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The Role of Islamic Financial Inclusion in Promoting Economic Growth: Empirical Evidence from Sumatera, Indonesia

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ABSTRACT

This study aims to examine the relationship between Islamic financial inclusion and its dimensions on economic growth. To obtain multilateral results, we have prepared panel data for 10 provinces on the island of Sumatra and conducted not only static panel estimation (fixed effects, robust standard errors) but also dynamic panel estimation using the generalized system method of moments (GMM) approach that controls for endogeneity. Based on the estimation results, we found that Islamic financial inclusion significantly influences economic growth. Furthermore, the three dimensions of Islamic financial inclusion (Accessibility, Availability, and Usefulness) are important factors in economic growth. Therefore, to support financial inclusion in the future, investment policies in infrastructure and improvement of Islamic financial services are needed. The results of this study emphasize the importance of policies that support the growth and development of Islamic financial services, which have been shown to play a significant role in increasing economic growth through the development of an inclusive financial system. Based on the author's literature review and research gap analysis, no studies have used the Islamic financial inclusion index and tested it against economic growth. Similarly, the author found no studies that specifically explored the dimensions of Islamic financial inclusion (IFII). This study fills this research gap.

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Introduction

Financial inclusion has become one of the most prominent issues in contemporary economic development discourse. It is widely recognized as a strategic instrument for promoting economic growth, reducing poverty, and minimizing social inequality. Higher levels of financial inclusion help eliminate barriers related to geography, religion, ethnicity, and income distribution, thereby encouraging broader participation in economic activities (Klapper et al., 2016). Since gaining global attention in the mid-2000s, financial inclusion has increasingly become a major policy agenda at both national and international levels. Access to formal financial services, including savings, financing, insurance, and payment systems, is considered essential for improving financial autonomy and strengthening economic performance (Lal, 2017). Consequently, many policymakers, particularly in developing economies, have introduced strategies to expand access to financial services and enhance financial inclusion (Razak & Astutay, 2022).

The literature on financial inclusion can generally be classified into three major strands. The first strand focuses on defining financial inclusion and developing measurement indicators (Sinclair, 2001; Sarma, 2012; Sharma, 2016; Mindra et al., 2017). The second strand examines the determinants of financial inclusion, such as financial literacy, social influence, institutional quality, and demographic factors (Atkinson & Messy, 2013; Bongomin et al., 2017; Shihadeh, 2018). The third strand investigates the relationship between financial inclusion and economic outcomes, including economic growth, poverty reduction, and income distribution (Sharma, 2016; Sethi & Acharya, 2018; Raza et al., 2019). Previous studies have generally

confirmed that financial inclusion contributes positively to economic growth by improving capital allocation, encouraging investment, and increasing financial participation among households and firms. Erlando et al. (2020), for example, found that financial inclusion significantly affects economic growth and poverty reduction in Eastern Indonesia, although it may also contribute to widening income inequality.

In Indonesia, the government has demonstrated strong commitment toward financial inclusion through Presidential Regulation Number 82 of 2016 concerning the National Strategy for Financial Inclusion (SNKI). This policy framework aims to accelerate economic growth, reduce poverty, and minimize regional disparities through the expansion of inclusive financial services. According to the National Survey of Financial Literacy and Inclusion (2022), Indonesia's financial literacy index increased from 38.03% in 2019 to 49.68% in 2022. Similarly, the national financial inclusion index rose significantly from 76.19% to 85.10% during the same period. These developments indicate substantial progress in improving public access to financial services and narrowing the gap between financial literacy and financial inclusion.

Indonesia also possesses enormous potential for the development of Islamic finance due to its large Muslim population, which accounts for approximately 85% of the total population. As a Muslim-majority country, Indonesia is expected to become one of the global centers of Islamic financial development. In this context, Islamic financial inclusion becomes increasingly important because it provides financial services that are compliant with Sharia principles and acceptable to Muslim communities. Moreover, demographic distribution across Indonesian islands creates both opportunities and challenges for inclusive economic development. Although Java remains the most populated island, Sumatra represents the second-largest population concentration and exhibits relatively high Islamic financial inclusion performance compared to other regions.

