



PUBLIC FINANCE AND FISCAL POLICY IN INDONESIA: AN ISLAMIC AND COMPARATIVE GLOBAL PERSPECTIVE

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ABSTRACT

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his paper examines the dynamics of public finance and fiscal policy in Indonesia, with a particular focus on integrating Islamic financial principles and offering a comparative perspective with global fiscal strategies. It explores how Indonesia's fiscal policies are influenced by both traditional economic models and Islamic finance, emphasizing the role of Shariah-compliant financial instruments in public sector management. Through a comparative analysis with global fiscal frameworks, the study highlights the effectiveness of fiscal responsibility, government budgeting, taxation systems, and public expenditure management in fostering economic growth and stability. The paper also addresses the role of fiscal decentralization, government debt, and sustainable development in shaping Indonesia's economic future. By drawing insights from international best practices, the study proposes avenues for improving Indonesia's fiscal policies while aligning them with Islamic economic values.

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A. INTRODUCTION

Public finance and fiscal policy occupy a central position in the governance of modern states because they determine how public resources are collected, allocated, distributed, and evaluated to achieve national development objectives. In conventional economic theory, public finance is closely related to the state's functions in resource allocation, income redistribution, and macroeconomic stabilization (Musgrave, 1959). Through taxation, public expenditure, deficit financing, subsidies, transfers, and debt management, the government influences economic growth, social welfare, poverty reduction, and institutional resilience. In Indonesia, these fiscal functions are mainly implemented through the State Revenue and Expenditure Budget, known as *Anggaran Pendapatan dan Belanja Negara (APBN)*, which serves as the principal instrument for financing development priorities, maintaining macroeconomic stability, and responding to social and economic pressures.

Indonesia's fiscal policy has shown relatively prudent management, particularly after the post-pandemic fiscal consolidation period. In 2024, Indonesia recorded a budget deficit of Rp507.8 trillion, or 2.29% of GDP, indicating that the deficit remained below the government's revised outlook and within a relatively controlled fiscal framework (Reuters, 2025). This condition demonstrates the government's commitment to maintaining fiscal credibility while continuing to finance development programs, social protection, infrastructure, and economic recovery. In this regard, fiscal policy in Indonesia cannot be understood merely as a technical budgeting mechanism, but as a strategic policy instrument for balancing development financing, macroeconomic stability, and public welfare.

The 2025 State Budget further reflects the strategic role of fiscal policy in supporting inclusive and sustainable development. The Government of Indonesia planned state revenue in the 2025 APBN at Rp2,996.9 trillion, consisting of Rp2,490.9 trillion in tax revenue and Rp505.4 trillion in non-tax state revenue. State expenditure was planned at Rp3,613.1 trillion, including central government spending and transfers to the regions, with major allocations for education, health, social protection, infrastructure, food security, and regional development (Cabinet Secretariat of the Republic of Indonesia, 2024). These budget priorities indicate that fiscal policy is directed not only toward economic growth, but also toward human capital development, social protection, regional equity, and long-term national transformation.

However, Indonesia continues to face a structural fiscal challenge, particularly in relation to revenue mobilization. Indonesia's tax-to-GDP ratio remains relatively low compared with many advanced economies. The Directorate General of Taxes noted that Indonesia's tax ratio stood at around 10.2%, far below the OECD average of 33.6%, indicating persistent challenges in tax compliance, tax administration, and fiscal capacity (Directorate General of Taxes, 2025). More recent OECD data show that the average tax-to-GDP ratio among OECD countries reached 34.1% in 2024, illustrating the wide fiscal-capacity gap between Indonesia and high-income economies (OECD, 2025). This condition limits Indonesia's fiscal space, especially when the government must simultaneously finance education, health, infrastructure, social protection, regional transfers, energy transition, and poverty alleviation.

From a global comparative perspective, Indonesia's fiscal policy operates within an increasingly complex international environment. Many countries are currently confronted with rising debt, demographic pressures, geopolitical uncertainty, climate-related spending needs, and demands for stronger social protection. The IMF Fiscal Monitor warns that global public debt is elevated and projected to exceed US\$100 trillion, with further increases expected over the medium term (International Monetary Fund [IMF], 2024). This global condition is important for Indonesia because fiscal policy can no longer be understood only within a domestic framework. Indonesia must maintain fiscal discipline while also expanding productive public expenditure, strengthening revenue capacity, and developing innovative financing instruments that are consistent with long-term development goals.

In this context, the Islamic perspective offers an important complementary framework for analyzing public finance and fiscal policy. Islamic public finance is not limited to the management of state revenue and expenditure, but is normatively grounded in the principles of justice ('adl), public welfare (maslahah), trustworthiness (amanah), balance (mizan), and the protection of essential human interests through maqasid al-shariah (Chapra, 2008; Kahf, 1997). Classical Islamic fiscal institutions such as zakat, waqf, kharaj, jizyah, 'ushr, and bayt al-mal historically functioned as mechanisms for redistribution, poverty alleviation, social protection, and public goods provision. In the modern Indonesian context, these principles are increasingly relevant because fiscal policy is expected not only to support economic growth, but also to reduce inequality, strengthen social solidarity, and promote inclusive development.

