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The Impact of Generation Z's Financial Literacy and Digital Payment Adoption on Local Economic Development

Putri Irmala Sari[1]*, Supri Yanto[1]

[1]Department of Economics and Business, Politeknik Negeri Lampung, Indonesia
*Correspondence Email: putri.irmalasari@polinela.ac.id

Abstract− This study investigates the underexplored nexus between the micro-financial behaviors of Generation Z and macroeconomic outcomes within the Indonesian context. Despite their growing economic influence, empirical evidence linking Gen Z's financial capabilities and digital payment usage to tangible local economic development remains scarce. This research aims to fill this gap by quantitatively analyzing the simultaneous impact of financial literacy and digital payment adoption on local economic development indicators. Employing a quantitative design, primary data were collected via a survey of Indonesian Gen Z individuals. The findings reveal that both heightened financial literacy and robust digital payment adoption exert a statistically significant, positive influence on local economic development. Notably, digital payment adoption demonstrates a slightly stronger effect, underscoring the transformative role of transactional efficiency. Theoretically, this study bridges behavioral finance and economic development theory. In practice, it offers crucial insights for policymakers and financial educators, suggesting that targeted programs to enhance financial literacy and digital infrastructure for youth can serve as potent catalysts for sustainable regional economic growth.
Keywords: *digital payment adoption; financial literacy; Generation Z; local economic development.*

INTRODUCTION

Indonesia's economic landscape is positioned at a pivotal crossroads, where a significant demographic dividend converges with rapid technological advancement, creating unprecedented potential for sustainable growth. As the world's fourth most populous nation, Indonesia boasts a substantial Generation Z cohort, comprising approximately 74.93 million individuals born between 1997 and 2012. This demographic segment, representing nearly 27.94% of the total population, constitutes a unique advantage capable of fundamentally reshaping the nation's economic trajectory (Badan Pusat Statistika, 2025). Characterized by their digital nativity and distinct financial behaviors, this generation is increasingly emerging as a primary driver of consumer expenditure and broader economic activity. The synergy between this vast youth demographic and ambitious national initiatives, such as the "Making Indonesia 4.0" roadmap and the proliferating fintech sector, presents a compelling rationale for investigating how the financial capabilities of a generation influence macroeconomic outcomes at the local level (Solihin et al., 2024).

The transition of the Indonesian economy from a cash-dominant system to integrated digital financial ecosystems has accelerated markedly, a trend amplified by the COVID-19 pandemic. This shift is evidenced by a surge in digital payment transactions exceeding 75% in 2021 alone (Keuangan, 2021). As digital natives who have matured alongside these technological innovations, Generation Z exhibits fundamentally distinct patterns of financial engagement compared to preceding generations. They demonstrate a heightened propensity to adopt digital payments, use mobile banking, and engage in technology-mediated investment activities (Andriyani et al., 2025). However, this pronounced technological affinity does not inherently

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translate into comprehensive financial literacy, creating a critical paradox in which digital proficiency can exist independently of a robust understanding of fundamental financial principles (Foziana, 2025). This disconnect is particularly significant given that the financial decisions of Generation Z, as manifested in their consumption patterns, entrepreneurial ventures, and participation in formal financial systems, increasingly exert a tangible influence on local economic development.

Existing research has linked financial inclusion to macroeconomic growth and the digital behavior patterns of Generation Z. However, there remains an empirical gap regarding the specific mechanisms by which financial literacy and this generation's adoption of digital payments jointly influence indicators of local economic development. Studies such as (Pamella, 2022) focus on the economic impact of financial literacy without specifying a generation. Meanwhile, research on digital financial adoption emphasizes factors of technology acceptance rather than its economic consequences. Furthermore, the existing literature tends to treat these two variables separately, thereby overlooking their potential synergistic effects on economic development (Hanggoro et al., 2025).

This research gap is particularly pronounced in the Indonesian context, where digitalization is accelerating alongside deep regional economic disparities and a structurally uneven financial infrastructure across subnational markets. A systematic review of the empirical literature indicates that no previous quantitative study has examined the simultaneous impact of financial literacy and digital payment adoption on indicators of local economic development. Previous research has focused on financial literacy in isolation (Foziana, 2025), digital adoption behavior without considering macroeconomic consequences (Hanggoro et al., 2025), or cross-sectional financial inclusion studies that do not treat Generation Z as a distinct analytical unit (Barus et al., 2024). This empirical gap is addressed in this study, which introduces a new multivariate empirical model specific to a particular generation into the study of behavioral finance and regional economic development.