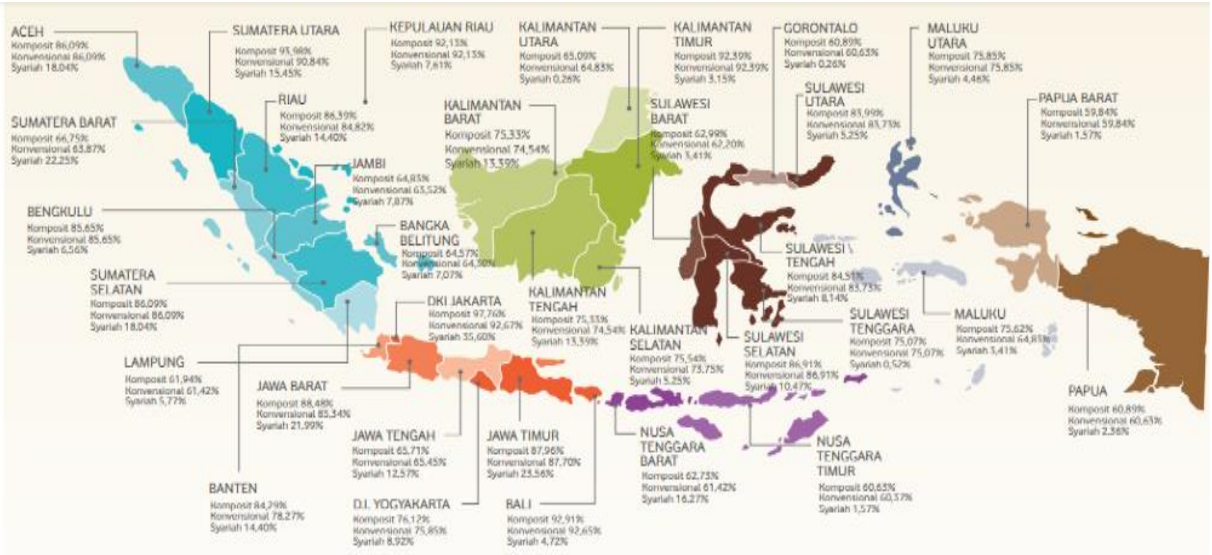

Figure 1. Financial Inclusion Index of Provinces in Indonesia
Source: Indonesia's National Financial Literacy Strategy (SNLKI) 2021–2025

Despite the growing importance of Islamic finance, empirical evidence regarding the relationship between Islamic financial inclusion and economic growth remains limited. Existing studies primarily focus on conventional financial inclusion or use single indicators to measure Islamic financial development. Research examining multidimensional Islamic financial inclusion at the regional level is still scarce. Previous studies have shown that Islamic finance contributes positively to economic growth through financial intermediation, investment stimulation, and productive financing mechanisms (Abduh & Omar, 2012; Kassim, 2016; Zarrouk et al., 2017). Similarly, Kim and Hassan (2018) found that financial inclusion positively affects economic growth in Organization of Islamic Cooperation (OIC) countries. However, empirical studies specifically investigating Islamic financial inclusion and its dimensions—accessibility, availability, and usage—remain underexplored, particularly in Indonesia.

Several studies have attempted to construct Islamic financial inclusion indicators. Umar (2017) developed the Islamic Financial Inclusion Index (ISFI) using provincial-level data in Indonesia and found that Islamic financial inclusion positively correlates with the Human Development Index. Ali et al. (2020) identified supply and demand factors as key drivers of Islamic financial inclusion in Indonesia. Nevertheless, most previous studies focused either on national-level analysis or employed cross-sectional approaches, leaving limited evidence regarding regional panel data analysis and the dynamic relationship between Islamic financial inclusion and economic growth.