Indonesia has significant potential to integrate Islamic public finance instruments into the broader fiscal and development ecosystem. Zakat, for instance, has developed into an increasingly institutionalized mechanism of social redistribution. BAZNAS reported that national ZIS-DSKL collection reached Rp40.509 trillion in January–December 2024, increasing by 25.34% compared with Rp32.319 trillion in the previous year. The same report also recorded 721 zakat management organizations in 2024, consisting of BAZNAS at the national, provincial, and district/city levels as well as registered zakat institutions (BAZNAS, 2024). These developments suggest that Islamic social finance has growing potential to complement state fiscal policy, particularly in poverty reduction, microenterprise empowerment, social assistance, and community-based welfare programs.

Beyond zakat, Indonesia's Islamic finance sector also provides an important fiscal and developmental dimension through sukuk and green sukuk. OJK reported that the assets of Indonesia's Islamic financial industry, excluding Islamic stock capitalization, reached Rp2,582.25 trillion in 2023 and grew by 9.04% year-on-year (Otoritas Jasa Keuangan [OJK], 2024). Indonesia has also become an important global actor in sovereign sukuk issuance, including green sukuk. The Government of Indonesia issued its first sovereign green sukuk in 2018, and subsequent issuances have positioned Indonesia as a pioneer in Islamic sustainable finance (Green Finance Platform, 2018; UNDP, 2025). This shows that Islamic finance in Indonesia is not only relevant for religiously compliant financial services, but also for public financing innovation, infrastructure development, climate policy, and sustainable development.

Nevertheless, there remains a conceptual and policy gap between conventional fiscal policy and Islamic public finance in Indonesia. The APBN is still largely designed within a conventional public finance framework, while zakat, waqf, and other Islamic social finance instruments often operate in parallel rather than as systematically integrated components of national fiscal architecture. At the same time, global fiscal comparison tends to emphasize tax ratio, public expenditure efficiency, deficit management, and debt sustainability, while Islamic fiscal values such as distributive justice, ethical financing, prohibition of exploitation, and maqasid-oriented welfare are rarely incorporated into mainstream fiscal analysis. This creates an academic gap that requires further investigation.

The literature on public finance generally emphasizes fiscal sustainability, tax capacity, public expenditure quality, and macroeconomic stability (Musgrave, 1959;

Stiglitz & Rosengard, 2015). Meanwhile, Islamic economics literature tends to emphasize zakat, waqf, sukuk, Islamic redistribution, and maqasid al-shariah (Chapra, 2008; Kahf, 1997). However, relatively few studies attempt to integrate these two perspectives into a comprehensive analysis of Indonesia's fiscal policy while also comparing it with global public finance practices. Such integration is necessary because Indonesia is both a modern democratic state operating within the global fiscal system and the world's largest Muslim-majority country with substantial Islamic social and financial resources.

Therefore, this study seeks to analyze public finance and fiscal policy in Indonesia from an Islamic and comparative global perspective. Specifically, the study aims to examine the structure and challenges of Indonesia's fiscal policy, compare Indonesia's fiscal capacity and public finance performance with selected global benchmarks, and explore how Islamic public finance principles and instruments can contribute to more inclusive, ethical, and sustainable fiscal governance. By combining conventional public finance theory, Islamic economic principles, and comparative global analysis, this study is expected to contribute to a more holistic understanding of fiscal policy in Indonesia and its relevance for justice-oriented and sustainable development.

B. THEORITICAL FRAMEWORK

Public finance and fiscal policy are theoretically grounded in the role of the state as an institution responsible for managing public resources in order to achieve collective welfare. In classical public finance theory, the government performs three main fiscal functions: allocation, distribution, and stabilization (Musgrave, 1959). The allocation function refers to the state's responsibility to provide public goods and services that cannot be efficiently supplied by the market, such as infrastructure, education, health services, defense, and environmental protection. The distribution function emphasizes the role of fiscal policy in reducing inequality through taxation, subsidies, social transfers, and public expenditure. Meanwhile, the stabilization function relates to the government's responsibility to maintain macroeconomic stability through fiscal instruments, especially during periods of economic crisis, inflationary pressure, unemployment, or declining aggregate demand.

From this perspective, fiscal policy is not merely a technical process of collecting revenue and allocating expenditure, but a strategic instrument for shaping national development. In Indonesia, this role is implemented through the State Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Negara or APBN), which becomes the central mechanism for financing development priorities, maintaining fiscal sustainability, and supporting social welfare. In conventional public finance theory, the effectiveness of fiscal policy is generally evaluated through indicators such as revenue capacity, tax ratio, deficit management, debt sustainability, expenditure efficiency, and macroeconomic impact (Stiglitz & Rosengard, 2015). However, when viewed from a broader development perspective, fiscal policy should also be assessed based on its ability to reduce poverty, promote equity, strengthen human capital, and support sustainable development.

Keynesian fiscal theory provides another important foundation for understanding the role of government expenditure in the economy. Keynes (1936) argued that government intervention is necessary when market mechanisms fail to maintain full employment and economic stability. Public spending can stimulate aggregate demand, increase production, create employment, and prevent economic stagnation. In the Indonesian context, this theory is relevant because fiscal policy has often been used as a countercyclical instrument, particularly during economic crises, including the COVID-19 pandemic. Government spending on social protection, health programs, business support, and economic recovery demonstrates the importance of fiscal policy as a stabilizing instrument. However, Keynesian theory also implies that public expenditure must be managed carefully so that expansionary fiscal policy does not lead to unsustainable deficits and excessive debt burdens.

