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Determinants Of Economic Growth in Organizations Of Islamic Cooperation (OIC) Member Countries With Governance Index As Moderating

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Abstract

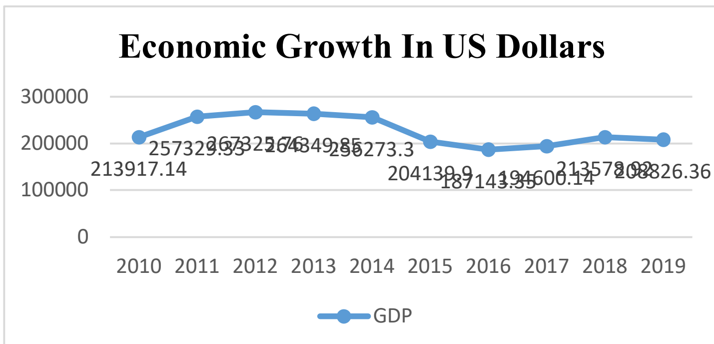
Economic growth is one of the important indicators that can be used for economic development in a country. However, the high incomes that are not matched by sustainable development can lead to economic growth gaps. This study is intended to determine the effect of international trade, inflation, and interest rates by including the governance index variable as a moderating variable on economic growth. The object of research used is all countries of the Organization of Islamic Cooperation (OIC) by 57 countries, but limited data, so there are 27 countries selected for the period 2010-2019. This study uses the approach GMM (Generalized Method of Moments) to analyze data. Then for the use of the approach to analyze state governance variables using the Moderated Regression Analysis (MRA). The results of statistical tests show that international trade variables have a significant positive effect on economic growth except for inflation and interest rates which have a significant negative effect. This causes the negative effect of these variables due to the lack of control carried out by government policies. However, the governance index can moderate international trade, inflation, and interest rates in their impact on economic growth. This study confirms that good governance can improve the economy in OIC member countries.

Introduction

Economic growth is one of the important indicators used in analyzing the economic development of a country. Economic growth is the main priority for the achievement of a country and the government in carrying out various economic actions so that the level of economic welfare for the community is achieved (Rinaldi and Seftarita, 2017). The success of development in a country can be seen from the level of economic growth. Therefore, each country targets a stable level of economic growth in the country's development plans and goals. Economic growth is one of the global issues that focus on reviewing all areas of governmental and non-governmental organizations. Some descriptions of organizational institutions that have an agenda in achieving economic growth goals in various countries, such as World Bank, International Monetary Fund

(IMF), and Statistical, Economic and Social Research and Training Center for Islamic Countries (SESRIC). The graph below will show the state of economic growth in the Organizations of Islamic Cooperation (OIC) Member Countries.

Figure 1 explains that economic growth usually fluctuates or changes every year. This is due to several factors, namely the high income that cannot be matched by the development of the country in line so that it can lead to a gap in economic growth which should play a role. government can develop and distribute evenly, as is the case with research conducted by (Afolabi, 2015). One of the things that can be used as an engine for growth in international trade. International trade affects the growth and development of a country's economy because they compete with each other in the international market. When international trade involves exports and imports, one or both of them can be an engine for growth (Hasoloan, 2005).



Source: World Bank, 2021

Figure 1 economic Growth in OIC Countries 2010-2019 Economic Growth in US Dollars

One of the macroeconomic indicators used to measure the economic stability of a country is inflation. Changes in these indicators will affect the dynamics of economic growth. From an economic point of view, inflation is a monetary activity in a country where the ups and downs of inflation are caused by economic changes (Engla et. al 2013).

The next indicator of this research is the interest rate. The relationship between economic growth and interest rates explains that interest rates are one of the key indicators for financial markets that have a strong influence on economic-financial markets as a whole, but the mechanism and direction of the relationship between interest rates and economic activity are very difficult to investigate (Drobyshevsky et.al 2017).