Therefore, this study seeks to fill the existing research gap by examining the impact of Islamic financial inclusion on economic growth in the provinces of Sumatra, Indonesia. Unlike previous studies that relied on single indicators, this study constructs a multidimensional Islamic Financial Inclusion Index consisting of accessibility, availability, and usage dimensions. Furthermore, this study employs panel data regression using the Fixed Effects Model with robust standard errors and System Generalized Method of Moments (System-GMM) estimation to address potential endogeneity issues. By focusing on Sumatra, a region with relatively high Islamic financial inclusion performance, this study provides new empirical evidence regarding the role of Islamic financial inclusion in promoting regional economic growth.

Literature Review

Islamic Financial Inclusion Index

Financial exclusion refers to the inability of individuals or groups to access appropriate financial services due to barriers related to access, pricing, conditions, or marketing (Sinclair, 2001). Similarly, Cicchiello et al. (2021) define financial exclusion as the inability of certain groups in society to access the formal financial system. According to the Report of the Committee on Financial Inclusion (2008), financial inclusion is a process that ensures vulnerable and low-income groups have access to timely, adequate, and affordable financial and credit services.

Financial inclusion is also defined as a process that ensures accessibility, availability, and usage of formal financial services for all members of society (Fuadi et al., 2022). This definition highlights three important dimensions of financial inclusion, namely accessibility, availability, and usage. Sharma (2016) defines financial inclusion simply as the provision of banking and financial services to society, whereas Sethi and Acharya (2018) explain it more broadly as a process that integrates low-income and marginalized groups into the formal financial system.

Mindra et al. (2017) state that financial inclusion is generally measured through three dimensions: access, usage, and quality of financial services. The access dimension reflects the physical reach and availability of financial services, particularly in rural and underserved areas. The usage dimension measures the extent to which individuals continuously utilize financial products and services. Meanwhile, the quality dimension evaluates the relevance and suitability of financial services in meeting consumer needs. Similar approaches have been applied in Islamic financial inclusion studies, where the Islamic Financial Inclusion Index (IFII) is commonly constructed using indicators of banking penetration, availability of banking services, and usability (Ali et al., 2019; Umar, 2017).

Table 1. Definition of Financial Inclusion Index Dimensions

Dimensions	Variable
D1 Accessibility	Ratio of third-party funds in Islamic banking to the number of poor adults
D2 Availability	Ratio of Islamic bank offices per 100,000 adults
D3 Usage	Ratio of total Islamic banking financing to GRDP

Source: Modification of Sarma & Pais (2008)

This study adopts a multidimensional Islamic Financial Inclusion Index consisting of accessibility, availability, and usage dimensions. The use of multidimensional indicators provides a more comprehensive measurement of Islamic financial inclusion and helps explain how different aspects of Islamic financial services contribute to economic growth.

Financial Inclusion and Economic Growth

Financial inclusion is widely recognized as an important strategy for promoting economic growth, reducing poverty, and minimizing income inequality, particularly in developing countries. By providing affordable financial products and services to low-income communities, financial inclusion helps create employment opportunities and

improve economic welfare (Timer & Raza, 2022). In addition, Baloch et al. (2021) argue that financial development improves risk management, stimulates innovation, reduces information costs, and increases capital allocation efficiency, all of which contribute to economic growth.

According to Sethi and Acharya (2018), financial inclusion contributes to economic growth through two main mechanisms. First, access to affordable financial services enables low-income communities to engage in productive economic activities. Easier access to credit increases production and income generation, particularly in rural areas, thereby improving living standards and contributing to macroeconomic growth. Second, financial inclusion encourages savings mobilization and efficient financial intermediation. When individuals participate in formal financial systems, financial institutions are able to allocate funds more effectively into productive investment projects. This process stimulates investment, increases employment opportunities, and improves income distribution.