In addition to Keynesian theory, the theory of fiscal federalism is also relevant to Indonesia because the country applies a decentralized governance system. Fiscal federalism explains how fiscal responsibilities and revenue authority are distributed between central and regional governments (Oates, 1972). In a decentralized state, fiscal policy is not only managed at the national level but also implemented through regional transfers, local government expenditure, and subnational development programs. This theory is important because Indonesia's fiscal system includes significant transfers to regional governments, including the General Allocation Fund, Special Allocation Fund, Revenue Sharing Fund, and Village Fund. These instruments are intended to reduce regional inequality, improve public service delivery, and strengthen local economic

development. However, fiscal decentralization also requires accountability, institutional capacity, and effective coordination between central and regional governments.

The comparative global perspective strengthens the theoretical framework by situating Indonesia's fiscal policy within broader international fiscal practices. Developed countries generally have stronger tax capacity, higher tax-to-GDP ratios, more mature welfare systems, and stronger institutional mechanisms for public financial management. Developing countries, on the other hand, often face structural constraints such as low tax compliance, informal economies, limited fiscal space, infrastructure deficits, debt pressures, and weaker administrative capacity. This comparison is theoretically important because the effectiveness of fiscal policy depends not only on the amount of public revenue and expenditure, but also on institutional quality, policy design, fiscal discipline, and the state's ability to convert public resources into welfare outcomes.

Institutional theory further explains why fiscal policy may produce different results across countries. North (1990) argues that institutions shape economic performance by creating rules, incentives, and constraints that influence human behavior and policy outcomes. In the field of public finance, strong institutions are needed to ensure that public revenue is collected fairly, public expenditure is allocated efficiently, and fiscal policy is implemented transparently. Weak institutions may lead to corruption, tax avoidance, budget leakage, inefficient spending, and poor public service delivery. Therefore, the success of fiscal policy in Indonesia cannot be separated from the quality of governance, public accountability, bureaucratic capacity, and the integrity of budget institutions.

From an Islamic economic perspective, public finance is not only concerned with efficiency, growth, and fiscal balance, but also with justice, welfare, ethical responsibility, and social solidarity. Islamic public finance is rooted in the principles of tawhid, 'adl, amanah, maslahah, and maqasid al-shariah. The principle of tawhid affirms that economic resources are ultimately a trust from God, and therefore their management must be directed toward justice and public benefit. The principle of 'adl requires fiscal policy to promote fairness in revenue collection and expenditure allocation. The principle of amanah emphasizes that public officials must manage state resources responsibly and transparently. Meanwhile, maslahah requires that fiscal policy be oriented toward the welfare of society and the prevention of harm (Chapra, 2008).

The concept of *maqasid al-shariah* provides a normative framework for evaluating fiscal policy from an Islamic perspective. According to al-Shatibi, the objectives of Islamic law are directed toward the protection of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*) (Auda, 2008). In the context of public finance, these objectives can be translated into fiscal priorities. Public expenditure on education supports the protection of intellect; health expenditure supports the protection of life; social protection supports the protection of human dignity and family welfare; economic empowerment protects wealth; and ethical governance protects public trust. Therefore, Islamic fiscal policy should not be measured only by budgetary performance, but also by its contribution to human well-being and social justice.

Classical Islamic fiscal history also provides important theoretical insight. In the Islamic tradition, public finance was historically managed through institutions such as *bayt al-mal*, *zakat*, *waqf*, *kharaj*, *jizyah*, *'ushr*, and public endowments. These instruments were not merely religious obligations, but also fiscal mechanisms for redistribution, poverty alleviation, public goods provision, and social protection (Kahf, 1997). *Zakat* served as a redistributive instrument to support the poor and vulnerable. *Waqf* contributed to education, health, religious services, and public infrastructure. *Kharaj* and *'ushr* functioned as revenue instruments related to land and agricultural production. These historical practices demonstrate that Islamic public finance has long recognized the relationship between fiscal governance, social justice, and public welfare.

In the modern Indonesian context, Islamic public finance instruments such as *zakat*, *waqf*, *sukuk*, and Islamic social finance have the potential to complement the conventional fiscal system. *Zakat* may strengthen poverty reduction and microeconomic empowerment. *Waqf* may support education, health, religious institutions, and productive assets. *Sukuk* may provide alternative financing for infrastructure and sustainable development. Green *sukuk*, in particular, shows how Islamic finance can be linked to climate finance and environmental sustainability. However, these instruments are not yet fully integrated into the national fiscal architecture. They often operate alongside the APBN rather than as part of a systematically coordinated fiscal-development framework. This condition creates an important theoretical issue regarding the relationship between state fiscal policy and Islamic social finance in Indonesia.

The integration between conventional public finance and Islamic public finance can be understood through the concept of inclusive fiscal governance. Inclusive fiscal governance refers to a fiscal system that is not only efficient and sustainable, but also equitable, participatory, transparent, and oriented toward public welfare. In this framework, tax revenue, public expenditure, zakat, waqf, sukuk, and social finance should be seen as complementary instruments for achieving development goals. Conventional fiscal instruments provide the legal and administrative foundation of state finance, while Islamic fiscal instruments contribute ethical, redistributive, and community-based dimensions. The combination of both perspectives can strengthen Indonesia's fiscal policy, particularly in addressing poverty, inequality, regional disparity, social vulnerability, and sustainable development.