In the variable indicators above, namely international trade, inflation, and interest rates, where Governance Index becomes an important object for the direction of economic development in a country in the fields of investment, government spending as well as in export and import affairs. If a region wants to develop, it requires government policies, such as regulations, regulatory authorities, and other policies to continue to evaluate the policies issued to encourage overall economic growth. The OIC country itself strives for the welfare of its people and supports sustainable economic growth.

Research on the effect of international trade, inflation, and interest rates on economic growth has been carried out by several previous studies. However, the addition of a variable Governance Index as a moderating variable will be the recency value (novelty). Therefore, this research is interesting to continue because it will explain the form of economic growth that is driven by the economic growth governance index as a supporting factor for economic growth in the OIC countries.

Review of Literature

The literature on economic growth in OIC member countries has conducted previous economic research, their studies offer various variables to focus their studies on economic growth. However, previous studies have significant differences with this study. This study attempts to analyze international trade, inflation and interest rates. The exposure of the novelty of this research to several relevant previous studies is below:

International trade

Research conducted by Meijers (2014) using the GMM model shows that trade affects economic growth and confirms the positive and significant role of trade on growth that the importance of international trade for economic growth. Another view on research Fatmawati (2015) shows that long-term and short-term exports have a positive and significant direction on Indonesia's economic growth, but imports for the short and long term have a negative and significant impact on Indonesia's economic growth so that the government or agencies are more leverage in making policies related to international trade.

Inflation

The findings described by Paul et. al (1997) which involved 70 countries (48 of which were developing countries) for the period 1960-1989 with the results not finding a causal relationship between inflation and economic growth in 40% of countries, they reported bidirectional causality in about 20% of countries and a unidirectional relationship (either inflation to growth or vice versa) in other countries. More interestingly, the relationship was found to be positive in some cases, but negative in others. The results conducted by Mallik and Chowdhury (2001) found that there was a significant feedback between the inflation relationship in economic growth for the four countries by using the cointegration model and error correction to empirically test the dynamics of the relationship between inflation and economic growth.

Interest Rate

Interest rates have a direct influence on people's lives and have an important effect on the health of the economy (Hazmi, 2018). Research conducted by Yusuf et. al (2019) using quarterly time series data from 2000 to 2017 using the Cointegration and Error Correction Methodology (ECM) method. The results of this finding explain that interest rates have no significant effect on economic growth in Nigeria. Therefore, the issue of high loan interest rates with hidden transaction costs must be seriously monitored and addressed by regulatory authorities (CBN). In line with research by Etale and Ayunku (2016) examining the relationship between interest rates and economic growth in Nigeria using annual data from 1985 to 2014 using the Error Correction Model (ECM). Finding results that interest rates have a significant negative effect on economic growth in Nigeria. Regarding this matter, the monetary authority must carry out appropriate policies that will encourage and stimulate economic growth.

Based on the findings above, there are results and analytical techniques that vary. Therefore, this study seeks to fill this gap by combining the three variables, namely international trade, inflation and interest rates on economic growth in the OIC Countries.

Besides that, as a novelty, this study adds the Governance Index variable as moderating variables to see the extent to which the government's role in its relationship to economic growth in the OIC countries during the period 2010- 2019. Also, this study compares static panel data with using ordinary least squares (OLS) with dynamic panel data, namely with the generalized method of moment (GMM) model. Thus, the model that later selected will give a clear picture of how big the influence of the determinants of economic growth in the OIC countries.

Research Method

The population used in this study were all countries registered in the Organization of Islamic Cooperation (OIC) as many as 57 countries. The sample selected based on the amount of data available at the World Bank (WB) in 2010-2019 was 27 countries. Meanwhile, for data analysis using Ordinary Least Square (OLS) static panel data regression, GMM for dynamic panel data regression, and MRA as a test of the interaction between international trade, inflation, and interest rates on economic growth.