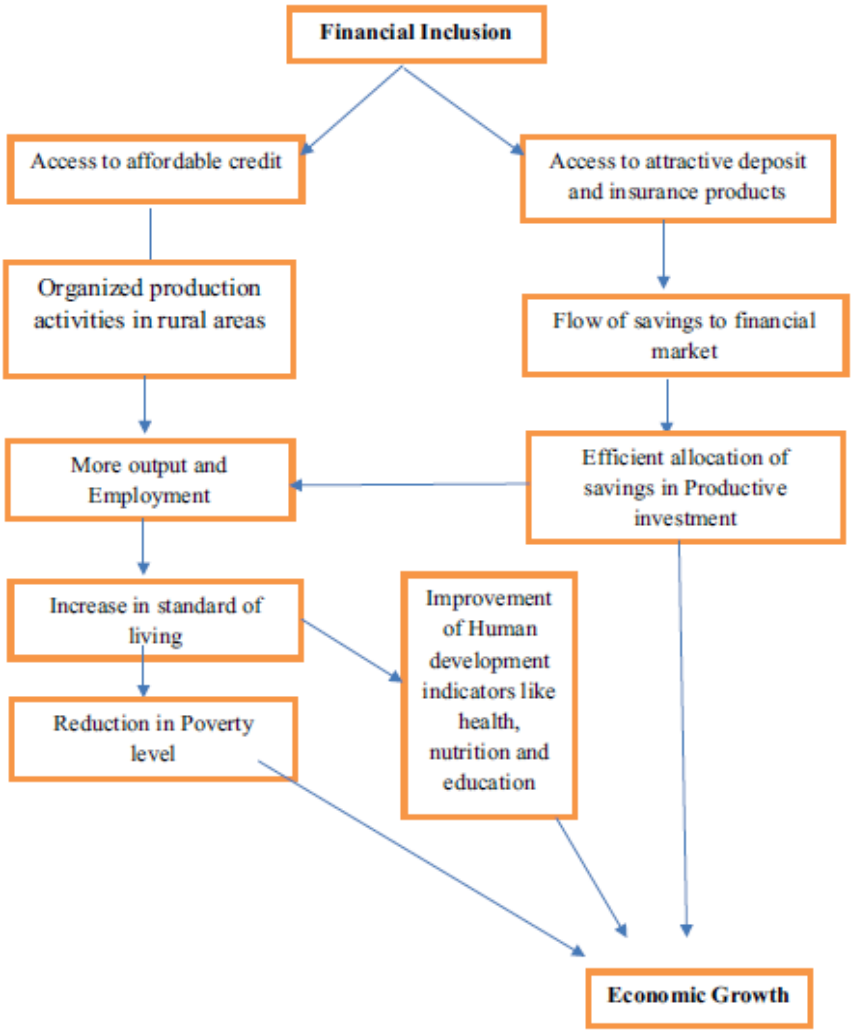

Figure 2. Relationship between Financial Inclusion and Economic Growth
Source: Sethi & Acharya (2018)

Several empirical studies support the positive relationship between financial inclusion and economic growth. Babajide et al. (2015), using Nigerian data from 1981–2012, found that financial inclusion significantly affects total factor productivity and economic output. Similarly, Sharma (2016) demonstrated that banking penetration, accessibility, and utilization of financial services positively influence economic growth in India. Sethi and Acharya (2018) also found a positive and long-term relationship between financial inclusion and economic growth across 31 countries. Likewise, Raza et al. (2019) concluded that increasing financial inclusion can stimulate economic development.

Method

This study uses secondary data in the form of panel data consisting of ten provinces on Sumatra Island, namely Aceh, North Sumatra, West Sumatra, Riau, Jambi, South Sumatra, Bengkulu, Lampung, Bangka Belitung Islands, and Riau Islands. The study covers the period from 2015 to 2022 using annual data. Data were obtained from Bloomberg and the Indonesian Central Bureau of Statistics (BPS), as presented in Table 2.