This study therefore positions public finance and fiscal policy as multidimensional concepts. From the conventional perspective, fiscal policy is analyzed through revenue mobilization, expenditure allocation, deficit control, debt management, and macroeconomic stabilization. From the Islamic perspective, fiscal policy is analyzed through justice, redistribution, *maslahah*, *maqasid al-shariah*, and ethical governance. From the global comparative perspective, Indonesia's fiscal performance is examined in relation to international benchmarks, particularly in terms of tax ratio, fiscal space, expenditure efficiency, and institutional capacity. These three perspectives provide a comprehensive theoretical foundation for understanding the strengths, weaknesses, and future direction of public finance in Indonesia.

Based on this framework, the study assumes that Indonesia's fiscal policy cannot be evaluated only by conventional indicators such as revenue, expenditure, deficit, and debt. It must also be assessed through its ability to promote distributive justice, strengthen social protection, support sustainable development, and integrate Islamic fiscal values into public financial governance. The theoretical model of this study can be described as follows:

Public Finance and Fiscal Policy in Indonesia → Revenue Mobilization, Public Expenditure, Fiscal Sustainability, and Debt Management → Development Outcomes

This relationship is further strengthened by two analytical perspectives:

Islamic Public Finance Perspective → Justice, Zakat, Waqf, Sukuk, *Maslahah*, and *Maqasid al-Shariah*

Comparative Global Perspective → Tax Capacity, Fiscal Discipline, Expenditure Efficiency, and Institutional Quality

Thus, the central argument of this study is that a strong fiscal system in Indonesia should not only be effective in mobilizing revenue and financing public expenditure, but should also be inclusive, ethical, redistributive, and aligned with the broader objectives of sustainable and justice-oriented development. Conventional fiscal policy provides the structural foundation of state finance, while Islamic public finance offers a moral and redistributive framework that can enrich fiscal governance. Through this theoretical integration, the study seeks to explain how Indonesia can strengthen its public finance system by learning from global fiscal practices while also drawing on Islamic economic principles that are deeply relevant to its social, religious, and institutional context.

C. METHOD

This study uses a qualitative research design with a descriptive-comparative and normative-analytical approach. This method is considered appropriate because the study does not merely examine public finance and fiscal policy as technical instruments of state budgeting, but also analyzes them as policy practices that contain economic, institutional, ethical, and religious dimensions. The qualitative approach enables the study to interpret fiscal policy in Indonesia within a broader framework that includes conventional public finance theory, Islamic economic principles, and comparative global fiscal experience. As Creswell and Creswell (2018) explain, qualitative research is useful for understanding complex social and policy phenomena through interpretation, contextualization, and thematic analysis.

The primary focus of this study is Indonesia's public finance and fiscal policy, particularly in relation to state revenue, public expenditure, fiscal deficit, debt management, social protection, Islamic social finance, and sustainable development financing. Indonesia is selected as the main case because it represents a Muslim-majority country that operates within a modern fiscal system while also possessing significant Islamic fiscal instruments such as zakat, waqf, sukuk, and Islamic social finance. This makes Indonesia an important case for examining the relationship between conventional fiscal policy and Islamic public finance. At the same time, the study applies a comparative global perspective by positioning Indonesia's fiscal performance alongside selected international benchmarks, particularly those related to tax ratio, fiscal sustainability, expenditure efficiency, debt management, and public financial governance.

The data used in this study are secondary data obtained from official documents, policy reports, academic literature, and international databases. The main sources include the State Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Negara or APBN), reports from the Ministry of Finance of the Republic of Indonesia, publications of Bank Indonesia, the Financial Services Authority, BAZNAS, and relevant government regulations. In addition, global comparative data are obtained from international institutions such as the World Bank, International Monetary Fund, OECD, United Nations, and Islamic Development Bank. Academic sources are also used to strengthen the theoretical and analytical foundation, especially literature on public finance, fiscal policy, Islamic economics, maqasid al-shariah, zakat, waqf, sukuk, and fiscal governance.

This study applies document analysis as the main data collection technique. Document analysis is appropriate because fiscal policy and public finance are largely reflected in formal state documents, budget reports, legal regulations, institutional publications, and policy evaluations. According to Bowen (2009), document analysis is a systematic procedure for reviewing and interpreting documents in order to generate meaning, develop empirical understanding, and produce analytical knowledge. In this study, documents are selected based on relevance, credibility, institutional authority, and connection to the research focus. Official documents are prioritized because they provide reliable information on fiscal policy, budget allocation, revenue structure, public expenditure, and Islamic financial development.

The analysis is conducted through three stages. First, the study identifies the structure and main characteristics of Indonesia's public finance system, including revenue mobilization, expenditure allocation, fiscal deficit, debt management, and public financial governance. At this stage, the study examines how fiscal policy is designed and implemented through the APBN, as well as how the government balances development financing, social welfare, and fiscal sustainability. Second, the study analyzes Indonesia's fiscal policy from an Islamic economic perspective by examining the relevance of 'adl, amanah, maslahah, and maqasid al-shariah in public finance. This stage also explores the role of zakat, waqf, sukuk, and Islamic social finance as complementary instruments for redistribution, poverty alleviation, public welfare, and sustainable development. Third, the study compares Indonesia's fiscal policy with global fiscal practices by referring to international benchmarks such as tax-to-GDP ratio, public debt, fiscal deficit, expenditure quality, and governance indicators.

