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Macroeconomic Determinants of Economic Growth: An Analytical Study of Inflation, Investment, and Consumption Dynamics

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Abstract

This study examines the relationship between key macroeconomic factors and economic growth, with a focus on inflation, investment, and consumption dynamics. It adopts an analytical framework to explore three core dimensions: the growth–stability trade-off reflected through inflation, the role of external versus domestic investment captured by foreign direct investment (FDI) and gross capital formation, and the significance of demand-side forces through consumption expenditure and its share in GDP. Using secondary data from established national and international sources, the study analyzes trends over a multi-year period to identify patterns and relationships among the variables. The findings suggest that consumption plays a central role in driving economic growth, underscoring the importance of demand-side dynamics in shaping overall economic performance. Inflation exhibits a nuanced relationship with growth, indicating that while moderate inflation may support expansion, volatility can hinder stability and long-term growth prospects. Investment variables, including FDI and capital formation, demonstrate mixed effects, reflecting the influence of structural conditions, policy environment, and economic context. Overall, the study highlights that economic growth is a multifaceted process influenced by the interaction of macroeconomic stability, investment flows, and consumption patterns. The results emphasize the need for balanced and well-coordinated macroeconomic policies that simultaneously promote stable prices, encourage productive investment, and sustain consumption demand to achieve long-term economic growth.

Keywords: *Consumption Expenditure; Economic Growth; Foreign Direct Investment (FDI); Gross Capital Formation; Inflation*

1. Introduction

Gross Domestic Product (GDP) is the most widely used indicator of a country's economic performance, capturing the total value of goods and services produced within a country over a period of time. Consistent GDP growth is strongly associated with high living standards, high employment, higher

average incomes, and lower poverty, making it a central objective for many governments. Globally, GDP growth differs across countries, showing the differences in economic structure, development level, and policy environments. The International Monetary Fund projects world GDP growth of around 3.0 percent in 2025 and 3.1 percent in 2026, significantly below the long-term historical average, as trade tensions and policy uncertainties weigh on activity. Advanced economies are expected to expand more slowly, at roughly 1.4 percent in 2025, while emerging and developing economies grow faster at about 3.7 percent in the same period. Among major economies, China's growth is forecast near 4.0 to 4.2 percent and the United States around 1.8 to 2.1 percent, with European economies generally lower. By contrast, India is projected to grow at approximately 6.2 percent in 2026, making it one of the fastest-growing large economies in the world and well above both global and advanced-economy averages. This highlights the divergence in growth performance, with emerging markets, particularly India, playing a larger role in driving global output compared to slower-growing advanced economies. (World Economic Forum, 2026).

With the vastly changing dynamics of GDP across the world, it is important to understand the determinants of GDP growth. GDP growth is determined by many factors. GDP growth is determined by price stability, investment behavior, and demand patterns within an economy, along with other factors. Among the most influential of these are inflation dynamics, the composition of investment between foreign and domestic sources, and the role of consumption in driving output. Understanding these relationships is essential for evaluating both short-term economic fluctuations and long-term economic growth (IMF, 2025). One of the most consistent macroeconomic issues is the relationship between GDP growth and inflation, or a growth–stability trade-off. Inflation reflects the rate at which the price of goods and services increases. These impacts purchasing power, real income, and borrowing costs.

Central banks and governments aim to maintain low and stable inflation because fluctuations in inflation increase uncertainty, distort price signals, and discourage long-term investment (IMF, 2024). Inflation affects GDP growth in multiple ways; however, it does not share a direct and linear relation. Low inflation provides stability and supports purchasing power, usually increasing business investment and confidence. However, excessively low inflation or deflation can indicate weak demand, hinder growth, increase unemployment, and discourage spending. (Street, 2024). Moderate inflation can encourage spending and investment as consumers and businesses act before prices rise, while allowing flexible wage adjustments. High inflation erodes purchasing power, increases uncertainty and instability that discourages long-term investment, distorts resource allocation, and typically prompts central banks to raise interest rates, lowering purchasing power and business capital.