LITERATURE REVIEW

Financial Literacy

Contemporary scholarship conceptualizes financial literacy as a multidimensional construct that extends beyond basic knowledge to include decision-making capabilities and financial behaviors (Yanto & Sari, 2025). While foundational measurement tools like the "Big Three" questions (Clark et al., 2025) have been widely adopted, their limitations in predicting real-world outcomes are increasingly recognized. Research demonstrates that the effects of financial literacy are not uniform but exhibit significant heterogeneity across demographic segments and institutional contexts (Novita Sari & Friyatmi, 2025). Furthermore, for younger, technologically adept generations, traditional assessments may fail to capture competencies essential for digital finance, such as cybersecurity and platform-specific knowledge, indicating a critical need for evolved measurement approaches (Rahmania & Ningtyas, 2022).

Digital Payment

Digital payment systems have revolutionized financial transactions by replacing cash with electronic platforms, presenting significant opportunities for financial inclusion alongside challenges in cybersecurity and regulation (Ogunnaike et al., 2025;

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Rahmawaty et al., 2025). Foundational research, such as Apeti's (2023) study on M-Pesa, demonstrates their capacity to reduce costs and enhance economic resilience for the unbanked, though adoption and impact vary demographically. Subsequent studies confirm that higher digital payment penetration correlates with accelerated business growth and improved supply chain efficiency (Kannojia, 2025; Suryawan & Santikasari, 2024). However, these benefits risk creating digital divides, as network externalities favor early adopters (Birigozzi et al., 2025). Crucially, for younger demographics like Generation Z, the economic advantages of their high platform usage depend on their level of financial literacy to navigate associated risks (Supriyadi & Darwanto, 2023).

Economic Development

Contemporary economic development is understood as a multifaceted process that transcends mere income growth to encompass structural transformation, institutional capacity, and sustainable improvements in living standards (Nurlaili & Sugiharti, 2023). Theoretical foundations emphasize the interplay between local initiatives and macroeconomic conditions. Sen's capability approach shifted the focus from monetary metrics to the expansion of human freedoms (Horbachevska et al., 2024), while institutional economics underscores the role of governance and property rights in distributing development benefits (Misi Lopes et al., 2023). Furthermore, geographical models highlight how economic agglomeration can create spillovers but also exacerbate regional inequalities without targeted intervention (Permana & Wirayudha, 2024). Recent research concludes that successful strategies depend on leveraging comparative advantages and fostering inclusive institutions that enable broad-based participation in economic opportunities (Umakanth et al., 2025).

Theory of Planned Behavior

The Theory of Planned Behavior (TPB), established by Ajzen (1985), provides a robust framework for analyzing Generation Z adoption of digital payments. This model, which focuses on attitudinal, normative, and control-related factors, is particularly salient for this demographic (Said & Mohamed, 2025). Unlike purely rational models, TPB accounts for the complex interplay among individual attitudes, peer-group social pressures, and perceptions of behavioral feasibility, which are critical for understanding digitally native consumers (Wu & Chen, 2005). For Generation Z, their collaborative tendencies and comfort with technology align with TPB's structure; attitudes reflect their openness to innovation; subjective norms capture peer and social media influence; and perceived behavioral control is shaped by their financial literacy. Crucially, financial literacy within the perceived control component not only provides technical knowledge but also builds self-efficacy, thereby strengthening TPB's predictive power for digital payment adoption by reducing perceived risk (Ma'nawiyah et al., 2025).

Endogenous Growth Theory

The Theory of Planned Behavior (TPB) and endogenous growth theory complement each other at different yet interrelated levels of analysis. At the micro level, TPB explains how Generation Z forms intentions and adopts digital payments by shaping attitudes, subjective norms, and perceived behavioral control, which drive the transition from passive awareness to active engagement with the digital financial

