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Macroeconomic determinants of Indonesia's economic growth: integrating industrial production index, inflation, and foreign direct investment within an Islamic welfare

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Abstract

The study explores the key macroeconomic factors influencing Indonesia's economic growth, focusing on the roles of the Industrial Production Index (IPI), inflation, exchange rates, international trade, and Foreign Direct Investment (FDI) within an Islamic welfare framework. The purpose of this research is to examine how these factors contribute not only to material prosperity but also to social and moral welfare. The methodology involves secondary data analysis from 1983 to 2022 using econometric techniques such as multiple linear regression and path analysis. The findings indicate that IPI and FDI have significant positive effects on economic growth, while international trade has a negative impact, primarily due to Indonesia's trade deficit. Inflation, within controlled limits, stimulates growth, but exchange rate fluctuations show an insignificant effect. The implications suggest that policies integrating macroeconomic management with Islamic welfare principles, such as *maqāṣid al-sharī'ah*, can foster sustainable economic and social welfare by balancing material growth with ethical considerations

Keywords: Indonesia; economic growth; Industrial Production Index; Foreign Direct Investment; Islamic welfare principles.

Introduction

Economic growth plays a crucial role in shaping societal well-being, impacting various aspects of a nation's development. One of the primary factors influencing this growth is the performance of the production sector, which has been extensively discussed in economic literature. According to Meilaniwati and Tannia (2021), fluctuations in economic growth are heavily influenced by the rise and fall of production sectors, particularly in industries such as transportation and storage. The importance of production sectors is further emphasized by the Industrial Production Index (IPI), which reflects the output of large and medium-sized industries at the national level (Diana & Kurniasari, 2021). As economic growth

continues to be a long-term issue, identifying the contributing factors is vital for developing effective policy strategies.

In addition to production, macroeconomic variables, such as inflation and currency exchange rates, are pivotal to understanding economic growth dynamics. Simanungkalit (2020) noted that inflation, under the Phillips curve theory, has a positive impact on economic growth by lowering unemployment rates, while other theories, such as the Keynesian perspective, support the idea that inflation, if controlled, does not hinder economic progress. Similarly, Lastri and Anis (2020) highlighted the role of currency exchange rates in affecting international trade and, consequently, economic growth. These factors, along with international trade and Foreign Direct Investment (FDI), are central to understanding the mechanisms that drive economic expansion and stability.

A significant challenge in the current economic landscape is the complex interaction between various macroeconomic factors and their collective influence on growth. While individual factors, such as the IPI, inflation, and exchange rates, are well-studied, their combined effect on economic growth, especially within the context of a developing economy like Indonesia, remains less understood. Additionally, external factors, such as international trade imbalances, further complicate the issue, as Indonesia has faced consistent trade deficits, which have suppressed domestic production and hampered economic growth (Yuni, 2021). Understanding how these variables interact is crucial for creating effective policy frameworks that can promote sustainable growth.

The general solution to this problem lies in adopting a holistic approach to economic management that integrates key macroeconomic variables while aligning with broader welfare principles. The role of government policy is critical in regulating inflation, stabilizing exchange rates, and promoting FDI, which together can create a conducive environment for growth. By carefully balancing these elements, it is possible to develop strategies that not only stimulate economic growth but also ensure its sustainability, especially through the inclusion of production sectors that can generate employment and drive industrial output (Fatimah et al., 2023).

The Industrial Production Index (IPI) is a widely recognized indicator of economic growth, as it reflects the capacity of the

production sector to contribute to overall economic activity. Studies have shown that a higher IPI correlates positively with increased industrial output and, consequently, economic expansion. As noted by Isnan (2017), the IPI plays a critical role in enhancing foreign exchange earnings, which in turn stimulates broader economic growth. This relationship underscores the importance of boosting industrial output through policies that support infrastructure, innovation, and foreign investment in production sectors.

Inflation, while often perceived as a challenge, can serve as a driver of economic growth if maintained within controlled limits. According to Diana and Kurniasari (2021), inflation encourages production and investment by increasing revenues for producers, provided it does not exceed critical thresholds that would otherwise cause economic instability. Moreover, Winarto et al. (2021) argued that stable inflation rates prevent macroeconomic shocks, which can lead to sustained economic growth by providing a stable environment for businesses to operate.