In India, the relationship between inflation and GDP growth is heavily influenced by the flexible inflation-targeting framework. Since 2016, the Government of India and the Reserve Bank of India (RBI) has formally adopted a CPI (consumer price index) inflation target of 4 percent, with a tolerance band of 2 percent to 6 percent, to balance price stability and economic growth (Government of India, 2016). This target is reviewed every five years, and a recent internal RBI committee has recommended retaining this inflation goal to maintain policy continuity given its effectiveness in stabilizing price volatility. Keeping inflation within this range enables consumer purchasing power and investment planning, both of which are vital for India's high consumption-led growth model (Ghosh, 2025) and ongoing capital formation. In recent policy settings, inflation remaining well within the RBI's target band has allowed the central bank to maintain accommodative monetary conditions aimed at supporting growth while anchoring expectations, which is especially important for sustaining investment and employment (TOI Business Desk, 2025).

Foreign direct investment (FDI) inflows also play a significant role in supplementing a country's growth, particularly in developing and emerging economies. FDI provides not only capital but also access to advanced technologies, managerial expertise, and international markets, which can enhance productivity and growth. By increasing the receiving country's capital stock and improving production

efficiency, FDI can raise potential output and support sustained GDP growth. It could act like a foundation for a growing economy to build upon (World Investment Report, 2023). FDI often generates positive, yet indirect, effects for domestic firms through technology transfer, skill development, and improved business practices, strengthening overall industrial competitiveness. However, when it comes to healthcare, education, and income, FDI by itself does not enhance human development (Nam & Ryu, 2023).

Consumer spending, or consumption, is a central driver of GDP growth because it directly represents demand for goods and services within an economy. In GDP calculations, consumption is typically the largest component, especially in consumption-led economies, meaning changes in household spending have an immediate impact on output and employment. When consumer confidence and real incomes rise, higher spending encourages firms to increase production, investment, and hiring, raising GDP. Conversely, reduced consumer spending during periods of uncertainty or high inflation lowers aggregate demand, slows economic activity, and can lead to weaker GDP growth (Organization for Economic Co-operation and Development, 2026). Given the complex and time-varying relationship between GDP growth and its macroeconomic determinants, this study aims to examine the combined effects of inflation, foreign direct investment (FDI), and consumption on India's economic growth from 2000 to 2024. By analyzing trends over time and applying regression-based methods, the study seeks to identify the relative importance of domestic demand, external capital inflows, and price stability in driving GDP fluctuations. This approach provides a comprehensive understanding of both short-term economic dynamics and long-term structural patterns, offering insights for policymakers and economists on strategies to sustain growth in a rapidly evolving economic environment.

2. Literature Review

A comprehensive overview has demonstrated that the most relevant metric of economic performance of a country is the so-called Gross Domestic Product (GDP), which reflects the total value of goods and services produced in a country during a certain time (International Monetary Fund, 2025). GDP growth is linked to the growth in the living standards, employment, household incomes, and cuts in poverty, which makes it significant as an indicator of the health of an economy and social welfare (Saleh, Hamza, and Touray, 2024; Feng and Wu, 2023). Besides the classic macroeconomic forces like investment, trade and government spending, consumer spending is another core element in the rate of GDP because the demand decisions made by households will dictate production, as well as the allocation of resource in an economy.

Consumer spending in the United States has always been a determining factor in economic growth. Scopelliti (2016) discovered that consumer spending in 2015 contributed over two-thirds of U.S. GDP and added about 1.5 percentage points to the average 2.0 percentage-point growth in GDP in the previous 5 years. The paper has come up with major determinants of consumer expenditure such as household income, accumulation of wealth, interest rates, access to consumer credit and leveraging of housing wealth. It was demonstrated that high incomes and low interest rates stimulated consumption, but the opposite also held true, as higher interest rates usually led households to save or pay off debts, which balanced economic growth. The research used a descriptive and analytical research design, where historical GDP data were used and the relationship between income, consumption and macroeconomic variables were analyzed, which presented empirical data on consumer behavior as the key factor to economic performance.

In India, likewise, the consumer expenditure is an important part of the GDP with close to 60 per cent of the overall economic output. Hazarika (2021) emphasized that a drop in the growth of consumer demand between 2016 and 2018 was linked with a decrease in GDP growth that reached 4.2 percent in

2019-20. The major structural causes such as the falling wages in the rural areas, the stagnation of the income of households and the decrease in sales of consumer goods and cars also contributed to the decrease in the consumption. The analysis of these trends was done using econometric models, descriptive statistics, correlation and regression modeling using data of National Sample Survey Office (NSSO), Reserve bank of India (RBI), Centre of monitoring Indian Economy (CMIE), Nielsen India and Society of Indian automobile manufacturers (SIAM). This multi-method design has enabled to understand changes in household behavior, macroeconomic vulnerability, as well as regional disparities in detail as it demonstrates the close interconnections between consumption behavior and economic growth in the emerging economies.