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ecosystem. At the macro level, endogenous growth theory examines how aggregated individual behavior drives structural economic change. Financially literate individuals who efficiently utilize digital technology collectively reduce market friction, accelerate transactions, expand formal participation, and stimulate entrepreneurial capital, internal drivers of sustainable growth. These two theories are constitutively integrated; TPB outlines the microfoundations of behavior, while endogenous growth theory translates them into macroeconomic consequences. This synthesis forms the backbone of the conceptual model for studying Generation Z's financial behavior as both a micro phenomenon and a macro mechanism (Prof Ir Rudy C Tarumingkeng, 2024). Within this framework, financial literacy is conceptualized as a critical form of human capital that enhances economic efficiency through improved decision-making and entrepreneurial activity (Mazzoli et al., 2024). Concurrently, digital payment systems act as technological innovations that foster growth by reducing transaction costs and promoting financial inclusion (Casanova & Nugroho, 2024). The synergy between these two factors is particularly potent; financially literate individuals leverage digital tools more effectively, thereby accelerating entrepreneurial ventures and contributing to a robust financial ecosystem conducive to sustained development (Wediawati et al., 2025).

Model Framework

Based on the synthesis of prior research, a conceptual model is developed for this study, as shown in Figure 1. This model serves as the foundational framework for the subsequent analysis.

H1: Financial literacy has a positive and significant effect on local economic development.

H2: Digital payment adoption has a positive and significant effect on local economic development.

H3: Financial literacy and digital payment adoption simultaneously have a positive and significant effect on local economic development.

H4: There is a positive interaction effect between Financial Literacy and Digital Payment Adoption on Local Economic Development.

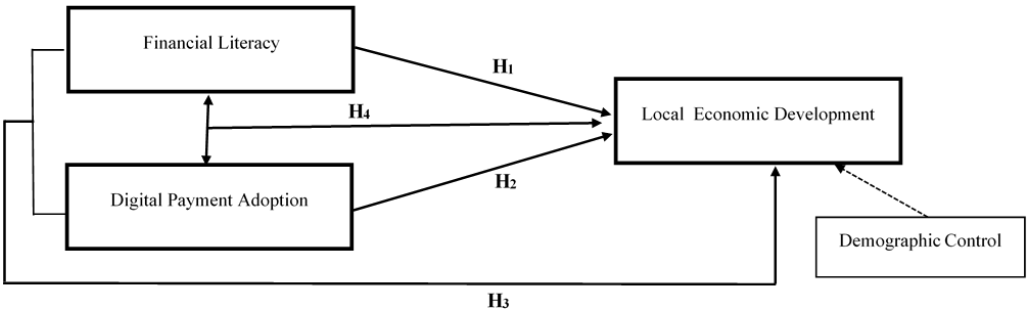

Figure 1. Research Model

METHODOLOGY

This study uses a quantitative, explanatory design with a positivist approach to examine causal links between Generation Z's financial capabilities and Indonesia's regional economic development. Primary data were collected through a structured online questionnaire administered to a stratified random sample of 18-25-year-olds with active bank accounts. Stratification was based on geographical regions (Java,

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Sumatra, Kalimantan, Sulawesi, others) and socio-economic factors, including institution type and monthly expenditure. Recruitment involved contacting institutions within each stratum, randomly selecting eligible participants, and administering the questionnaire. Financial literacy was measured using OECD scales, while secondary data on GDP, employment, and financial inclusion came from Indonesia's Central Bureau of Statistics (BPS).

The dependent variable, regional economic development, is a composite index constructed by integrating three standardized secondary indicators: annual GDP per capita growth rate, the number of newly registered local businesses, and the district-level employment rate. These indicators were sourced from the Indonesian Central Bureau of Statistics (BPS) for the corresponding fiscal year. Each indicator was first normalized using min-max scaling to a common 0-100 scale to ensure comparability, and the composite index was then calculated as the arithmetic mean of these three normalized scores. Independent variables include financial literacy scores and a multifaceted digital payment adoption metric.