The analytical technique used in this study is thematic analysis. Fiscal documents, policy reports, and academic literature are examined to identify recurring themes related to fiscal capacity, revenue governance, public expenditure, fiscal sustainability, Islamic public finance, and global comparison. These themes are then interpreted within the theoretical framework of public finance and Islamic economics. Thematic analysis is useful because it allows the researcher to organize complex policy data into meaningful categories and interpret their relationship with the research objectives (Braun & Clarke, 2006). Through this technique, the study is able to explain not only what fiscal policies are implemented, but also how these policies reflect certain development priorities, institutional capacities, and ethical orientations.

The Islamic analytical framework in this study is based on the principles of Islamic public finance and *maqasid al-shariah*. Public finance is assessed not only through conventional indicators such as efficiency, fiscal balance, and revenue capacity, but also through Islamic normative values such as distributive justice, public welfare, ethical governance, and protection of wealth. The *maqasid al-shariah* framework is used to evaluate whether fiscal policy contributes to the protection of religion, life, intellect, lineage, and wealth. In practical terms, public expenditure on education is connected to *hifz al-'aql*, health expenditure to *hifz al-nafs*, social protection to human dignity and family welfare, economic empowerment to *hifz al-mal*, and accountable fiscal governance to *amanah* and *maslahah*.

The comparative global approach is used to avoid analyzing Indonesia's fiscal policy in isolation. Fiscal policy must be understood within a broader international context because countries face similar challenges, including revenue mobilization, debt pressure, social inequality, climate financing, and public expenditure efficiency. However, the comparison in this study is not intended to create a rigid ranking between Indonesia and other countries. Rather, it is used to identify fiscal patterns, policy gaps, and lessons that may be relevant for strengthening Indonesia's public finance system. This approach is consistent with comparative policy analysis, which seeks to understand policy similarities and differences across contexts in order to produce deeper institutional and policy insights (Esser & Vliegthart, 2017).

To ensure analytical validity, this study applies source triangulation by comparing information from different types of sources, including government documents, international institutional reports, and academic studies. Triangulation is important because fiscal policy is a multidimensional issue that cannot be sufficiently

explained using a single source of data. Official government documents provide national fiscal information, international reports provide comparative indicators, and academic literature provides conceptual and theoretical interpretation. By combining these sources, the study seeks to produce a balanced and academically credible analysis.

This study has several methodological limitations. First, it relies on secondary data, so the analysis depends on the availability, accuracy, and consistency of published documents and institutional reports. Second, the comparative global perspective is limited to selected indicators and benchmarks that are relevant to Indonesia's fiscal context. Third, the Islamic public finance analysis is normative and interpretive, meaning that it does not measure the direct quantitative impact of zakat, waqf, sukuk, or Islamic social finance on state fiscal performance. Nevertheless, this methodological design remains relevant because the main objective of the study is to develop an integrated conceptual and policy analysis of public finance and fiscal policy in Indonesia from Islamic and comparative global perspectives.

Through this method, the study is expected to provide a comprehensive understanding of how Indonesia's fiscal policy operates, how it compares with global fiscal practices, and how Islamic public finance principles can enrich the orientation of national fiscal governance. The methodological design allows the study to connect fiscal policy, institutional capacity, Islamic economic values, and sustainable development in one integrated analytical framework.

D. FINDINGS AND DISCUSSION

Public Finance

In economic studies, the term public finance or state finance as expressed by Harvey S. Rosen and Ted Gayer, emphasizes efforts to rationalize the role of the state in economic life on the basis of market failure and the need to modify the distribution of income resulting from the market mechanism process in accordance with general norms and distributive justice.

Public finance is one of the main pillars in managing a country's economy. Public finance includes the management of government revenue, expenditure, and debt with the main objective of creating economic stability, income equality, and improving public welfare. In public finance theory, Musgrave put forward three main functions of public finance, namely the resource allocation function, the income distribution function, and the economic stabilization function. These three functions are the basis for fiscal policies implemented by the government.

In Indonesia, public finance has a very strategic role in supporting national development. Through fiscal policy, the government seeks to regulate state expenditure and revenue to achieve macroeconomic goals such as economic growth, inflation control, and poverty alleviation. Public financial management in Indonesia is regulated in a clear legal framework, one of which is Law Number 17 of 2003 concerning State Finance. The Indonesian government also faces challenges in optimizing state revenues, spending efficiency, and managing budget deficits, especially amidst dynamic global conditions.

In the global context, Muslim countries have their own challenges and characteristics in implementing fiscal policies. Factors such as Islamic economic principles, dependence on natural resources, and diverse economic structures influence how Muslim countries manage their public finances. Islamic economic principles emphasize the importance of justice, transparency, and sustainability in managing state finances. One unique instrument used in Muslim countries is zakat, which functions as a tool for income redistribution and poverty alleviation.