The GMM modeling approach shows direct and indirect impacts on each independent and moderating variable on economic growth based on the growth of the standards regression model. The model in this study is added to the institutional model, as will be explained in the equation below:

$GDP_{it} = \beta 1 + \lambda GDP_{it}\text{-}1 + \beta 2X1_{it} + \beta 3X2_{it} + \beta 4X3_{it} + \beta 6INS_{it} + e_{it}$ **(1)**

Where GDP is real GDP per capita constant for year t. Indicators I and t represent the number of countries and periods described in the study. X1, X2, and X3 are variables of International Trade, Inflation, and Interest rates on GDP, and INS is a variable of governance index.

The following MRA (Moderated Regression Analysis) model is expressed in the form of the equation below:

$GDP_{it} = a + \beta_1 IT_{it} + \beta_2 INF_{it} + \beta_2 IR_{it} + \beta_4 INS_{it} +$ **(2)**

$GDP_{it} = a + \beta_1 IT_{it} + \beta_2 INF_{it} + \beta_3 IR_{it} + \beta_4 INS_{it} + \beta_5 IT{*}INS_{it} + \beta_6 INF{*}INS_{it} + \beta_7 IR{*}INS_{i}t + e$ **(3)**

Results

Descriptive Analysis

Table 1 Average Value of Governance Index 2010-2019

No	Country	Value	No	Country	Value	No	Country	Value
1	Albania	-0.093	11	Kuwait	-0.078	21	Republic of Côte d'Ivoire	-0.758
2	Algeria	-0.862	12	Kyrgyzstan	-0.752	22	Qatar	0.517
3	Azerbaijan	-0.744	13	Lebanon	-0.756	23	Sierra Leone	-0.661
4	Bangladesh	-0.837	14	Maladewa	-0.368	24	Suriname	-0.125
5	Brunei-Darussalam	0.616	15	Malaysia	0.363	25	Tajikistan	-1.152
6	The Gambia	-0.560	16	Mali	-0.778	26	Uganda	-0.590
7	Guinea Bissau	-1.158	17	Mesir	-0.828	27	Jordanian	-0.096
8	Guyana	-0.308	18	Mozambique	-0.576			**-0.514**

No	Country	Value	No	Country	Value	No	Country	Value
9	Indonesia	-0.283	19	Nigeria	-1.093	**Average index INS OIC Country**		
10	Comoros	-0.873	20	Pakistan	-1.055			

Source: processed data

Based on the average value of the governance index (INS) in the table above, it can be illustrated that there are only 3 OIC countries that have a positive average score, namely Brunei-Darussalam, Malaysia, and Qatar. Meanwhile, other OIC countries achieved a negative average score of -1,158 for Guinea Bissau with the lowest score among other countries. The overall average value of the OIC country index, which is -0.514 which indicates that the OIC country governance index has not yet achieved good governance, considering that the assessment carried out by the OIC world governance indicators (WGI) ranged from -2.5 – 2.5.

Descriptive statistics

Table 2 Descriptive Statistics

	GDP	IT	INF	IR	INS
Mean	8398.100	64864.32	5.18	7.35	-0.51
Median	3110.500	17297.00	4.40	6.63	-0.62
Maximum	85076.00	551506.0	42.52	40.86	0.71
Minimum	402.0000	287.0000	-25.96	-26.22	-1.31
St. Deviasi	15802.47	114895.7	7.04	8.27	0.49
Number of Observation	270	270	270	270	270

Source: processed data

Based on the results of the descriptive statistical test above, it can be explained that several phenomena appear in each research variable. The data in this study are considered to meet the normality requirements because the amount of data used is > 20 (large or more than 20) with specifications of 27 OIC countries that were used as samples in this study, also taking 10 years (2010 to 2019) with the total number of observations used was 270 observations. Static Panel Data Regression with OLS Model.