Foreign Direct Investment (FDI) is another pivotal factor that has a long-term impact on economic growth by channeling capital into sectors that require technological advancements and managerial expertise. Meilaniwati (2021) indicated that FDI is particularly effective in developing countries like Indonesia, where it not only boosts production capacity but also creates employment opportunities. The long-term benefits of FDI include technological transfers and the introduction of modern management practices, which are crucial for sustaining industrial growth and maintaining economic stability (Kambono & Marpaung, 2020).

Despite the significant contributions of IPI, inflation, and FDI to economic growth, there are gaps in the literature concerning the integration of these factors within a comprehensive welfare framework, particularly in an Islamic economic context. For instance, while Isnan (2017) and Nurhidayah et. al. (2022) explored the positive and negative effects of inflation, there is limited research on how inflation, when managed under Islamic economic principles, can promote not only material prosperity but also social equity. Additionally, while Yuni (2021) highlighted the benefits of international trade, few studies have examined the long-term impacts of trade deficits on domestic production, especially in countries like Indonesia, which face persistent trade imbalances.

Another gap lies in the interaction between macroeconomic stability, as promoted through exchange rate controls, and FDI. Although Meilaniwati (2021) emphasized the role of FDI in promoting industrial growth, further research is needed to understand how exchange rate fluctuations impact FDI inflows and their subsequent effect on production capacities. The limited research on how Islamic welfare principles, such as *maqāṣid al-sharī'ah*, can be incorporated into macroeconomic policies presents another area for investigation.

The objective of this study is to analyze the key macroeconomic factors influencing Indonesia's economic growth, focusing on the roles of the Industrial Production Index (IPI), inflation, exchange rates, international trade, and Foreign Direct Investment (FDI). This analysis will be conducted within the framework of Islamic welfare principles, particularly *maqāṣid al-sharī'ah*, to understand how these factors contribute not only to material prosperity but also to social and moral welfare. The novelty of this study lies in its integration of conventional economic variables with an Islamic welfare framework, offering a comprehensive approach to economic growth that encompasses both material and spiritual dimensions.

The scope of this study includes a thorough analysis of macroeconomic data from Indonesia, applying econometric techniques to examine the relationships between the key variables. This will be supplemented by a review of existing literature and policy frameworks, with the aim of providing actionable insights for policymakers seeking to balance economic growth with social welfare in line with Islamic principles.

Literature review

Kaldorian theory of economic growth

The Kaldorian growth theory posits that the industrial sector acts as a key driver for economic development by influencing the growth of other sectors and overall economic performance. Three primary aspects define Kaldorian growth theory. First, there is a positive correlation between Gross Domestic Product (GDP) growth and industrial sector growth. Second, productivity within the industrial sector also exhibits a positive relationship with its own growth. This is attributed to increasing returns to scale, a concept

central to Kaldorian theory. Increasing returns occur through capital accumulation and technological innovation, where learning by doing becomes crucial to sustaining long-term stability within the sector. Finally, non-industrial sectors are positively influenced by industrial sector growth, largely due to the non-industrial sector's diminishing returns to scale (Muttaqin, 2018).

The second tenet of Kaldorian theory places heavy emphasis on capital accumulation and technological advancement as prerequisites for increasing returns. This underscores the role of investment in stimulating growth within the manufacturing sector. High investment levels are necessary for technological and operational upgrades, thereby improving productivity and supporting the industrial sector's expansion. Investment is seen as a form of capital accumulation critical for enhancing productivity and the growth of the industrial sector (Widiaty et al., 2020).

Welfare in Islamic economics

The concept of welfare in Islamic economics is integral to understanding the holistic approach it offers toward individual and societal well-being. Welfare in Islamic economics is not merely about material wealth but includes spiritual and moral dimensions. Zakirah et. al. argue that Islamic welfare encompasses a transcendental relationship with God (Allah) and harmonious social interactions, which are key indicators of social welfare (Zakirah et. al., 2020). This perspective aligns with the bifurcation of welfare into worldly and spiritual aspects, where material welfare is achieved through adequate income for meeting basic needs (Almahmudi, 2019).

