenting public purchasing power. The potential for zakat to function as an economic multiplier is contingent upon the presence of robust governance and collaboration among Islamic financial institutions. The integration of zakat with microfinance and waqf has been demonstrated to significantly enhance its impact on economic empowerment, poverty alleviation, and the promotion of inclusive and sustainable economic development. Consequently, governments and zakat management institutions must optimize the utilization of zakat's potential to fortify public purchasing power, particularly in the context of poverty alleviation and socially based economic development.

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