Table 3 Result of Static Panel Data Regression Test

Variable	*Common*	*Fixed*	*Random*
C	0.0000**	0.0017**	0.0013**
	(38614.64)	(5817.427)	(4771.847)
IT	0.0000**	0.0000**	0.0000**
	(-0.026700)	(0.091537)	(-2.33E-08)
INF	0.0000**	0.4986	0.2027
	(-1899.697)	(-93.62461)	(1.62E-07)
IR	0.0000**	0.0956	0.0239**
	(-1814.612)	(-215.9177)	(-13.43860)
INS	0.0000**	0.0783	0.0031**
	(42668.93)	(4309.657)	(-156.1749)
IT*INS	0.0052**	0.0003**	0.0019**

Variable	*Common*	*Fixed*	*Random*
	(-0.037964)	(0.039266)	(2.46E-08)
INF*INS	0.0000**	0.4958	0.2086
	(-2189.033)	(-106.1314)	(9.37E-07)
IR*INS	0.0000**	0.0571**	0.0133**
	(-2059.431)	(-272.9692)	(9.800969)
R-squared	0.577425	0.975244	0.311690
Prob (F-Statistic)	0.0000	0.0000	0.0000
Number of Observation	270	270	270
Number of Instrument	27	27	27
Test Chow		0.0000**	
Test Hausman			0.0000**

Source: processed data

Based on the Chow and Hausman tests, the best model in this static panel regression is the fixed effects model (FEM), because the probability value is 0.0000 or less than 5%. In addition, the value of the coefficient of determination shows a large value compared to the value of other models, which is 0.975244. These results explain that the f-statistical probability value shows a simultaneous effect between the independent and the dependent. In addition, it is supported by the coefficient of economic growth in the OIC countries which shows a significant positive value which explains that the greater the factors these determinants of economic growth, will have a better impact on growth. These results are supported by research conducted (Supriani and Fianto, 2020).

Dynamic Panel Data Regression with GMM Model

Table 4 Result of GMM Dynamic Panel Data Regression

Variable	**Difference GMM (1)**	**System GMM (2)**
C	0.0000**	0.0000**
	(0.900464)	(0.894183)
IT	0.0000**	0.0000**
	(0.020928)	(0.020434)
INF	0.0026	0.0053
	(5.027801)	(-4.714034)
IR	0.0000**	0.0000**
	(-328.5611)	(-328.4188)
INS	0.0000**	0.0000**
	(2102.109)	(1798.934)
IT*INS	0.0000**	0.0000**
	(0.006486)	(0.009774)
INF*INS	0.0000**	0.0000**
	(137.7759)	(114.9152)
IR*INS	0.0000**	0.0000**
	(-267.2360)	(-268.3775)

Variable	Difference GMM (1)	System GMM (2)
Number of Observation	**216**	**216**
Number of Instrument	**27**	**27**
Test Sargan	**0.184303**	**0.299262**

Source: processed data

For the results of the GMM regression test which refers to the dependent variable (gross domestic product), independent variable (International trade, inflation, interest rates), and moderating variables (Governance Index), then the regression equation can be seen as provided in equation 2 above. The estimation results in the table above show equations 1 and 2 as models to indicate the influence of the independent variables and the quality of governance as a whole on the dependent variable. From the two model estimates presented above, several variables are not significant in the estimation of equation 1 (difference GMM) to avoid bias, this study uses estimates in equation 2 (system GMM) as the best estimation model.

Model Moderated Regression Analysis (MRA)

Variable Moderation Function Governance Index on International Trade/IT Variables (X) and Economic Growth/ GDP (Y)

Refers to the probability value of the governance index variable and the variation of the model "governance index*international trade", where each probability value is 0.00, then the t statistic direction for each variable is positive for governance index (1798,934) and positive for "governance index*international trade" (0.009774), so the type of moderation in this variation is model **quasi moderating** or pseudo moderation. These results indicate that the government index variable has the potential to be a moderating variable in its influence on GDP.