Table 2. Variable Indicators

Variables	Variable Definition	Expected Sign	Source
Dependent Variable			
GRDP	The total gross value added generated from all economic sectors within a region. Constant GRDP is used to measure real economic growth that is not influenced by price changes.		BPS
Independent Variables			
Islamic Financial Inclusion Index (IFII)	Index value resulting from Islamic financial inclusion calculations	+	Bloomberg
D1 (Accessibility)	Measures the extent to which Islamic financial services can be accessed by society. The ratio of third-party funds in Islamic banking to the adult population.	+	Bloomberg
D2 (Availability)	Measures the extent to which Islamic financial institutions provide services to society. The ratio of Islamic bank offices per 100,000 adults.	+	Bloomberg
D3 (Usage)	Measures the extent to which Islamic financial services are utilized by society, including Islamic financing activities. The ratio of total Islamic banking financing to GRDP.	+	Bloomberg
Control Variables			
Population	Total population residing in Indonesia for at least six months or intending to stay permanently.	+/-	BPS
Education	Literacy rate of the population aged 15 years and above.	+/-	BPS
Income	National income divided by total population.	+/-	BPS

This study employs panel data regression using Stata 17.0 for data processing. Panel data combine both time-series and cross-sectional dimensions. According to Gujarati and Porter (2009), several estimation approaches can be applied in panel data analysis, including the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The general panel data regression equation can be expressed as follows:

$$Y_{it} = \alpha_i + \beta X_{it} + \varepsilon_{it}$$

Where:
Y_{it} = dependent variable for province i in year t
α_i = intercept for province i
β = slope coefficient
X_{it} = independent variable for province i in year t
ε_{it} = error term

To determine the most appropriate estimation model, several specification tests were conducted. The Redundant Fixed Effect Test was used to compare the Common Effect Model and the Fixed Effect Model, while the Hausman Test was applied to select between the Fixed Effect Model and the Random Effect Model. In addition, the Lagrange Multiplier (LM) Test was used to compare the Common Effect Model and the Random Effect Model.

Following the standard economic growth literature, this study estimates the impact of Islamic financial inclusion on economic growth using the following models:

$$GRDP_{it} = \alpha_0 + \alpha_1 IFII_{it} + \sum_{k=1}^{n} \alpha_k \, Control_{it} + \omega_i + \gamma_t + \varepsilon_{it}$$

$$GRDP_{it} = \alpha_0 + \alpha_1 D1_{it} + \sum_{k=1}^{n} \alpha_k \, Control_{it} + \omega_i + \gamma_t + \varepsilon_{it}$$

$$GRDP_{it} = \alpha_0 + \alpha_1 D2_{it} + \sum_{k=1}^{n} \alpha_k \, Control_{it} + \omega_i + \gamma_t + \varepsilon_{it}$$

$$GRDP_{it} = \alpha_0 + \alpha_1 D3_{it} + \sum_{k=1}^{n} \alpha_k \, Control_{it} + \omega_i + \gamma_t + \varepsilon_{it}$$

Where $i$denotes provinces and $t$denotes years. GRDP represents economic growth, IFII represents the Islamic Financial Inclusion Index, while D1, D2, and D3 represent accessibility, availability, and usage dimensions, respectively. Control variables include population, education, and income, following previous economic growth studies (Chinoda & Kapigura, 2023; Mohd Daud & Ahmad, 2023). Based on the Hausman test results, this study applies the Fixed Effect Model as the preferred estimation approach.

Table 3. Model Selection Results

Model	Redundant Fixed Effect Test		Hausman Test	
	Chi-square	Prob.	Chi-square	Prob.
IFII	121.792758	0.000	150.7849	0.000
D1	132.029810	0.000	170.0024	0.000
D2	120.684912	0.000	149.3557	0.000
D3	117.233804	0.000	140.7946	0.000

Source: Stata 17.0, processed data, 2023

Since panel data combine cross-sectional and time-series dimensions, potential econometric problems such as heteroscedasticity, autocorrelation, and endogeneity may arise. To address these issues, this study applies robust standard errors and performs an additional robustness test using the System Generalized Method of Moments (System-GMM).