Case studies of fiscal policies in Muslim countries such as Saudi Arabia, Malaysia, and Pakistan show differences in approaches to managing public finances. Saudi Arabia, for example, relies heavily on oil revenues, while Malaysia relies on a more diversified fiscal policy with a focus on infrastructure investment and social development. On the other hand, Pakistan utilizes zakat and taxation instruments to address income inequality, despite facing low tax compliance.

Public finance (Indayani 2010) is the study of the management of government revenues, expenditures, and debts to achieve public welfare. According to Richard Musgrave, public finance has three main functions, namely:

1. Allocation Function: Allocating resources to provide public goods.
2. Distribution Function: Creating equal distribution of income and welfare.
3. Stabilization Function: Maintaining economic stability through fiscal policy.

Fiscal Policy

Fiscal policy is an economic policy used by the government to manage the economy to a better condition by changing government revenues and expenditure (Dwiyanti et al. n.d.).

Fiscal policy is a government policy in collecting taxes and spending those taxes to finance economic activities. Fiscal policy is a government policy in regulating every

state revenue and expenditure used to maintain economic stability in order to encourage economic growth (Febriana 2024)

Fiscal policy is a policy taken by the government to spend its revenue in realizing economic goals. And this fiscal policy has two instruments, first: revenue policy, which is reflected in tax policy, second spending policy. Both instruments will be reflected in the state budget. Fiscal policy will depend heavily on these two instruments, namely revenue and expenditure (Perumusan dan Fiskal n.d.).

Islam as a complete religion not only regulates matters of worship and muamalah, but also covers all aspects including matters of the State and its government in the Islamic government system, the organization receives primary attention. Al-Mawardi - a leading thinker of the 5th century - argued that the implementation of imam>mah (religious political leadership) is an absolute power and its formation is a must for the sake of maintaining religion and managing the world.

In relation to this, the state has an active role in realizing material and spiritual goals. In Islam, the fulfillment of public jobs and interests for the people is a religious and moral obligation of the ruler. The establishment of a state depends on the government's ability to collect revenue and distribute it to the collective needs of society. Public finance practiced in early Islam had a clear basis in the comprehensive ethical and social philosophy of Islam. Public finance is not just a financial process in the hands of the ruler alone. But on the contrary, it is based on Islamic guidance. The Qur'an does not provide details of fiscal policy. However, there are several economic teachings and guiding principles recorded in the Sunnah as a guide and explanation. Thus, the Prophet's Sunnah becomes the second important source of public finance in Islam after the Qur'an. In Islam, fiscal policy is an obligation of the state and a right of the people, so that fiscal policy is not merely a need for economic improvement or for increasing people's welfare, but rather more on creating a fair economic distribution mechanism. Because the essence of the economic problems that plague humanity comes from how the distribution of wealth in the midst of society occurs. So public money is seen as a trust in the hands of the ruler and must be directed first to the weak and poor strata of society, so that public security and general welfare are created.

From the historical records of early Islamic history, it is found that financial planners and policy makers tried to understand the financial problems that existed in the conquered territories and assessed them based on the Qur'an and Sunnah. There are several works of early fuqaha that discuss public finance and all its policies. One of them

is the book al-Khara'j. This monumental work is attributed to the great jurist and scholar Qady Abu Yusuf. With high analytical power, Abu Yusuf tried to analyze financial problems and show several policies that must be adopted for the welfare of the people. Another famous work is al-Amwa'l. From historical records there are at least six books with the title al-Amwa'l. One of them is the work of Abu 'Ubaid, which discusses financial problems and state financial management in a historical and fiqh context.

Fiscal Policy In Islam

Fiscal policy in Islamic economics is used to achieve the same goals as fiscal policy in conventional economics (namely for economic stability, allocation and distribution)(Raya Sari Lubis dan Sarwo Edi 2024). but there are differences in commitment, namely spiritual values, socio-economic justice and human brotherhood. According to Metwally, there are at least three goals that fiscal policy in Islamic economics aims to achieve, including:

First, Islam establishes a higher level of economic equality and democracy through, among other principles and laws, the principle that "wealth should not circulate only among the rich." This principle emphasizes that every member of society should be able to gain equal access to wealth through hard work and honest effort.

Second, Islam prohibits the payment of interest on various forms of loans. This means that Islamic economics cannot manipulate interest rates to achieve equilibrium in the money market (i.e. between supply and demand for money). Thus, the government must find alternative tools to achieve this equilibrium.

Third, Islamic economics is committed to helping the economy of less developed communities and to spreading the message and teachings of Islam as widely as possible. Therefore, part of government spending should be used for various activities that promote Islam and improve the welfare of Muslims in less developed countries. Fiscal policy plays a greater role in Islamic economics compared to conventional economics. This is due to the following reasons:

There are several characteristics of Islamic fiscal policy on the economy, namely:

1. Public burdens rarely occur because expenditure is determined by public revenue or income.
2. Proportional taxation in Islamic economics, taxes are imposed in proportion to productivity. For example, kharaj bases the amount of tax on the type of plant, irrigation method, and soil fertility
3. Zakat is not calculated based on the quantity and quality of goods, but on profits

Fiscal Policy In Indonesia

The fiscal policy system in Indonesia is regulated in Article 23 of the 1945 Constitution, which includes several important points. First, if the House of Representatives (DPR) does not approve the budget issued by the government, then the government will implement the budget from the previous year. Second, all taxes for the benefit of the state must be based on law. Third, the type and value of currency are determined by law. Fourth, the regulation of state finances is also regulated by law. Fifth, to examine the financial responsibility of the state, a Financial Audit Agency is formed whose regulations are determined by law, and the results of the audit are reported to the DPR. This article mandates the government to formulate fiscal policies every year in the form of the State Budget (APBN).