Variable Moderation Function Governance Index on Inflation Variables/INF (X) and Economic Growth/ GDP (Y)

Refers to the variable probability value governance index and model variations "governance index*inflation", where each probability value is 0.00, and the t-statistic direction for each variable is positive for governance index (1798,934) and (114.9152) for " inflation*governance index", then this type of moderation variation is included in the model **quasi moderating** or pseudo moderation. That is the variation of the model governance index has the potential to be a moderating variable in the included equation model.

Variable Moderation Function Governance Index on Interest Rate Variables/IR (X) and Economic Growth/ GDP (Y)

Refers to the value of the variable probability governance index and model variations "governance index*interest rate", where each probability value is 0.00, then the t statistic direction on each variable is positive (1798.934) for governance index and negative (268.3775) for "governance index*interest rate", then the type of moderation variation model used is **moderating predictor** or a moderating predictor variable. This indicates that in the variable equation model governance index has an effect as a predictor of interest rate variables.

Discussion

The Effect of International Trade on Economic Growth

Tests related to international trade relations on economic growth in this study show a significant positive direction towards the economic growth of the OIC countries by looking at the probability value of 0.0000 or less than 5% (< 0.05). That is, the results of this study indicate the hypothesis developed by the researcher, namely that international trade has a significant positive effect on economic growth.

This finding is in line with the finding made by Nguyen (2020) that international trade has a positive and statistically significant effect on Vietnam's economic growth. These results are also able to provide recommendations on previous research conducted by Hany (2019); Ma and Benjamin (2020) explain that international trade (exports and imports) can have a significant impact on economic growth in various countries. This is in line with what was done by Raghutla (2020) which emphasized that international trade has a large positive impact on economic growth. That is, this finding shows that international trade plays an important role in promoting economic growth as well as promoting economic development in the five emerging market economies.

This is explained by some of the findings of the phenomena that occurred above that international trade is very complementary to economic growth. Given the significance that occurs, the relationship between international trade and economic growth can show a significant level that can positively impact economic growth in the OIC countries.

The Effect of Inflation on Economic Growth

Based on the test results between the relationship between inflation and economic growth, it indicates that the coefficient of the inflation variable shows a negative number and is not significant with a probability value of 0.0053 (> 0.05). That is, the results of testing the data are not by following the hypothesis developed by the researcher, namely that inflation has a negative but significant effect on economic growth.

Referring to the findings by Dinh (2020) which explains that the inflation rate is positively related to economic growth, supported by monetary policy, fiscal policy, and other policies to control and maintain inflation and encourage sustainable economic growth. In line with the findings made by Hoang et.al (2020) argues that it can contribute to the improvement of Vietnam's macro-environment by controlling inflation supported by economic growth by implementing macroeconomic stability goals to suit the international period of economic integration and increasing national competitiveness.

Although the research above shows a significant positive relationship to economic growth, Meilaniwati (2021) indicates that the inflation variable does not have a positive effect on economic growth in ASEAN-5 countries, because, In addition, inflation control is based on the consideration that high and unstable inflation has a negative impact on the economy of a country. In line with the research that failed to prove that inflation had a significant effect on economic growth, the research conducted by Ngoc (2020); Olugbenga (2021) who provides evidence that the effect of inflation on economic growth is negative and asymmetric in the long term.

The findings above prove that inflation does not have a positive impact on the economic growth of the OIC countries. Usually, the impact of an increase in inflation is greater than a decrease in the long term so that the difference in this impact is quite significant and high inflation will damage economic activity in a country. Another negative effect is that if the income distribution worsens, inflation will benefit when a country's income level is higher than the inflation rate, but the number of those who gain is far less than those who suffer losses. Thus, the government plans monetary policies and can control the inflation rate to achieve sustainable economic development in the long term.

