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Macroeconomic determinants of zakat institution efficiency in Malaysia

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ABSTRACT

Purpose – This study examines the influence of selected macroeconomic factors namely GDP growth, inflation rate, unemployment rate and gold prices on the efficiency of zakat institutions in Malaysia.
Design/Methodologies/Approach – A quantitative approach is adopted using secondary data from 2020–2024. Panel data regression analysis is employed to assess the relationships between macroeconomic variables and zakat efficiency.
Findings – GDP growth is found to have a significant positive effect on zakat efficiency, while inflation exerts a significant negative effect. Unemployment and gold prices show no statistically significant relationship.
Originality/Value – This study extends the literature by providing empirical evidence on the role of macroeconomic conditions in influencing zakat institution efficiency within the Malaysian context.
Research Limitations/Implication – The findings are constrained by the limited study period and reliance on secondary data. Future research should incorporate longer time horizons and additional variables to enhance robustness.
Practical Implications – The results inform policymakers and zakat administrators on the importance of incorporating macroeconomic considerations into strategic planning and resource allocation.
Keywords – Economic Growth, Macroeconomic Factors, Zakat Institutions, Zakat Efficiency
Article Classifications – Research paper

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INTRODUCTION

Zakat is one of the foundational principles of Islam, playing a crucial role in promoting socio-economic justice and alleviating poverty within Muslim communities. As an obligatory act, zakat is a means of wealth redistribution, designed to support those in need and ensure social welfare. In Malaysia, zakat institutions serve as the central bodies responsible for the collection and distribution of zakat funds, which are essential for funding various social welfare programs. The efficiency of these institutions is vital to ensure that zakat funds are used effectively, making a significant impact on poverty reduction and economic empowerment (Riani et al., 2024).

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Macroeconomic factors such as GDP growth, inflation rate, unemployment rate, and gold prices significantly influence the operational efficiency of zakat institutions. These factors affect both the supply side of zakat collection and the demand side of zakat distribution. For instance, a rise in GDP often leads to an increase in income, potentially enhancing zakat collection. However, factors such as inflation and unemployment can reduce individuals' ability to pay zakat, thus limiting the funds available for distribution (Resky et al., 2025). Gold prices also play a crucial role by affecting the *nisab* threshold, which determines the minimum wealth required to be liable for zakat. Fluctuations in gold prices affect the *nisab* threshold, which directly impacts zakat collection and distribution.

The effect of macroeconomic variables on zakat efficiency has gained significant attention in recent literature. As the role of zakat institutions continues to expand in Malaysia, it becomes essential to understand how these economic factors influence their performance. While zakat institutions have made considerable progress in terms of scale and outreach, challenges remain in ensuring that funds are allocated effectively to meet the needs of the poor and marginalized. Examining how macroeconomic factors impact zakat efficiency will provide key insights into how these institutions can better optimize their resources and improve service delivery (Saidon et al., 2025).

Understanding the role of gold prices is particularly important because they directly influence the *nisab* threshold, determining who is liable to pay zakat. When gold prices rise, the *nisab* threshold increases, which can reduce the number of zakat payers, thus decreasing zakat collection. This trend highlights the critical need to monitor fluctuations in gold prices and other macroeconomic factors to ensure that zakat institutions remain efficient and continue to meet the needs of those relying on zakat funds.

This study aims to assess the impact of key macroeconomic factors, including GDP growth, inflation rate, unemployment rate, and gold prices, on the efficiency of zakat institutions in Malaysia. By analyzing these variables, the research seeks to quantify the relationship between macroeconomic conditions and zakat efficiency. The study will provide insights into how these factors shape zakat collection and distribution, offering recommendations for enhancing the operational effectiveness of zakat institutions and increasing the socio-economic impact of zakat funds.

LITERATURE REVIEW

Macroeconomic Impact on Zakat Efficiency

The efficiency of zakat institutions is significantly influenced by macroeconomic factors such as GDP growth, inflation rate, unemployment rate, and fluctuations in gold prices. These factors affect both the collection and distribution of zakat funds. Zakat plays a crucial role in poverty alleviation, and understanding how economic conditions impact zakat efficiency is vital for enhancing zakat systems in Islamic societies. As zakat institutions need to adapt to economic fluctuations to maintain their effectiveness (Senawi et al., 2018).