The System-GMM estimator was developed by Arellano and Bond (1991), and later extended by Arellano and Bover (1995) as well as Blundell and Bond (1998). This method is particularly suitable for dynamic panel data because it controls for endogeneity, unobserved heterogeneity, and autocorrelation problems. Compared to the Difference-GMM estimator, the System-GMM approach provides more efficient and consistent estimates, especially in small samples (Bond, 2002).\n\nThis study employs the two-step System-GMM estimator with Windmeijer's (2005) finite-sample correction to improve estimation efficiency (Roodman, 2009). The validity of the instruments is tested using Hansen's test of overidentifying restrictions, while autocorrelation is examined using the Arellano-Bond AR(2) test. The absence of second-order autocorrelation and a valid Hansen test indicate that the System-GMM estimator produces reliable and consistent results.

Results and Discussion

Descriptive Statistics

Table 4 presents the descriptive statistics of all variables used in this study. The results show that the average Gross Regional Domestic Product (GRDP) per capita is 328,377.1, with minimum and maximum values ranging from 50,334 to 991,590, indicating substantial variation in economic performance among provinces in Sumatra. The Islamic Financial Inclusion Index (IFII) has an average value of 0.133, with a minimum value of 0.056 and a maximum value of 0.707, suggesting differing levels of Islamic financial inclusion across provinces.

The population variable shows an average of 5,735,616 people, with values ranging from 1,372,813 to 15,115,200. Meanwhile, the education variable has an average literacy rate of 99.49%, indicating relatively high

educational attainment across the observed provinces. Overall, the descriptive statistics suggest sufficient variation in the data, making panel regression analysis appropriate for examining the relationship between Islamic financial inclusion and economic growth.

Table 4. Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
Lnpdrb	80	328.377.1	248.739.5	50,334	991,590
Ifsi	80	.133	.134	,056	,707
d1	80	1,272	1,472	.25	7,372
d2	80	1,404	1.29	,523	7,312
d3	80	25,316	34.26	5.57	175.46
Population	80	5735616.7	3895908.4	1372813	15115200
Income	80	6650524.5	5537257.9	2630793	46435832
Educ	80	99,495	,329	97.98	99.93

Source: Stata 17.0, processed data, 2023

Regression Results

This section discusses the empirical findings regarding the relationship between Islamic financial inclusion and economic growth. To avoid multicollinearity among the Islamic financial inclusion variables, the regression analysis was conducted separately for the Islamic Financial Inclusion Index (IFII) and each of its dimensions. Based on the Hausman test results presented earlier, the Fixed Effect Model was selected as the most appropriate estimation method.

The results presented in Table 5 indicate that Islamic financial inclusion has a positive and statistically significant effect on economic growth. Specifically, a 1% increase in the Islamic Financial Inclusion Index is associated with an approximately 0.59% increase in economic growth. These findings suggest that broader access to Islamic financial services enhances private consumption, investment activities, and aggregate demand, ultimately stimulating economic growth. The results are consistent with previous studies conducted by Sharma (2016), Sethi and Acharya (2018), Younas et al. (2022), Mohd Daud and Ahmad (2023), and Chen et al. (2023), all of which conclude that financial inclusion contributes positively to economic development.

The findings also support the argument that improved access to banking services encourages individuals to save and invest through formal financial institutions. Increased financial participation creates a multiplier effect that contributes to higher GDP per capita and broader economic expansion. According to Sethi and Acharya (2018), financial inclusion promotes economic growth by improving access to affordable financial services and encouraging savings mobilization within the formal financial system.

Furthermore, the results in columns 2–4 of Table 5 show that all dimensions of Islamic financial inclusion—accessibility, availability, and usage—have positive and significant effects on economic growth. The accessibility dimension, represented by Islamic banking penetration through savings and financing accounts, positively affects economic growth. This finding indicates that broader access to Islamic banking services improves financial intermediation and enhances economic activities. Greater third-party funds (DPK) enable Islamic banks to increase financing distribution, thereby supporting productive investment and economic development. These findings are consistent with Sharma (2016), Kassim (2016), and Masrizal and Trianto (2022).