The Effect of Interest Rates on Economic Growth

The results of the next test related to the relationship between interest rates and economic growth by showing the probability value of 0.000 (< 5%) is significant, however, for the coefficient value which shows a negative number. That is, the test for this data is by following the hypothesis recommended by the researcher, where the interest rate variable has a negative effect on economic growth.

Referring to research Mishra (2019) argues that interest rates have a positive impact on economic growth. The explanation of Huy et.al (2020) proves that interest rates have a positive direction on economic growth by showing that increased economic growth and interest rates will reduce economic stability in macroeconomic factor policies, especially in financial management.

Some of the studies above show a positive relationship, in contrast to Damilola and Kareem (2021) explaining that interest rates have a significant but negative effect on economic growth. So, the government must formulate structural economic policies that will support the deregulation of the financial sector. In line with several studies that failed to provide evidence that interest rates had a significant negative effect on economic growth, Qing (2017); Shayanewako and Tsegaye (2018) for interest rate control that lost its positive impact, this was due to various factors by not playing a role in supporting economic growth through efficient resource allocation and risk diversification in optimal interest rates in the South African country.

The explanations put forward by the theory of interest rates (especially those expressed by Keynes) show that interest in money is only a human rate and high-interest rates have become an obstacle to the progress and welfare of society. In the Islamic concept, interest includes a solution by eliminating interest money. So that it will encourage investment in unlimited investment (Sutjipto, 2017).

Based on the facts above, it is stated that interest rates do not have a significant but significant effect on the economic growth of the OIC countries. This indicates that the impact of the OIC state interest rate on economic growth shows that although it is inconsistent for the country, there is a tendency that the policy of lowering interest rates is for the sake of economic stability, therefore, for every interest rate movement it is necessary to consider the accompanying economic impact. Oftentimes, policies on interest rates are intended to provide stimulation from banks so that people in a country want to invest their funds because they can provide benefits that will be obtained later. Conversely, when interest rates are low, the public or investors will decrease which will cause very small profits for the economy.

The Effect of International Trade on Economic Growth with Governance Index as Moderating Variable

Testing with the MRA model by looking at the relationship between international trade on economic growth with governance index/ governance as a moderating variable. The results of statistical tests that show a probability value of 0.0000 or less than 5% (< 0.05) hereby prove that there is a significant positive relationship between governance index/ governance with international trade variables in influencing the economic growth of the OIC countries.

Referring to the unidirectional research conducted by Omoke and Charles (2021) which includes the role of institutional quality in the relationship between international trade and economic growth in Nigeria by showing that international trade has a positive impact on economic growth as quality improved institution. In line with the research conducted by Ihsan et. al (2021) explained that the governance index can moderate trade openness to economic growth so that it can help distribute dividends to increase economic growth in the OIC countries. This is similar to research by Arslan and Larimo (2017) which finds that a high level of freedom of international trade moderates the influence of institutional quality, both formal and informal, on strategies that enter the world of the economy. In addition, Li et.al (2020) also show the same result that has a significant positive impact.

The findings above provide evidence that governance index/governance (INS) can moderate international trade on economic growth. This will have important policy implications for the country because good governance and quality institutions can help channel dividends from trade into activities to increase sustainable economic growth. Contribution to international trade by providing a broader institutional and economic quality will play an important role in the process of improving the dynamics of the economy.

The Effect of Inflation on Economic Growth with Governance Index as Moderating Variable

Furthermore, testing with the MRA model regarding the relationship between inflation and economic growth with governance index/ governance as a moderating variable shows this test has a significant interaction between variables governance index/ governance with inflation variable in influencing the economic growth of the OIC countries. By looking at the probability value of 0.0000 which is smaller than 0.05 (< 5%) it proves that the results of this finding are in line with the hypothesis developed by the researcher, namely that governance (INS) can provide a moderating effect on the inflation variable which is influenced by the economic growth of the OIC country.