Economic growth, as indicated by GDP, generally leads to higher zakat collections due to increased income levels. When the economy grows, more people are able to pay zakat, thus increasing the funds available for distribution. However, during periods of economic decline, income levels drop, reducing the potential zakat contributions. Afendi (2018) found that during Malaysia's economic downturns, zakat collections were significantly lower, making it difficult for institutions to meet the growing needs of the poor.

Inflation rate may influence zakat efficiency by reducing the real value of zakat funds. As inflation rises, the purchasing power of collected zakat decreases, potentially limiting the ability of zakat institutions to address the socio-economic needs of zakat recipients (Firmansyah et al., 2021). In addition, inflationary pressures may affect zakat collection performance by reducing individuals' disposable income and financial capacity to contribute zakat (Saadillah et al., 2019). Consequently, zakat institutions may face greater challenges in maintaining efficient collection and distribution activities during inflationary periods.

Unemployment rate creates challenges for zakat institutions by increasing the demand for assistance while reducing contributions. As unemployment rises, more people need zakat, but fewer can afford to pay it. However, Jauhari et al. (2021) found that despite higher unemployment, zakat collections in Malaysia remained stable. Their study showed no significant link between unemployment and zakat receipts, suggesting that zakat contributions are resilient during economic downturns. Effective resource management is essential to ensure continued support for those in need.

Fluctuations in gold prices may influence zakat-related activities through changes in the *nisab* threshold, as gold is commonly used as a benchmark for determining zakat obligations. Changes in gold prices affect the monetary value of the *nisab*, which may subsequently influence the number of individuals who are liable to pay zakat. Senawi et al. (2023) highlighted that variations in gold prices have implications for zakat assessment due to their role in determining the *nisab* threshold. Similarly, Mohd Sayuthi and Juisin (2024) emphasised that monitoring gold price movements is important to ensure that zakat assessment remains aligned with prevailing economic conditions. Therefore, fluctuations in gold prices may affect zakat collection performance. Based on the above discussion, the following hypotheses are formulated:

H^1: Gross Domestic Product (GDP) has a significant effect on the efficiency of zakat institutions in Malaysia.

H^2: Inflation rate has a significant effect on the efficiency of zakat institutions in Malaysia.

H^3: Unemployment rate has a significant effect on the efficiency of zakat institutions in Malaysia.

H^4: Gold prices have a significant effect on the efficiency of zakat institutions in Malaysia.

Zakat and Socio-Economic Development

Zakat plays a crucial role in promoting socio-economic welfare by redistributing wealth to those in need. As an obligatory Islamic social finance instrument, zakat helps reduce income inequality and supports basic living standards for disadvantaged groups. This redistribution fosters greater economic equity and strengthens community cohesion, highlighting zakat's importance beyond mere charity in addressing poverty and enhancing social well-being (Hasibuan et al., 2024).

Ismail et al. (2025), emphasize that zakat not only alleviates poverty but also contributes to broader community development by supporting education, healthcare, and livelihood programs. A study on zakat distribution in Malaysia found that zakat programs aligned with Sustainable Development Goals significantly improve social welfare and quality of life for *asnaf* recipients, particularly in education and social inclusion. These initiatives not only meet immediate needs but also build human capital and strengthen community resilience.

Zakat can also empower economic sustainability through productive use of zakat funds. Research indicates that zakat institutions in Malaysia and other contexts enhance socio-economic outcomes by supporting economic activities among beneficiaries, helping recipients to generate income and improve their long-term economic conditions (Nooh, 2025). This suggests zakat's potential to shift recipients from dependency toward sustainable livelihoods.

Efficient management and innovative strategies are essential for zakat to fully realize its socio-economic development potential. Yaakob et al. (2024), highlight that transparent governance, targeted distribution, and community involvement increase zakat's impact on poverty reduction and inclusive development. Efficient zakat management ensures that funds are used to maximize benefit for vulnerable groups and contribute meaningfully toward broader development goals.

Determinants of Zakat Efficiency

Zakat efficiency refers to how well zakat institutions utilize available resources (inputs) to achieve their desired outcomes, such as zakat collected, distributed, and used for socio-economic development. One widely used method to assess efficiency is Data Envelopment Analysis (DEA), which compares institutions' performance based on the ratio of outputs to inputs, helping to identify how well resources are used relative to best-performing institutions. According to research by Riani et al. (2024),, zakat institutions that apply DEA models are better able to pinpoint inefficiencies and improve their operations.