Islamic welfare is rooted in the principles of *maqāṣid al-sharīʿah*, which prioritize the protection and promotion of human welfare. The objective of Islamic economics is to ensure holistic welfare, combining economic, spiritual, and moral dimensions. This holistic approach mandates that economic policies, including public financial management, be aligned with *maqāṣid al-sharīʿah* to achieve these welfare goals (Suardi, 2021). The implementation of *maqāṣid al-sharīʿah* principles in financial and public sectors is essential for realizing the Islamic conception of welfare (Arifiansyah et al., 2022).

A key instrument in achieving welfare in Islamic economics is the just management of wealth and equitable income distribution.

Najib and Masruri emphasize that fulfilling basic needs to achieve welfare is a shared responsibility between government and society (Najib & Masruri, 2022). Equitable distribution of income is critical for reducing economic inequality and promoting overall societal welfare. Putra et al. (2022) reinforce this by showing that the allocation and distribution of national income, when guided by Islamic economic principles, can promote societal welfare by upholding moral and social values.

Furthermore, the concept of maslahah (public interest) serves as a foundation for achieving welfare in Islamic economics. Hehanussa (2023) explains that the Islamic economic system encourages behavior consistent with maslahah, which, when applied effectively, leads to welfare based on public interest. This welfare model extends beyond material growth, incorporating social justice and environmental sustainability as critical components for achieving sustainable welfare (Muhibban & Munir, 2023).

In practice, Islamic economics prioritizes equitable distribution mechanisms, contrasting with capitalist systems that tend to favor a select few. Fadllan and Maufiroh (2022) argue that welfare in this life contributes to welfare in the afterlife, making it crucial to uphold values of justice and compassion in all economic actions. Consequently, the distribution systems in Islamic economics are designed to minimize economic disparity and promote welfare for all societal levels (Dewantara, 2020).

On a broader scale, Islamic welfare theory addresses inflation control and economic stability. Samsul and Nasution (2019) note that Islamic economics employs distinct strategies for inflation control, differing from conventional economic approaches. Monetary and fiscal policies in Islamic economics are crafted to maintain balance and stability, thus supporting overall societal welfare.

In summary, welfare in Islamic economics emphasizes the integration of material, spiritual, and moral aspects in all economic activities. It reflects a comprehensive view of welfare, where both individuals and society are expected to achieve worldly and spiritual prosperity. Therefore, applying Islamic economic principles rooted in *maqāṣid al-sharīʿah* is crucial for achieving sustainable and equitable welfare for all humanity.

Research methods

This study utilized secondary data sourced from the World Bank, covering the time series from 1983 to 2022. Key variables include the Industrial Production Index (IPI), inflation, exchange rates, international trade, Foreign Direct Investment (FDI), and economic growth. The dataset comprised a total of 234 samples obtained using a saturated sampling technique. Data were processed using EViews 10 for the analysis (Meilaniwati, 2021; Fatimah et al., 2023).

The data preparation involved organizing time series variables, which included transforming the original raw data into a first-difference form to ensure stationarity. Stationarity tests, including the Augmented Dickey-Fuller (ADF) test, confirmed the non-spurious nature of the relationships between the variables. The first differences were used in all subsequent analyses (Simanungkalit, 2020; Diana & Kurniasari, 2021).

The experimental setup involved applying multiple linear regression to model the relationships between macroeconomic variables and economic growth. The analysis was conducted through various econometric tests such as multicollinearity, heteroscedasticity, and autocorrelation to validate the reliability of the regression model. Path analysis was also performed to understand the mediating effects of FDI on growth. Equations employed in this analysis included:

$$Y=\beta0+\beta1X1+\beta2X2+\cdots+\epsilon Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \epsilon Y=\beta0+\beta1X1+\beta2X2+\cdots+\epsilon$$

Where YYY represents economic growth, and X1X_1X1, X2X_2X2, etc., are the predictor variables (Isnan, 2017; Kambono & Marpaung, 2020).

The parameters measured were the coefficients for each macroeconomic variable's effect on economic growth. These included the IPI (industrial output), inflation rates, exchange rates, trade balance, and FDI inflows. Each parameter was analyzed for its statistical significance (p-value < 0.05) and contribution to explaining variations in economic growth (Yuni & Lanova, 2021).