Indonesia's fiscal policy follows the periodic principle, and is open and flexible. Openness is seen from the involvement of the DPR as representatives of the people, while the agreement is seen in the provisions that allow the government to implement last year's budget if the new budget is not approved. The APBN itself is sourced from the Draft State Budget (RAPBN) prepared by the Minister of Finance and the Chairperson of the National Development Planning Agency (Bappenas). The APBN includes state revenues and expenditures. State revenues consist of domestic revenues and development revenues, which are divided into revenues from the oil and gas sector and non-oil and gas revenues such as direct and indirect taxes. Sources of state revenues include taxes, levies, profits from state-owned companies, fines, public donations, printing of banknotes, state lottery results, loans, and grants.

Dependence on the oil and gas sector indicates a high risk to state finances due to unstable commodity prices. Therefore, it is important for the government to expand revenue sources outside of oil and gas. Taxes in Indonesia are implemented with a self-assessment system, where taxpayers are responsible for calculating and reporting their own taxes. A progressive system is applied to tax revenues to ensure fairness in tax collection; the higher a person's income, the higher the tax imposed. State expenditures in the APBN are divided into routine expenditures and development expenditures. Routine expenditures include employee expenditures and subsidies, while development expenditures are used to fulfill projects. These expenditures can be classified based on their function into several categories: self-liquidating expenditures, productive expenditures that improve public welfare, and expenditures that have the potential to be wasteful. Legally, state expenditures must be directed to achieve the objectives stated

in the preamble to the 1945 Constitution: protecting the Indonesian nation, advancing public welfare, educating the nation's life, and contributing to protecting the world based on independence and social justice. The priority of state financial distribution must be focused on the economy, maintenance and security, education, and politics both domestically and internationally(Indayani 2010)

Fiscal policy In Muslim countries

Muslim countries implement fiscal policies based on sharia principles, which include managing zakat as a source of state revenue. Zakat is considered an obligation for Muslims and can be used to support social and development programs. Muslim countries face unique challenges in managing fiscal policies, including the need to balance sharia principles with global economic dynamics. Some examples of fiscal policy cases in Muslim countries are as follows:

1. Pakistan

Pakistan uses zakat and tax instruments as fiscal policies to reduce poverty, Fiscal policy in Pakistan focuses on increasing tax revenues and better managing budgets to support economic stability. However, challenges such as high inflation, poverty, and dependence on IMF aid funds remain serious challenges to the country's long-term economic growth.

Fiscal policy in Pakistan faces major challenges in the context of an unstable economy. Here are some key points related to fiscal policy in the country:

Tax Revenue and Budget, a) Tax Revenue Target: The government of Pakistan is targeting tax revenues of USD 46 billion for the fiscal year 2024-2025, an increase of 40% from the previous year. This includes increasing tax rates and other measures to improve tax compliance, b) Budget: The budget for fiscal year 2024-25 is set at USD 68 billion, with an emphasis on increasing tax collections to support economic stability and meet the requirements of the International Monetary Fund (IMF).

High Inflation: Inflation in Pakistan has been very high, although it has come down to around 12% per annum after previously exceeding 40% The government is trying to control inflation through tight monetary policy and budget adjustments. And Poverty and Tax Burden: Many citizens, especially the poor, are burdened by high taxes amidst rising living costs. This has raised concerns that fiscal policy could worsen poverty in the country.

Bailout: Pakistan recently received approval from the IMF for a USD 3 billion bailout to help address its balance of payments crisis. The program requires the

government to implement stricter fiscal discipline and structural reforms. And Economic Policy Reforms: In an effort to gain support from the IMF, the government has committed to increasing transparency in financial management and improving the tax system.

Informal Sector: A large portion of Pakistanis work in the informal sector, making it difficult for the government to collect taxes effectively. This poses a major challenge in increasing state revenues. And Social Policy: Despite efforts to increase tax revenues, there has been criticism of the minimal social assistance in the budget, which is considered insufficient to help the most needy.

2. Saudi Arabia:

Economic Diversification Saudi Arabia has implemented a fiscal policy focused on economic diversification through the Vision 2030 program. This policy includes reducing dependence on oil revenues, developing the non-oil sector, and introducing a value-added tax (VAT). This step aims to improve fiscal sustainability amidst global oil price fluctuations.

Saudi Arabia relies on oil revenues as the main source of the state budget. Expansionary fiscal policy is carried out through infrastructure investment and economic diversification. Using the Bait al-Mal system to manage zakat and tax revenues, with a focus on infrastructure development and social welfare. Humans live in a wider society, which is manifested in the form of a state. To ensure the sustainability of the state and its citizens, facilities and infrastructure are needed that can be obtained through collective contributions from society, one of which is tax.

Initially, tax was in the form of tribute, which was an obligation from the people to the ruler without direct imbalance, often in the form of agricultural products or livestock. This tribute was used for the benefit of the ruler, usually because of social pressure or a ruler who was in a higher position. Along with the development of the era, the use of tribute has become more widespread not only for the benefit of the ruler, but also for the public interest, such as security, infrastructure, and social facilities. With the progress of society, fairer rules began to be implemented, involving the community in the process of drafting tax regulations so that tax proceeds could be used again for their interests.