Control variables encompass age, income, education, and geographic location. The digital payment adoption variable was measured using a multi-dimensional scale that combined both behavioral frequency and platform diversity to comprehensively capture respondents' engagement with digital payment systems. Specifically, respondents indicated their usage frequency across various digital payment platforms, including mobile banking applications, e-wallets (such as GoPay, OVO, and Dana), and QR-based systems (like QRIS) on a 5-point Likert scale ranging from 1 (never) to 5 (very often). Additionally, the total number of distinct digital payment platforms regularly used by each respondent was quantified. These two components were standardized and combined into a composite score, providing a robust, quantifiable measure that reflects both the intensity and breadth of digital payment adoption among the surveyed Generation Z individuals. Prior to the main regression analysis, validity and reliability assessments were conducted for all multi-item measurement scales. Construct validity was evaluated using exploratory factor analysis. The Kaiser-Meyer-Olkin (KMO) values for the financial literacy scale and digital payment adoption were 0.847 and 0.831, respectively, both above the 0.70 threshold. Bartlett's test yielded significant results for both instruments ($p < 0.001$), confirming the adequacy of the correlation matrix. Internal consistency reliability was measured using Cronbach's Alpha the financial literacy scale yielded $\alpha = 0.879$, and the digital payment adoption scale $\alpha = 0.861$. All item-total correlations exceeded 0.30. Both α values exceeded the criteria of $\alpha \geq 0.70$ and even $\alpha \geq 0.80$, indicating strong internal consistency. Thus, both instruments possess adequate validity and reliability for inferential analysis in this study. Data analysis was conducted using IBM SPSS Statistics 25, commencing with descriptive statistics and assumption testing (normality, multicollinearity, heteroscedasticity, and autocorrelation) to validate the subsequent regression analysis.

This study utilizes a multiple linear regression framework to investigate how Generation Z's financial literacy and digital payment adoption are associated with local economic development indicators.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 \text{Control} + \varepsilon,$$

where Y represents the composite economic development index, X_1 captures financial literacy scores, X_2 measures digital payment adoption levels, Control encompasses

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demographic covariates, and ε denotes the stochastic error term that accounts for unmeasured factors influencing economic development outcomes.

Additional analytical procedures include hierarchical regression modeling to examine the incremental explanatory power of financial literacy and digital payment variables beyond demographic controls, interaction effect testing to explore potential synergistic relationships between financial knowledge and technology adoption, and robustness checks using alternative model specifications to validate the stability of primary findings across different analytical approaches, thereby ensuring that the research conclusions possess sufficient empirical foundation for policy implications and theoretical contributions to the academic literature on generational finance and economic development.

RESULT

The empirical investigation in this study provides compelling evidence on the mechanisms by which Generation Z's financial competencies and technological payment preferences contribute to measurable improvements in regional economic performance across Indonesian localities. Drawing upon comprehensive survey responses from 385 Generation Z participants distributed across multiple provincial jurisdictions and integrating these primary observations with objective secondary macroeconomic indicators obtained from Indonesia's national statistical bureau.

Table 1. Descriptive Statistics for Primary Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Financial Literacy Score	385	28.0	97.0	67.4	14.8	-0.21	-0.45
- Banking Knowledge	385	35.0	98.0	72.1	13.5	-0.34	-0.28
- Risk Assessment	385	22.0	95.0	65.8	16.2	-0.18	-0.52
- Financial Planning	385	18.0	93.0	63.2	17.9	-0.15	-0.61
Digital Payment Adoption	385	31.0	99.0	73.2	16.5	-0.28	-0.39
Local Economic Development	385	32.5	87.3	58.3	12.7	0.12	-0.48

Source: Authors

The financial literacy variable, operationalized through internationally recognized assessment frameworks incorporating thirteen question items evaluating comprehension of fundamental concepts, including compound interest mechanics, inflation's purchasing power erosion effects, risk diversification principles, credit cost calculations, and investment portfolio construction logic, produces a sample mean score of 67.4 out of 100 possible points with standard deviation of 14.8, indicating moderate financial knowledge levels that simultaneously reveal substantial improvement opportunities within this digitally-native cohort.

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Table 2. Classical Assumption Testing Results for Regression Model Validity

Diagnostic Test	Statistical Measure	Value	Threshold	Interpretation	Decision
Normality Tests	Kolmogorov-Smirnov	0.047	$p > 0.05$	$p = 0.089$	Assumption Met
	Shapiro-Wilk	0.991	$p > 0.05$	$p = 0.062$	Assumption Met
Multicollinearity	VIF - Financial Literacy	1.84	VIF < 5.0	Tolerance = 0.543	Assumption Met
	VIF - Digital Payment	1.92	VIF < 5.0	Tolerance = 0.521	Assumption Met
	VIF - Education	2.01	VIF < 5.0	Tolerance = 0.497	Assumption Met
	VIF - Income	1.67	VIF < 5.0	Tolerance = 0.599	Assumption Met
Heteroscedasticity	Breusch-Pagan Test	$\chi^2 = 8.47$	$p > 0.05$	$p = 0.206$	Assumption Met
	White Test	$\chi^2 = 12.35$	$p > 0.05$	$p = 0.579$	Assumption Met
Autocorrelation	Durbin-Watson	1.89	1.5-2.5	Within Range	Assumption Met