Several factors influence zakat efficiency, including institutional governance, the use of technology, community engagement, and payment systems. Governance structures ensure that zakat funds are distributed in a transparent and accountable manner. Technology plays a key role in improving zakat collection and distribution by increasing accessibility and reducing administrative costs. Community engagement ensures zakat is distributed to those most in need, while effective payment systems, particularly digital platforms, increase zakat collection efficiency and encourage higher public participation. Research by Malik et al. (2025), Adiwijaya et al. (2020), Fadilah et al. (2019) and Kasri et al. (2023), all emphasize that these factors are interconnected and crucial for improving zakat efficiency.

Among these, institutional governance is one of the most critical determinants of zakat efficiency. Institutions with clear governance structures, diverse boards, and strong leadership are more capable of ensuring proper resource management and distribution. Regular audits, transparent decision-making processes, and clear accountability mechanisms contribute to higher levels of zakat efficiency. Amalia (2019), highlights that zakat institutions with effective governance structures not only manage funds better but also improve overall operational transparency.

Another significant factor is the use of technology. Zakat institutions that integrate digital platforms for zakat collection and distribution can improve efficiency by streamlining operations and ensuring transparency. The use of mobile payments, online donation systems, and real-time tracking of zakat funds makes the process more accessible and reduces administrative burdens. Nur et al. (2023), notes that the adoption of technology in zakat management allows institutions to reach a broader audience, reduce operational costs, and ensure that funds are used in a timely and transparent manner.

RESEARCH METHODOLOGY

Sample

The sample for this study consists of 13 zakat institutions in Malaysia, selected using a purposive sampling method. The institutions were chosen based on the availability of complete and consistent data for the study period. Zakat institutions with reliable and comprehensive data were included in the sample, while those with missing or incomplete data were excluded. This method ensures that only institutions with relevant and accurate data are included, providing a solid foundation for the analysis.

Variable

This research uses the technical efficiency score of 13 zakat institutions as the dependent variable, representing the overall performance of each institution over 5 years, from 2020 to 2024. The independent variables include key macroeconomic factors that are expected to influence zakat institution efficiency. GDP (Gross Domestic Product) represents the total economic output of the country and reflects the economic environment in which zakat institutions operate. Inflation Rate affects the purchasing power and financial resources available to zakat institutions. Unemployment Rate indicates the percentage of the labor force that is unemployed, which can impact the demand for zakat. Gold Price serves as the *nisab* threshold in zakat institutions, determining the minimum amount of wealth that qualifies a person to pay zakat.

The macroeconomic variables employed in this study represent the broader economic conditions within which zakat institutions operate in Malaysia. Previous studies on zakat have incorporated macroeconomic indicators, including GDP, inflation rate, unemployment rate, and gold prices, to examine their influence on zakat collection and related outcomes (Firmansyah et al., 2021; Jauhari et al., 2021; Senawi et al., 2023). These indicators capture changes in the economic environment that may affect zakat institutions' operational performance, particularly in terms of collection capacity and distribution effectiveness. Therefore, these macroeconomic variables are considered appropriate for examining the influence of external economic conditions on zakat institution efficiency.

Data Analysis

The dependent variable, technical efficiency (TE), was first estimated using Data Envelopment Analysis (DEA). An output-oriented Banker, Charnes, and Cooper (BCC) model under the Variable Returns to Scale (VRS) assumption was employed to measure the efficiency of 13 Malaysian zakat institutions over the period 2020–2024, resulting in a balanced panel of 65 decision-making units (DMUs). The input variable comprised zakat fund expenses (Amil allocation), while the output variables consisted of total zakat collection and total zakat distribution. The selection of these variables follows the production approach, whereby zakat institutions transform operational resources into zakat collection and distribution. The estimated technical efficiency scores were subsequently used as the dependent variable in the panel regression analysis.

This research uses panel data regression analysis to examine the impact of macroeconomic variables on zakat institution efficiency. The analysis is conducted using STATA 18, which allows for the estimation of the relationship between zakat efficiency (the dependent variable) and macroeconomic factors, including GDP, inflation rate, unemployment rate, and gold price.