Rochmat Soemitro stated that tax is a phenomenon that only exists in the context of society; without communities at the village, nagari, and state levels have common goals that support their survival. Meanwhile, the life of the state requires costs like other

individuals; sources of state revenue come from taxes and natural resources owned, not from personal income. Taxes function as the main source of the state budget to finance government spending. Rochmat Soemitro defines tax as a contribution collected based on law with a mandatory nature and without direct imbalance to finance state spending.

PJA Adriani added that taxes collected in accordance with applicable regulations and used to finance state tasks, Taxation is a mechanism for the mandatory transfer of resources from the community to the government. Tax policy includes technical, legal, social, cultural, and political aspects to ensure the management and use of tax funds in accordance with the needs of state development. Through tax laws, the government manages resources to include public services such as education and health. Optimal taxation theory emphasizes that tax policy must maximize social welfare by distributing benefits fairly. The benefit theory argues that individual contributions to the state should be commensurate with the benefits received,

Government policies also focus on maintaining economic balance, budget management, and financial control for the sake of state stability. Control theory shows the importance of social policies, such as restrictions or control of activities, in reducing mitigation costs during a pandemic. On the other hand, dynamic political economy theory wants taxation with public debt and state spending in an effort to optimize revenue to meet national needs, including facing crises such as war or disasters. Research by Ioana-Laura Țibulca (2021) shows that the decline in tax revenues in Europe in 2020-2021 was followed by a recovery in 2022. The study recommends fiscal policies to increase the stability of tax revenues in the future.

3. Malaysia:

Islamic-Based Fiscal Policy Malaysia is one of the pioneers in implementing Islamic-based fiscal policies. An example is the development of sukuk (Islamic bonds) to finance infrastructure projects and development programs. In addition, Malaysia implements a zakat and waqf system to support community economic empowerment. Implementation of sharia principles in fiscal management, including the use of zakat for community welfare programs. Malaysia implements a fiscal policy that focuses on industrial development, education, and health to encourage inclusive development.

Malaysia is recognized as a country with stable macroeconomic performance, as well as low inflation and interest rates. The success of monetary management is a key factor in encouraging real sector activity. Fiscal policy also plays a significant role through various regulations and budget allocations to provide infrastructure that

supports increased economic activity. Currently, the Malaysian government implements a conventional fiscal policy, similar to other countries. This policy is managed by the government and its cabinet, with the National Economic Action Council (NEAC) as the architect of economic development under the prime minister.

The implementation of fiscal policy, especially the budget, is handled by the Minister of Finance and the executive. The government's budget is prepared with modifications between line item budgeting and performance budgeting, including revenue, operational spending, development spending, and financing from domestic and foreign debt. According to Yusuf Al-Qardawi (1998), budget implementation must follow Islamic sharia principles that emphasize monotheism, the welfare of the people, and protection of religion, life, property, and descendants. These principles are applied in development programs and supporting regulations. To ensure the welfare of the community, the government implements a progressive tax system where individuals with higher incomes pay more taxes.

This policy aims to reduce tax revenues gradually, increase employment through various tax deductions and distributions, and create an environmentally friendly investment climate. Every Muslim individual is prohibited from buying illicit goods and will be subject to sanctions if they violate. In budget management, the government applies constitutional rules to achieve high efficiency and enforces laws for perpetrators of corruption through the establishment of the Anti-Corruption Agency.

The management of zakat and waqf is carried out by a special department under the prime minister, namely the Malaysian Administrative Planning and Modernization Unit, with waqf and zakat management institutions in each state. In the monetary sector, financial institutions such as Tabung Haji (1969) and Bank Islam Malaysia (BIM) (1983) were established to support the sharia-based financial system. In 2003, there were 652 sharia-approved stocks with a total value of RM500 billion. Analysis by Sanep Ahmad and Abdul Azis (2003) showed that the performance of sharia stocks was better than conventional stocks, with the number of Islamic Bank branches reaching 128 in 2002 and total deposits reaching 55.8% of total banking deposits.

E. CONCLUSION

The Important Role of Public Finance: Public finance is a key pillar in managing a country's economy, covering government revenue, expenditure, and debt. This aims to achieve economic stability, income equality, and improving public welfare. **Diverse Fiscal Policies:** Muslim countries such as Indonesia and Pakistan implement different fiscal policies according to their respective economic conditions.

In Indonesia, fiscal policy focuses on spending efficiency and optimizing revenue through a progressive tax system. Meanwhile, Pakistan faces challenges in increasing tax compliance and managing high inflation. **Principles of Islamic Economics:** Fiscal policies in Muslim countries are often guided by sharia principles, which emphasize fairness, transparency, and sustainable income distribution. Zakat is an important instrument in distributing wealth and alleviating poverty.

Global Challenges: Muslim countries face global challenges that affect their fiscal policies, including weakening commodity prices, dependence on natural resources, and the need to undertake structural reforms to meet the requirements of international institutions such as the IMF. **Community Involvement:** Public financial management must actively involve the community to ensure that the policies implemented can meet the needs of the people and encourage participation in the development process.

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