This finding is in line with the hypothesis developed by the researcher, namely: Governance Index able to moderate the effect of inflation on the economic growth of the OIC countries. These findings are in line with the findings made by Law and Soon (2020) regarding the inflation coefficient and institutional quality, indicating that an increase in inflation will worsen the economy, but the institutional quality will increase economic growth in a country. Similarly, research conducted by Neyapti (2012); González et.al (2019) show the direction of a significant positive interaction between governance and economic growth.

Based on this phenomenon provides evidence that the governance index can provide a moderating effect on the relationship of inflation to economic growth. This indicates that the impact of inflation will be mitigated by better institutional quality indicating a mediating effect of institutional quality. On the other hand, the marginal effect indicates that inflation and institutional quality will diminish in the economy. Therefore, policymakers are expected to improve the quality of a country's institutions because it has a direct and indirect impact on the economy through its interaction with inflation.

The Effect of Interest Rates on Economic Growth with Governance Index as Moderating Variable

Testing with the latest MRA model is regarding the relationship between interest rates and economic growth in this study not being able to show a significant positive interaction on the interest rate variable on economic growth with governance index/ governance (INS) was involved in the study which was used as a moderating variable. The results of statistical tests show that the variable governance index (INS) shows a negative relationship to interest rates in influencing economic growth. By looking at the coefficient value of -268.3775 which shows a negative number, as well as the effect of interest rates on GDP, has a negative number of 328.4188. If we compare the values of the two, it is clear that the variable Governance Index (INS) moderates interest rates on economic growth although it still shows a negative value. This fact is illustrated that governance index/governance (INS) still needs to make a better contribution to sustainable economic growth in the OIC countries and conduct evaluations that turn negative interactions into positive directions. In line with research conducted by Abrar (2019); Akinboade and Kinfack (2013) explain that it has a negative but significant impact on economic growth.

This finding is in line with the research of Hahm (2004) which explains that interest rates are still unavoidable or limited. For this reason, institutional quality is not able to play an important role in interest rates on economic growth because the returns are too high to overcome the low institutional quality. However, along with economic growth, institutional quality ultimately becomes the most important factor that can affect economic growth. Thus, building high-quality institutions plays an important role in long-term economic growth.

Conclusion

International trade has a significant positive effect on economic growth in the OIC countries. This finding is in line with the theory of Salvatore (2014) which explains that a country can conduct profitable trade if it exports more efficient commodities and imports less efficient commodities.

Inflation has a negative effect on economic growth in the OIC countries. The findings apply the theory of economic growth proposed by Gillman and Nakov (2009) that both theoretical and empirical endogenous growth models show effects similar to inflation, where changes in the inflation rate have a permanent effect on economic growth.

Interest rates have a negative effect on economic growth in the OIC countries. This study applies the theory according to Keynes that the interest rate is a monetary phenomenon. This means that interest rates are a very influential monetary policy objective because they play a very important role in economic activity.

Governance Index/governance (INS) can moderate international trade on economic growth. These findings are in line with Arslan & Larimo (2017); Omoke and Charles (2021) found that including the role of institutional quality (INS) in the relationship between international trade and economic growth has a significant positive impact on economic growth as good institutional quality.

Governance Index/governance (INS) can moderate inflation in its effect on economic growth. This research is in line with Law & Soon (2020); Neyapti (2012); Utrero-González et. al (2019) which shows the direction of a significant positive interaction on Institutional that an increase in inflation will worsen the economy, but with better quality institutions it will increase growth in a country.

Governance Index/governance (INS) can moderate inflation on economic growth. Even though the result is negative, however, governance is indexable to reduce the value of the coefficient on its effect before the inclusion of the INS variable between international trade on economic growth. This finding is in line with the research of Hahm (2004) which explains that interest rates are still limited and unavoidable. For this reason, institutional quality is not able to play a role important in interest rates to economic growth. However, along with economic growth, institutional quality ultimately becomes the most important factor that can affect economic growth.

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