Pooled data combines both time-series data and cross-sectional data. By using this combined data structure, panel data analysis helps reduce the problem of omitted variables, which occur when relevant variables are excluded from the model. The panel data method is particularly useful for controlling intercorrelation among independent variables, ensuring more accurate and reliable regression estimates. The regression model for this study is specified as follows:

$$TE_{it} = \beta_0 + \beta_1 GDP_{it} + \beta_2 CPI_{it} + B_3 UNEMP_{it} + B_4 GP_{it} + \varepsilon_{it} \quad (1)$$

Where,

TE_{it} = Technical Efficiency
β_0 = Constant value, $\beta_1, \beta_2, \beta_3, \beta_4$, are the coefficients of independent variables
GDP_{it} = Gross Domestic Product (GDP)
CPI_{it} = Inflation Rate (CPI)
$UNEMP_{it}$ = Unemployment Rate
GP_{it} = Gold Price
ε_{it} = error term

FINDINGS AND DISCUSSION

The Pearson correlation test was conducted to examine the relationships between the independent variables, as shown in Table 1. The significant correlations, at the 5% level, reveal strong relationships among certain variables. Specifically, Gross Domestic Product (GDP) and CPI have a significant positive correlation of 0.6279, GDP and Gold Price (GP) show a significant positive correlation of 0.7605, and GDP and Unemployment have a significant negative correlation of -0.5359. Additionally, Unemployment and Gold Price (GP) exhibit a significant negative correlation of -0.7293. Although GDP and Gold Price exhibit relatively strong correlations, none of the correlation coefficients exceed 0.80. Furthermore, mean VIF values remained below the commonly accepted threshold of 10. Therefore, the independent variables are distinct enough for reliable regression analysis.

Table 1: Pearson Correlation Test

Variable	GDP	CPI	UNEMP	GP
GDP	1.0000			
CPI	0.6279 (0.0000)***	1.0000		
UNEMP	-0.5359 (0.0000)***	0.0437 (0.7294)	1.0000	
GP	0.7605 (0.0000)***	0.1077 (0.3930)	-0.7293 (0.0000)***	1.000

Table 2 presents the regression results, highlighting the influence of key macroeconomic factors on the efficiency of zakat institutions in Malaysia. The GDP variable demonstrates a positive relationship with zakat institution efficiency, with a coefficient of 0.1023. This finding indicates that improvements in economic conditions contribute to higher efficiency among zakat institutions. As economic growth increases, higher income levels and business activities may expand the zakat base, resulting in greater availability of funds for collection and distribution activities. The increased availability of resources may enable zakat institutions to strengthen their operational capacity, improve service delivery, and enhance resource utilisation. This result is consistent with Afendi (2018), who reported that economic downturns in Malaysia negatively affected zakat collections, limiting the ability of zakat institutions to meet increasing social needs. Economic expansion allows these institutions to improve their infrastructure and service delivery, ultimately enhancing their ability to fulfill their social and economic responsibilities (Senawi et al., 2018).

The Consumer Price Index (CPI), however, exhibits a negative and statistically significant relationship with zakat institution efficiency, with a coefficient of -0.2297. This finding indicates that inflationary pressures may reduce the efficiency of zakat institutions by decreasing the real value of zakat funds and creating challenges in maintaining effective resource allocation and distribution activities. This result is consistent with Firmansyah et al. (2021), who highlighted that inflation may reduce the socio-economic effectiveness of zakat by weakening its purchasing power. In addition, Saadillah et al. (2019) found that inflation has a significant negative effect on zakat receipts in the long run, suggesting that adverse macroeconomic conditions may also affect the availability of zakat resources.

Additionally, the unemployment rate, with a negative coefficient of -0.0098, does not significantly affect zakat institution efficiency. Although higher unemployment may increase the demand for zakat assistance while reducing the number of potential contributors, the insignificant relationship suggests that zakat institutions can maintain their operational efficiency despite changes in labour market conditions. This finding is consistent with Jauhari et al. (2021), who reported that unemployment did not significantly influence zakat receipts in Malaysia, indicating the resilience of zakat contributions during economic fluctuations.

The gold price for the *nisab* threshold (GP) demonstrates a positive but statistically insignificant relationship with zakat institution efficiency, with a coefficient of 0.0378. This finding suggests that fluctuations in gold prices do not significantly influence the efficiency performance of zakat institutions in Malaysia during the study period. Although gold prices may affect the determination of the *nisab* threshold and subsequently influence zakat obligation among payers (Senawi et al., 2023), such changes may not directly translate into improvements in institutional efficiency.