Source: Authors

Prior to conducting primary inferential statistical analyses using multiple linear regression, rigorous diagnostic examinations verify that the fundamental assumptions underlying parametric regression techniques are satisfied in the empirical dataset. All classical assumption tests demonstrate satisfactory results, with normality assessments producing Kolmogorov-Smirnov statistics of 0.047 (p= 0.089) and Shapiro-Wilk values of 0.991 (p= 0.062), multicollinearity diagnostics yielding variance inflation factors below concerning thresholds, heteroscedasticity tests failing to detect problematic error variance patterns, and Durbin-Watson statistics of 1.89 indicating negligible autocorrelation concerns.

Table 3. Bivariate Correlation Matrix Among Research Variables

Variable	1	2	3	4	5	6	7
1. Economic Development	1.000						
2. Financial Literacy	0.612**	1.000					
3. Digital Payment Adoption	0.658**	0.418**	1.000				
4. Age	0.287**	0.198**	0.312**	1.000			
5. Household Income	0.453**	0.376**	0.401**	0.156*	1.000		
6. Education Level	0.521**	0.447**	0.365**	0.089	0.428**	1.000	
7. Urban Location	0.394**	0.321**	0.487**	0.134*	0.312**	0.267**	1.000

Note: ** Correlation significant at $p < 0.01$ level; * Correlation significant at $p < 0.05$ level

Source: Authors

Bivariate correlation analysis reveals that local economic development demonstrates strong positive associations with financial literacy ($r = 0.612$, $p < 0.001$) and digital payment adoption ($r = 0.658$, $p < 0.001$), while moderate positive correlations exist between financial literacy and digital payment adoption ($r = 0.418$, $p < 0.001$), confirming theoretically expected relationship patterns while suggesting sufficient variable independence to warrant multivariate regression analysis examining unique predictive contributions.

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Table 4. Hierarchical Multiple Regression Analysis Results

Model	Variables Entered	R^2	Adjusted R^2	R^2 Change	F Change	df	Sig. F Change
Model 1	Demographics Only (Age, Income, Education, Location)	0.396	0.384	0.396	48.76	4, 380	<0.001
Model 2	Model 1 + Financial Literacy	0.531	0.521	0.137	112.85	1, 379	<0.001
Model 3	Model 2 + Digital Payment (Full Model)	0.638	0.627	0.106	94.32	1, 378	<0.001

Source: Authors

The hierarchical regression procedures reveal that demographic control variables explain 38.4% of economic development variance in the baseline model, financial literacy contributes an additional 13.7 percentage points of explanatory power when added in Model 2, and digital payment adoption accounts for another 10.6 percentage points in the full Model 3 specification, with all incremental contributions achieving strong statistical significance and collectively explaining 62.7% of observed regional economic performance variation.

Table 5. Multiple Linear Regression Coefficients for Economic Development Prediction

Independent Variable	Unstandardized B	Std. Error	Standardized β	t-value	p-value	95% CI Lower	95% CI Upper	VIF
(Constant)	8.745	3.214	-	2.72	0.007	2.428	15.062	-
Financial Literacy	0.289	0.053	0.347	5.45	<0.001	0.185	0.393	1.84
Digital Payment Adoption	0.325	0.048	0.412	6.77	<0.001	0.231	0.419	1.92
Age	0.540	0.280	0.093	1.93	0.054	-0.011	1.091	1.23
Household Income	1.530	0.580	0.167	2.64	0.009	0.391	2.669	1.67
Education Level	2.140	0.670	0.218	3.19	0.002	0.823	3.457	2.01
Urban Location	1.870	0.720	0.156	2.60	0.010	0.456	3.284	1.45

Model Summary**:** $R^2 = 0.638$; Adjusted $R^2 = 0.627$; $F(6,378) = 67.42$, $p < 0.001$

Source: Authors

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Table 6. Interaction Effect Analysis: Financial Literacy × Digital Payment Adoption

Model Specification	Unstandardized B	Std. Error	Standardized β	t-value	p-value	R^2 Change
Main Effects Only Model	-	-	-	-	-	0.627
- Financial Literacy	0.289	0.053	0.347	5.45	<0.001	-
- Digital Payment	0.325	0.048	0.412	6.77	<0.001	-
Interaction Model	-	-	-	-	-	0.641
- Financial Literacy	0.276	0.055	0.332	5.02	<0.001	-
- Digital Payment	0.312	0.050	0.395	6.24	<0.001	-
- FL × DP Interaction	0.018	0.007	0.142	2.57	0.011	0.014

