

## **ABSTRACT**

*Middle-income countries face challenges and are trapped between poor countries and rich countries which make it difficult to maintain sustainable economic growth. One of the efforts to accelerate economic growth and sustainable development is the formation of regional organizations including ASEAN and SAARC. Despite being in one region with the same income level, there are differences in growth rates among the countries that are members of it. For this reason, geographical and cultural factors do not always seem to be a determinant of economic growth and institutions have an important role in this regard. This study aims to analyze the effect of institutional quality as seen from democracy and corruption on economic growth by considering political stability conditions in middle-income ASEAN and SAARC countries from 2002 to 2021. Based on the institutional theory of economics, institutional factors are incentives for economic growth.*

*Using the Generalized Method of Moment (GMM) method, this study analyzes the direct effect of democracy and corruption and their interaction with political stability as a moderating variable. The results show that the effect of democracy both directly and its interaction with political stability has a significant effect in ASEAN but not significant in SAARC. Corruption has a significant direct effect in ASEAN which is then strengthened through its interaction with political stability. While in SAARC corruption does not have a significant influence but its influence can be explained through interactions with political stability. Then for the direct effect of political stability on economic growth has no significant effect in both ASEAN and SAARC.*

*Keywords: Democracy, corruption, political stability, economic growth, interaction effect*