The statistical analysis involved several econometric techniques, including multiple regression analysis, classical assumption tests (normality, multicollinearity, heteroscedasticity), and path analysis. These tests ensured the robustness of the model

and its predictive power. Additionally, stationarity and autocorrelation tests were conducted to validate the time-series data, confirming that the residuals followed a normal distribution with no significant autocorrelation (Meilaniwati, 2021; Najib & Masruri, 2022).

Results and discussion

The study's multiple regression analysis provides detailed insights into the key factors influencing Indonesia's economic growth. The Industrial Production Index (IPI) demonstrates a significant positive effect on economic growth, with a coefficient of 4.098350 and a p-value of 0.0000, indicating that increased industrial output directly stimulates the economy. This suggests that growth in industrial output is a primary driver of economic expansion by enhancing production capacities and generating employment opportunities. Thus, maintaining and improving industrial output is essential for promoting sustained economic growth.

Inflation also exerts a significant positive influence, as evidenced by a coefficient of 4.25E+09 and a p-value of 0.0069, suggesting that within controlled limits, inflation can stimulate economic activity by encouraging production and investment. This can be attributed to the increased revenues for producers due to price increases, motivating further investments and expansions.

On the other hand, the exchange rate shows a negative correlation with economic growth (coefficient = -2957022), though the result is statistically insignificant with a p-value of 0.5073. This indicates that short-term fluctuations in the exchange rate have a minimal impact on Indonesia's economic performance. However, maintaining long-term exchange rate stability remains crucial for attracting investment and promoting trade competitiveness.

International trade, meanwhile, has a significant negative impact on economic growth, with a coefficient of -3.20E+09 and a p-value of 0.0332. This finding underscores the detrimental effect of Indonesia's trade deficit, where imports consistently exceed exports. This trade imbalance leads to currency depreciation and inflationary pressures, reducing domestic production and hampering economic growth. To leverage the benefits of international trade, Indonesia must address its trade deficit by promoting export-oriented industries.

Foreign Direct Investment (FDI) plays a crucial role in boosting economic growth, with a coefficient of 13.58340 and a p-value of 0.0002. FDI contributes positively to economic growth by channeling capital into the industrial sector, enhancing productivity, and creating jobs. This finding is consistent with existing literature that highlights the importance of attracting foreign investments to stimulate industrial growth and broader economic expansion.

Table 1. Multiple linear regression test results for variable Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.20E+11	6.97E+10	1.718236	0.0948
D(IPI)	4.098350	0.372881	10.99105	0.0000
D(Inflation)	4.25E+09	1.48E+09	2.876887	0.0069
D(Exchange Rate)	-2957022.	4412454.	-0.670154	0.5073
D(Trade)	-3.20E+09	1.44E+09	-2.219791	0.0332
D(FDI)	13.58340	3.277212	4.144803	0.0002

The findings further show the impact of these variables on Foreign Direct Investment (FDI), which mediates their effect on economic growth. The Industrial Production Index (IPI) significantly influences FDI, with a coefficient of 0.065405 and a p-value of 0.0002. This result suggests that increases in industrial production attract foreign investors, as a growing industrial sector offers higher returns on investment. By increasing industrial output, Indonesia not only boosts its economy directly but also indirectly by attracting FDI, which further supports industrial expansion.

Inflation and the exchange rate, however, have positive but insignificant effects on FDI, with p-values of 0.4504 and 0.8037, respectively. This indicates that while inflation and exchange rates are important economic factors, their impact on FDI inflows may be mitigated by other considerations, such as overall economic stability and regulatory environments.

International trade shows a negative but insignificant effect on FDI, suggesting that trade imbalances do not substantially deter foreign investors. However, persistent trade deficits could create vulnerabilities in the long run, potentially impacting investor confidence.

Table 2. Multiple linear regression test results for variable Z

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.60E+09	3.57E+09	0.728342	0.4712
D(IPI)	0.065405	0.015737	4.156126	0.0002
D(Inflation)	57662716	75539359	0.763347	0.4504
D(Exchange Rate)	56943.66	227380.3	0.250434	0.8037
D(Trade)	-72802730	73379689	-0.992137	0.3279

Stationarity test

The stationarity test results confirm the robustness of these findings. All variables were stationary at first difference, ensuring that the relationships observed between variables and economic growth are not spurious.