Source: Authors

The central analytical procedure examining simultaneous relationships between Generation Z's financial capabilities and local economic development employs multiple linear regression modeling that reveals both financial literacy ($\beta = 0.347$, $p < 0.001$) and digital payment adoption ($\beta = 0.412$, $p < 0.001$) as statistically significant positive predictors, with digital payment adoption demonstrating a slightly stronger effect magnitude. Each one-unit increase in financial literacy scores is associated with a 0.289-point improvement in composite economic development indices, whereas comparable increases in digital payment adoption are associated with a 0.325-point improvement in economic development, controlling for all other model variables.

Additional regression analysis incorporating a multiplicative interaction term revealed a moderate yet statistically significant positive interaction coefficient ($\beta = 0.142$, $p = 0.011$), indicating that the economic benefits of adopting digital payments increase further among respondents with higher financial literacy. The 0.014 increase in R^2 attributable to this interaction term confirms that this synergistic effect, though small in magnitude, is not a statistical artifact but rather a theoretically meaningful moderating relationship.

To make it easier for non-expert readers to understand, statistical estimates need to be put into context. The local economic development index (0–100) is derived from district-level GDP per capita, the number of new businesses, and employment. The Financial Literacy coefficient (B=0.289) indicates that a 10-point increase in the literacy score (equivalent to the difference between individuals who struggle with compound interest and those capable of assessing investment risk) is associated with a 2.89-point rise in the index. Empirically, this increase correlates with higher GDP per capita, greater density of formal SMEs, and increased local employment.

The digital payment adoption coefficient (B=0.325) indicates that a ten-unit increase in the composite score, for example, from infrequent use of a single digital wallet to regular use across various platforms and QRIS, is associated with a 3.25-point increase in the economic development index. This coefficient is slightly larger than that for financial literacy (B=0.289), reflecting the ability of digitalization to generate immediate liquidity effects, such as accelerating money velocity, reducing costs, and formalizing merchants, which materialize more quickly than the long-term benefits of improved literacy. Both variables serve as levers for substantive policy: digital infrastructure drives

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short-term efficiency, while financial literacy contributes to the development of sustainable, knowledge-based economic capacity for Indonesia's Generation Z.

DISCUSSION

The empirical findings of this study robustly affirm the pivotal role of Generation Z's financial capabilities in shaping local economic trajectories within the Indonesian context. The multiple linear regression analysis reveals that both financial literacy ($\beta = 0.347$, $p < 0.001$) and digital payment adoption ($\beta = 0.412$, $p < 0.001$) exert statistically significant, positive influences on local economic development, with the latter demonstrating a marginally stronger effect size. This outcome substantiates the core thesis of this research, bridging micro-level behavioral finance with macroeconomic development theory. The stronger coefficient for digital payment adoption underscores the transformative power of transactional efficiency. Generation Z, a digitally native cohort, increasingly uses platforms such as mobile wallets and QRIS, which effectively reduce friction in the local economy (Al-Qudah et al., 2024). This efficiency is not merely about speed but encompasses a fundamental shift in the velocity of money, the rate at which a single unit of currency circulates through an economy (Elliyana et al., 2024). For instance, when a young consumer uses an e-wallet to purchase from a local street vendor who then instantly uses the same platform to pay a supplier, the reduction in transaction time and cost compared to a cash-based system accelerates economic activity, thereby stimulating business turnover and local GDP growth in a manner that traditional financial literacy alone cannot directly facilitate (Birigozzi et al., 2025). This phenomenon aligns with Endogenous Growth Theory, which posits that technological innovation, such as the widespread adoption of digital payment systems, acts as an internal engine for sustained economic expansion by creating positive network externalities and reducing market frictions (Denita Capridasari, 2024).