The availability dimension, measured by the number of Islamic bank offices, also has a positive and significant impact on economic growth. This result suggests that expanding Islamic banking infrastructure improves financial accessibility for households and businesses, especially in rural and underserved areas. The findings support previous studies by Emara and Mohieldin (2020), Erlando et al. (2020), and Emara and El Said (2021), which emphasize that wider banking branch networks stimulate economic activity by facilitating easier access to financial services.

Meanwhile, the usage dimension, represented by the amount of Islamic banking financing, also demonstrates a positive and significant relationship with economic growth. This finding confirms that Islamic financing contributes to productive investment and economic expansion. Several previous studies, including Al Mahish (2016), Caporale and Helmi (2018), Daly and Frikha (2016), and Zarrouk et al. (2017), also found that Islamic bank financing positively affects economic growth.

From a theoretical perspective, Islamic financing based on Profit and Loss Sharing (PLS) mechanisms, such as mudharabah and musyarakah, is considered highly supportive of economic development because it encourages productive investment activities and equitable profit distribution. Chapra (1988) and Hasan and Dridi (2011) argue

that the integration of Sharia principles into financial systems improves economic productivity and efficiency. Therefore, policymakers and Islamic banking institutions should strengthen Islamic financing schemes, particularly those based on profit-sharing mechanisms, to support sustainable economic growth.

Table 5. Fixed Effect Estimation Results

Variables	Fixed Effects (1)	Fixed Effects (2)	Fixed Effects (3)	Fixed Effects (4)	Fixed Effects with Robust Standard Errors (1)	Fixed Effects with Robust Standard Errors (2)	Fixed Effects with Robust Standard Errors (3)
Intercept	-8.289	-2.857	-9.839	-7.838	-8.289*	-2.857	-9.839**
	(-1.255)	(-0.443)	(-1.483)	(-1.157)	(-1.848)	(-0.549)	(-2.310)
Population	0.619***	0.539***	0.662***	0.553***	0.619***	0.539**	0.662***
	(5.313)	(4.926)	(5.459)	(4.678)	(3.471)	(3.042)	(3.668)
Income	0.134***	0.115**	0.138***	0.142***	0.134	0.115	0.138
	(2.778)	(2.495)	(2.823)	(2.907)	(0.762)	(0.713)	(0.768)
Educ	0.299***	0.260***	0.308***	0.304***	0.299***	0.260***	0.308***
	(4.237)	(3.832)	(4.324)	(4.236)	(8.889)	(6.599)	(8.774)
IFI	0.591***				0.591**		
	(2.993)				(2.678)		
D1		0.066***				0.066**	
		(4.294)				(2.586)	
D2			0.050***				0.050**
			(2.681)				(3.050)
D3				0.002**			
				(2.556)			
Adjusted R^2	0.754	0.742	0.776	0.753	0.754	0.742	0.776
N	80	80	80	80	80	80	80
F-statistic	22.326	27.240	21.409	21.072	42.23	31.56	44.19

Robustness Check: Controlling for Potential Endogeneity

To ensure the robustness of the estimation results, this study further applies the System Generalized Method of Moments (System-GMM) estimator. The GMM approach is particularly useful for addressing heteroscedasticity, autocorrelation, and endogeneity problems in panel data analysis (Younas et al., 2022). In addition, System-GMM performs effectively in panel datasets characterized by a relatively small time dimension (small T) and larger cross-sectional observations (large N) (Roodman, 2009).

The results presented in Table 6 confirm the robustness of the main findings. The Hansen test results indicate that the instrumental variables used in the System-GMM estimation are valid and exogenous. Furthermore, the AR(2) test results show no evidence of second-order autocorrelation, suggesting that the estimated models are statistically consistent.