Table 3. Stationarity test results

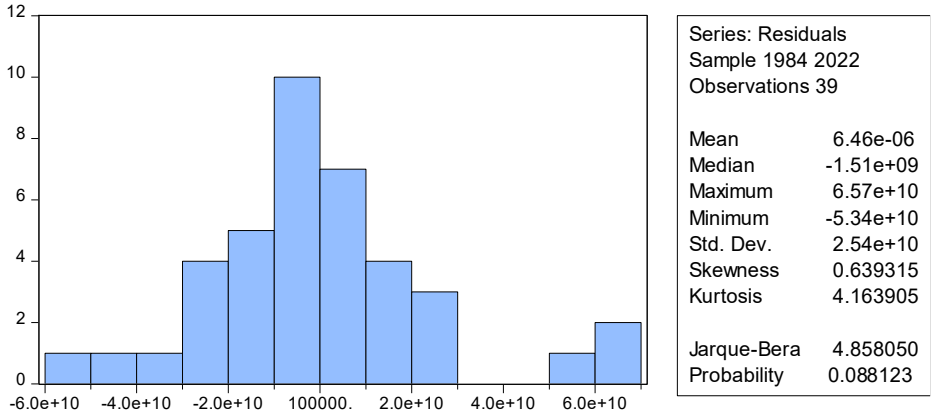
No	Variable	Prob.*	Stationarity
1.	Industrial Production Index (X1)	0.0001	first difference
2.	Inflation (X2)	0.0000	first difference
3.	Exchange Rate (X3)	0.0001	first difference
4.	International Trade (X4)	0.0000	first difference
5.	Foreign Direct Investment (Z)	0.0000	first difference
6.	Economic growth (Y)	0.0045	first difference

Classical assumption tests

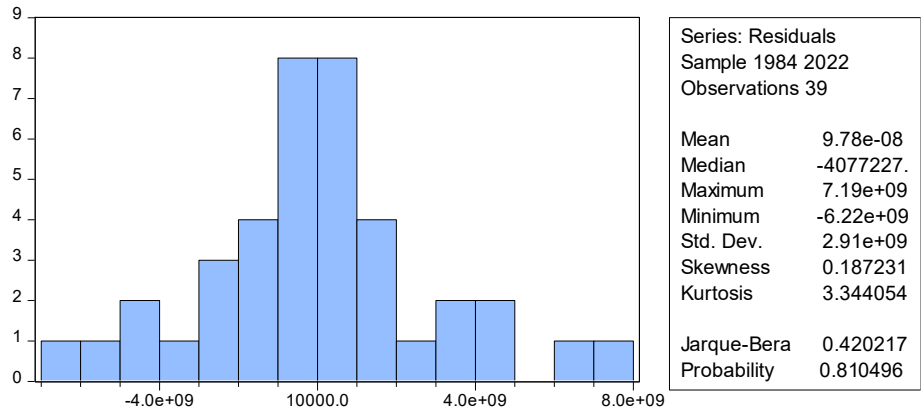
The classic assumption tests further validate the model. The normality tests for both economic growth and FDI show that the residuals are normally distributed, ensuring that the results are unbiased and reliable.

The classic assumption tests confirmed the model's validity. The normality tests for both economic growth and FDI show that the residuals are normally distributed, with Jarque-Bera values greater than 0.05, ensuring that the residuals follow a normal distribution.

Graph 1. Normality test results for variable Y



Graph 2. Normality test results for variable Z



The multicollinearity test results indicate no significant correlation among the independent variables, with all variance inflation factors (VIF) below 10. This ensures the reliability of the regression coefficients and confirms that the model does not suffer from multicollinearity.