Overall, the findings provide support for H^1 and H^2, indicating that GDP and inflation significantly influence the efficiency of zakat institutions in Malaysia. Specifically, GDP demonstrates a positive effect, while inflation exhibits a negative effect on efficiency. However, H^3 and H^4 are not supported, as unemployment and gold price do not show statistically significant relationships with zakat institution efficiency. These findings suggest that while macroeconomic conditions such as economic growth and inflation play an important role in determining efficiency performance, other institutional factors may also contribute to variations in zakat institution efficiency.

The *R-squared* value of 0.1645 indicates that the selected macroeconomic variables explain approximately 16.45% of the variation in zakat institution efficiency. Although the explanatory power is relatively modest, this finding is reasonable as zakat institution efficiency is a multidimensional concept influenced by various institutional factors beyond macroeconomic conditions, including governance quality, managerial practices, technological adoption, and operational capabilities (Abdullah Sani et al., 2021; Arshad et al., 2021). Therefore, the relatively lower explanatory power suggests that macroeconomic variables represent only one aspect of the determinants of zakat institution efficiency, while institutional characteristics may also contribute significantly to efficiency outcomes. The log-likelihood value of 81.0174 indicates an acceptable model fit for the estimated specification.

Table 2: Panel Data Regression Analysis

Variable	Coefficient
GDP	0.1023 (0.036)***
CPI	-0.2297 (0.032)***
UNEMP	-0.0098 (0.586)
GP	0.0378 (0.850)
R2	0.16484883
Log likelihood	81.017402
N	65
VIF	5.11

****significance at the 5% level*

CONCLUSION

This study investigates the influence of macroeconomic factors on the efficiency of zakat institutions in Malaysia. The positive relationship between GDP and zakat institution efficiency indicates that stronger economic growth, accompanied by higher income levels and economic activities, may enhance the availability of zakat resources and institutional capacity. Conversely, the negative relationship between inflation and efficiency suggests that increasing prices may reduce real income and purchasing power, creating challenges for zakat institutions in managing effective collection and distribution activities.

The findings further reveal that unemployment and gold price do not have significant relationships with zakat institution efficiency. Although unemployment may increase the demand for zakat assistance and gold price fluctuations may influence the determination of the *nisab* threshold, these factors do not appear to significantly affect efficiency performance during the study period. Therefore, the results support H^1 and H^2, while H^3 and H^4 are not supported. These findings indicate that macroeconomic conditions, particularly economic growth and inflation, represent important external factors influencing zakat institution efficiency, while other institutional characteristics may also contribute to variations in efficiency performance.

This study contributes to the existing literature by providing empirical evidence on the role of macroeconomic conditions in explaining zakat institution efficiency in Malaysia. Unlike previous studies that have primarily focused on zakat collection or institutional management factors, this study extends the discussion by examining how broader economic conditions influence efficiency outcomes. The findings highlight the importance of considering macroeconomic environments when assessing the performance and sustainability of zakat institutions.

Despite these contributions, this study has several limitations. First, the efficiency analysis covers a relatively short period of five years (2020–2024), which may limit the ability to capture long-term variations in macroeconomic conditions and institutional efficiency. Second, the regression model demonstrates a relatively modest explanatory power, indicating that macroeconomic variables explain only part of the variation in zakat institution efficiency. This suggests that other institution-specific factors, such as governance quality, digital transformation, organisational structure, managerial capability, and operational practices, may also influence efficiency outcomes but were not included in the current model.

Future research may address these limitations by extending the observation period and incorporating additional institutional variables to provide a more comprehensive understanding of the determinants of zakat institution efficiency. Furthermore, comparative studies involving different countries or Islamic social finance institutions may provide broader insights into how economic conditions and institutional frameworks influence efficiency performance.

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DECLARATION

Credit Authorship Contribution Statement

Declaration of Competing Interest

The authors declare that they have no known competing financial interest or personal relationships that could have influenced the research work.

Ethical Statement

The authors declare that they understand the Publication Ethics and Malpractice Statement and have adhered to all the statements. They also confirm that this paper is original and has not been published in any other journal nor is under consideration by another publication.

Data Availability

Not Applicable

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