Overall, the System-GMM results remain consistent with the Fixed Effect estimations, confirming that Islamic financial inclusion and its dimensions positively and significantly influence economic growth. These findings reinforce the conclusion that Islamic financial inclusion plays an important role in promoting sustainable economic development in Sumatra, Indonesia.

Table 6. System-GMM Estimation Results

Real GDP	**(1)**	**(2)**	**(3)**	**(4)**
L. pdrb	0.284**	0.168	0.345***	0.237
	(2.10)	(0.86)	(3.21)	(1.49)
IFI	1,292**			

	(2.31)			
D1		0.104**		
		(2.13)		
D2			0.114**	
			(2.35)	
D3				0.007**
				(2.34)
Population	0.138**	0.086**	0.187**	0.038
	(2.25)	(1.89.)	(2.42)	(1.13)
Income	0.012***	0.013***	0.010***	0.017***
	(4.30)	(4.26)	(3.18)	(5.03)
Educ	-0.115***	-0.094***	-0.118***	-0.110***
	(-3.78)	(-3.50)	(-3.84)	(-3.60)
HDI	0.091***	0.085***	0.086***	0.095***
	(6.88)	(6.67)	(6.31)	(6.92)
Intercept	26,245***	29,219***	24,088***	28,435***
	(5.15)	(4.44)	(5.79)	(4.54)
Observations	70	70	70	70
No. of instruments	8	8	8	8
No. of groups	10	10	10	10
AR 2 (p-value)	0.179	0.125	0.187	0.155
Hansen (p-value)	0.650	0.578	0.677	0.665

Noted: * p<0.10, ** p<0.05, *** p<0.01

Conclusion

Despite the growing attention to financial inclusion and its role in economic development, studies specifically examining the relationship between Islamic financial inclusion and economic growth remain limited. The emergence and expansion of Islamic financial products in Muslim-majority countries have increased the importance of understanding how Islamic financial inclusion contributes to economic performance. Therefore, this study investigates the relationship between Islamic financial inclusion and economic growth in the provinces of Sumatra, Indonesia. Sumatra was selected because it has relatively high levels of Islamic financial inclusion compared to other regions in Indonesia and contributes the second-largest economic output after Java Island.

Using panel data from ten provinces during the 2015–2022 period, this study applies the Fixed Effect Model, robust standard errors, and the System Generalized Method of Moments (System-GMM) to address potential endogeneity issues. The empirical findings demonstrate that Islamic financial inclusion has a positive and significant effect on economic growth. In addition, all dimensions of Islamic financial inclusion—accessibility, availability, and usage—also contribute positively to regional economic development. These findings confirm that Islamic financial inclusion plays an important role in improving financial intermediation, encouraging productive investment, and stimulating economic activities.

This study also provides important theoretical and policy implications. From a theoretical perspective, the findings enrich the finance-growth literature by emphasizing the role of Islamic financial inclusion as a driver of economic growth. The study further contributes to the literature by constructing a multidimensional Islamic Financial Inclusion Index and applying it within a regional panel data framework.\n\nFrom a policy perspective, governments and policymakers should strengthen strategies that promote inclusive Islamic financial systems. Expanding access to Islamic banking services, particularly in rural and underserved areas, can help reduce financial exclusion and encourage broader participation in formal financial systems. Policymakers should also improve Islamic financial literacy and public awareness regarding the benefits of Islamic financial services. Furthermore, digital financial services such as mobile banking and internet banking should be expanded to reduce transaction costs and improve financial accessibility.\n\nGovernment support programs, including direct subsidy transfers through Islamic banking channels, can further increase financial participation among unbanked populations, especially vulnerable groups. Strengthening public trust and improving knowledge regarding Islamic financial products are also essential for sustaining long-term inclusive economic growth.\n\nFinally, this study serves as an initial effort to bridge the gap in the literature regarding Islamic financial inclusion and economic growth, particularly in the regional context of Indonesia. Future research may expand the analysis by incorporating broader regional coverage, longer observation periods, and additional dimensions of Islamic financial development.

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