Table 4. Multicollinearity test results for variable Y

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	4.68E+19	2.464175	NA
D(IPI)	0.310656	2.490467	1.916950
D(Inflation)	5.04E+17	3.231796	3.230791
D(Exchange Rate)	6.16E+13	2.722040	2.307804
D(Trade)	6.31E+17	3.130172	3.127450
D(FDI)	2.300365	1.201068	1.184277

Table 5. Multicollinearity test results for variable Z

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	5.98E+17	2.461420	NA
D(IPI)	0.003644	2.285064	1.758848
D(INFLATION)	6.40E+15	3.211019	3.210022
D(EXCHANGE RATE)	7.86E+11	2.716350	2.302981
D(TRADE)	7.85E+15	3.046462	3.043813

The heteroskedasticity tests confirm that the model does not suffer from heteroskedasticity. Both variables (Y and Z) exhibit Prob values greater than 0.05, indicating constant variance across residuals.

Table 6. Heteroscedasticity test results for variable Y

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.143951	Prob. F(5,33)	0.3571
Obs*R-squared	5.761153	Prob. Chi-Square(5)	0.3302
Scaled explained SS	6.525315	Prob. Chi-Square(5)	0.2584

Table 7. Heteroscedasticity test results for variable Z

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.567113	Prob. F(4,34)	0.6882
Obs*R-squared	2.439300	Prob. Chi-Square(4)	0.6555
Scaled explained SS	2.172859	Prob. Chi-Square(4)	0.7040

Finally, the autocorrelation tests using the Durbin-Watson statistic reveal no autocorrelation in the model, further confirming the reliability of the regression results (Bawono & Shina, 2018).

Table 8. Autocorrelation test results for variable Y

R-squared	0.051622	Mean dependent var	6.46E-06
Adjusted R-squared	-0.162528	S.D. dependent var	2.54E+10
S.E. of regression	2.74E+10	Akaike info criterion	51.08269
Sum squared resid	2.32E+22	Schwarz criterion	51.42393
Log likelihood	-988.1124	Hannan-Quinn criter.	51.20512
F-statistic	0.241057	Durbin-Watson stat	1.793999
Prob(F-statistic)	0.971375		

Table 9. Autocorrelation test results for variable Z

R-squared	0.355853	Mean dependent var	9.78E-08
Adjusted R-squared	0.235075	S.D. dependent var	2.91E+09
S.E. of regression	2.55E+09	Akaike info criterion	46.31500
Sum squared resid	2.08E+20	Schwarz criterion	46.61359
Log likelihood	-896.1426	Hannan-Quinn criter.	46.42213
F-statistic	2.946348	Durbin-Watson stat	1.989261
Prob(F-statistic)	0.021011		

Islamic welfare principles in Indonesia's economic growth analysis

The results from the multiple linear regression analysis provide significant insights into the key factors influencing Indonesia's economic growth, namely the Industrial Production Index (IPI), inflation, exchange rate, international trade, and Foreign Direct Investment (FDI). By integrating these findings with the theoretical framework of welfare in Islamic economics, a deeper understanding of the relationship between these economic factors and the holistic concept of welfare is developed, which encompasses material, spiritual, and moral dimensions.

The positive and significant effect of the Industrial Production Index (IPI) on economic growth, with a coefficient of 4.098350 and a p-value of 0.0000, indicates that increased industrial output is a key driver of economic expansion by enhancing production capacities and generating employment opportunities. In the context of Islamic economics, the growth in industrial output aligns with the objectives of *maqāṣid al-sharī'ah*, which aim to protect and promote human welfare. As industrial production increases, it directly contributes to both economic growth and the equitable distribution of income, which is central to achieving social welfare. This is supported by Najib and Masruri (2022), who emphasize that equitable income distribution plays a crucial role in fostering societal welfare by reducing income inequality. Hence, the role of industrial production in supporting economic growth can be seen as a means to improve both material well-being and the moral obligation to ensure fair distribution in accordance with Islamic principles.

Inflation, which also shows a positive and significant impact on economic growth with a coefficient of 4.25E+09 and a p-value of 0.0069, demonstrates that controlled inflation can stimulate economic activities by encouraging production and investment. From an Islamic welfare perspective, inflation is acceptable as long as it does not lead to injustice or social inequality, aligning with the

maslahah (public interest) framework. Properly managed inflation can lead to increased revenues for producers and encourage further investment, benefiting society at large (Hehanussa, 2023). Thus, inflation control measures that foster economic stability and growth, without causing undue harm to vulnerable populations, are critical for achieving sustainable welfare as envisioned in Islamic economics.