Furthermore, the significant positive interaction effect between financial literacy and digital payment adoption ($\beta = 0.142$, $p = 0.011$) unveils a critical synergistic dynamic. This synergy can be analogized to providing a high-performance vehicle (digital payment infrastructure) to a financially literate individual (Aguilar et al., 2024). The vehicle enables greater speed and distance, but it is the driver's skill that ensures safe, efficient, and purposeful navigation towards a desired destination. In this case, prudent financial decisions and productive economic participation (Barus et al., 2024). A financially literate Gen Z individual is less likely to be a mere passive consumer of digital payment technology; they are more equipped to leverage these tools for budgeting, accessing micro-investment products, securing digital credit for small entrepreneurial ventures, and discerning between productive debt and consumptive debt (Al-Qudah et al., 2024). This nuanced understanding prevents the "digital debt trap" that can sometimes accompany easy access to digital lending, thereby ensuring that technology adoption translates into sustainable economic behaviors that benefit both the individual and the local economy.

In less developed regions, where formal financial institutions may be sparse, foundational financial knowledge, such as understanding savings, interest, and basic risk management, acts as a primary catalyst for bringing individuals into the formal economic fold and encouraging local enterprise (Shaikh & Sharif, 2024). Conversely, in already digitized urban centers, the marginal gains from further technological infusion and the efficiency it brings become the primary driver of economic

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dynamism (Dayan, 2024).

This dichotomy presents a compelling policy implication: a one-size-fits-all approach is suboptimal. Interventions must be tailored, with rural development strategies prioritizing foundational financial education alongside the rollout of digital infrastructure, while urban policies can focus on deepening the sophistication of digital finance use (Kang et al., 2024). Ultimately, this study posits that Generation Z is not merely a passive beneficiary of economic development but an active architect of it. Their fusion of technological fluency and, increasingly, financial acumen is creating a new economic paradigm at the local level, characterized by heightened efficiency, greater inclusivity, and a more vibrant entrepreneurial landscape, effectively harnessing Indonesia's demographic dividend for sustainable, distributed prosperity.

CONCLUSION

This study conclusively demonstrates that the financial literacy and digital payment adoption of Generation Z significantly and positively influence local economic development in Indonesia. Through rigorous multiple linear regression analysis, both variables were validated as robust predictors, with digital payment adoption ($\beta = 0.412$, $p < 0.001$) exhibiting a marginally stronger effect than financial literacy ($\beta = 0.347$, $p < 0.001$). This underscores the transformative role of transactional efficiency enabled by platforms such as mobile wallets and QRIS in accelerating the velocity of money within local economies. Moreover, the presence of a statistically significant interaction effect ($\beta= 0.142$, $p = 0.011$) reveals a synergistic relationship; the economic benefits of digital payment adoption are substantially amplified among individuals with higher financial literacy. This suggests that while digital infrastructure provides the mechanism for economic acceleration, financial literacy ensures its purposeful and productive application, such as in budgeting, investment, or entrepreneurial financing. Subgroup analyses further highlight contextual nuances; financial literacy exerts a stronger influence in rural and developing regions, where foundational financial knowledge is critical for inclusion, whereas digital payment adoption dominates in urban settings, where technological infrastructure is more mature. Collectively, these findings affirm that Generation Z is not merely a passive participant but an active agent of local economic development, leveraging its dual competencies in finance and technology to drive business formalization, employment, and regional productivity.

LIMITATION AND IMPLEMENTATIONS

Despite its robust findings, this study acknowledges several limitations that offer pathways for future research. The cross-sectional design, while revealing significant correlations, does not establish causality; longitudinal or experimental designs are needed to trace the long-term causal pathways between youth financial behavior and macroeconomic outcomes. A primary constraint is its cross-sectional design, which, while effectively capturing associations at a single point in time, prevents the establishment of definitive causal relationships between the variables. Additionally, the sample, though stratified, may not fully represent the socioeconomic diversity of Indonesia’s Gen Z population, particularly those in Eastern Indonesia or the informal sectors. The reliance on self-reported financial literacy and adoption metrics also introduces potential response bias. Furthermore, the study did not deeply explore behavioral

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mediators such as financial confidence or perceived risk, which may shape how literacy translates into economic action. These limitations notwithstanding, the findings carry important practical implications. Policymakers and financial educators should design segmented interventions in less developed regions, integrating basic financial education with the rollout of digital infrastructure, which is essential, whereas urban strategies should focus on advancing digital financial sophistication, such as through fintech-based investment or SME credit platforms. Collaboration among local governments, fintech firms, and educational institutions is critical to create ecosystems that simultaneously enhance financial capability and technological access. By aligning policy with the synergies between literacy and technology, Indonesia can more effectively harness its demographic dividend to drive inclusive and sustainable local economic transformation.

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