Conversely, the negative but statistically insignificant relationship between the exchange rate and economic growth, with a coefficient of -2957022 and a p-value of 0.5073, suggests that short-term fluctuations in exchange rates have minimal impact on Indonesia's economic performance. However, maintaining exchange rate stability is crucial for attracting foreign investments and promoting trade competitiveness. In Islamic economics, stability in exchange rates is essential for ensuring justice in economic transactions and promoting fairness in trade. This reflects the broader Islamic economic principle that seeks to balance trade and ensure justice in financial dealings, which ultimately supports long-term societal welfare.

The study also reveals a significant negative impact of international trade on economic growth, with a coefficient of -3.20E+09 and a p-value of 0.0332. This finding underscores the challenges posed by Indonesia's trade deficit, where imports consistently exceed exports, leading to currency depreciation and inflationary pressures that reduce domestic production. In the framework of Islamic welfare, this calls for policies that promote self-reliance and reduce dependency on imports by fostering export-oriented industries. As Islamic economics emphasizes the importance of equitable distribution and reducing inequality, promoting domestic industries would not only improve economic performance but also contribute to reducing social disparities by creating more job opportunities and increasing incomes for local populations (Putra et al., 2022).

Foreign Direct Investment (FDI), which plays a crucial role in boosting economic growth, shows a positive and significant effect with a coefficient of 13.58340 and a p-value of 0.0002. FDI contributes to economic growth by channeling capital into the industrial sector, enhancing productivity, and creating employment opportunities. However, from the perspective of Islamic economics, FDI must be managed in a way that aligns with Islamic values,

ensuring that it does not solely focus on material gains but also contributes to the moral and spiritual well-being of society. The Islamic concept of welfare integrates both worldly and spiritual dimensions, suggesting that investments should be oriented toward benefiting the public good and adhering to ethical and moral standards (Muhibban & Munir, 2023). In this regard, attracting FDI that aligns with Islamic values could further enhance both economic and social welfare by promoting justice, fairness, and long-term prosperity.

The findings of this study also highlight the broader implications of implementing *maqāṣid al-sharī'ah* in public financial management and economic policies. The positive contributions of industrial production, inflation management, and FDI to economic growth reinforce the idea that policies guided by *maqāṣid al-sharī'ah* can promote a more holistic form of welfare that integrates economic, moral, and social dimensions. In Islamic economics, welfare is not solely measured by material wealth but also by the quality of life, justice in economic transactions, and the moral development of individuals and society (Zakirah et. al., 2020). By adhering to these principles, Indonesia can achieve sustainable welfare, ensuring that economic growth benefits all levels of society while promoting spiritual and moral well-being.

The integration of these economic factors with the principles of Islamic welfare theory demonstrates that economic growth in Indonesia can be enhanced through a holistic approach that balances material prosperity with moral and social welfare. The findings suggest that promoting industrial production, maintaining controlled inflation, and attracting ethical FDI are key strategies for achieving sustainable economic growth and welfare in Indonesia. Furthermore, addressing trade imbalances and ensuring exchange rate stability are crucial for reducing economic vulnerabilities and promoting long-term welfare. By applying the principles of *maqāṣid al-sharī'ah* in economic policies, Indonesia can achieve a more equitable distribution of wealth, reduce social inequalities, and foster a more just and prosperous society in line with Islamic values.

Conclusion

The study concludes that Indonesia's economic growth is significantly influenced by macroeconomic factors, including the Industrial Production Index (IPI), inflation, exchange rates, international trade, and Foreign Direct Investment (FDI). The findings underscore the pivotal role of industrial output and FDI as drivers of growth, aligning with both conventional economic frameworks and Islamic welfare principles. Controlled inflation can further stimulate economic activity, while the trade deficit poses a challenge to sustainable growth. The study also highlights the importance of integrating *maqāṣid al-sharī'ah* in economic policy to ensure that growth supports social equity and moral welfare. Future research should focus on the interaction of these variables within the Islamic economic framework to promote a more comprehensive approach to development, emphasizing both material prosperity and social justice.

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