Whereas the consumer spending is the driving factor of the GDP in both developed and developing settings, the dynamics of investment and trade have mixed effects. Saleh et al. (2024) modeled U.S. GDP growth determinants with the aid of the OLS regression and VIF tests to accommodate for multicollinearity and discovered that household consumption and domestic investment were the most influential determinants. On the other hand, net exports, foreign direct investment (FDI) and population growth had an insignificant effect on GDP. Such results indicate that the role of domestic demand policy and investment incentive is more effective in economic growth than foreign trade or foreign capital inflows in some settings.

In addition to consumption and investment, other macroeconomic variables like unemployment, interest rates and inflation are important in determining the path of GDP. Feng and Wu (2023) used regression analysis, summary statistics and correlation matrices to measure the relationship between these variables and GDP growth in China. The paper has highlighted the impact of high unemployment on aggregate demand, the effect of fluctuations in interest rates on borrowing and investment, and the impact of inflationary pressures on the real purchasing power. The study places special emphasis on the role played by the monetary policy, labor market and inflation in maintaining the growth and the need to manage the macroeconomic environment in a stable manner to facilitate efficient policy responses.

A microeconomic shock may be increased or reduced by household financial behavior at a microeconomic level. Sattar (2025) discussed the causes and development of the Great Recession, making a point that household leverage, negative income growth, and financial innovations like securitization exacerbated the economic slowdown. The study examined the effects of increasing home equity on household borrowing and consumption and the impacts of local credit growth and housing supply elasticity on the extent of recession in regions using an instrumental variables framework that utilized a large panel of individual-level data. The study found out that micro-level processes, including access to credit and debt dynamics, have the potential to build feedback loops that compound the effects of macroeconomic shocks on GDP by showing how household financial choices and national economic performance are interlinked.

All these studies show that GDP growth is a multidimensional phenomenon that is affected by the following factors: household consumption, domestic investment, macroeconomic stability, and microeconomic financial behaviors. Whereas consumption influences short term economic growth and household confidence, investment influences long term economic growth. These factors are combined with macroeconomic policy especially in the areas of interest rates, inflation control, and labor market management to stabilize the economy. Microeconomic shocks, including changes in the leverage or credit access of households, alter the general growth path, as can be seen during recessions or economic booms. However, there is a lack of studies that integrate these factors across different contexts to compare their relative impact, and many analyses remain focused on either macroeconomic indicators or microeconomic behavior independently. This highlights an area for further investigation into the combined effects of these determinants.

3. Methodology

This study adopts an analytical approach to examine the relationship between GDP growth and macroeconomic variables, namely inflation, foreign direct investment (FDI), and consumer (household) spending. This paper will focus on identifying trends and patterns using secondary macroeconomic data to understand how these variables influence economic growth over time.

3.1 Objectives of the Study

- To analyze the relationship between inflation and GDP growth.
- To examine the role of foreign direct investment in supporting economic growth.
- To assess the impact of consumer spending on GDP.
- To apply these relationships specifically to the Indian economy.

3.2 Research Design

The research follows a descriptive research design combined with econometric analysis. Secondary quantitative data is used to examine macroeconomic relationships through both trend-based analysis and Ordinary Least Squares (OLS) regression, allowing for statistical evaluation of associations between variables.

3.3 Description of Variables

The key variables used in this study include GDP growth rate (dependent variable), inflation rate, foreign direct investment inflows, and consumer spending/consumption expenditure (independent variables). These variables capture different dimensions of economic performance: GDP growth and inflation reflect the growth–stability trade-off; FDI inflows and gross capital formation represent external versus domestic investment; and consumption growth and consumption as a percentage of GDP indicate short-run demand versus structural dependence. Data is sourced from reliable international and national institutions such as the International Monetary Fund (IMF), World Bank, UNCTAD, OECD, and Government of India publications. The study covers a recent multi-year period to capture both short-term fluctuations and longer-term trends.

3.4 Analytical Framework

The analytical framework is based on trend analysis, where changes in GDP growth are examined alongside movements in inflation, FDI inflows, and consumption levels over time. This approach helps identify patterns, correlations, and periods of divergence, allowing for an evaluation of how macroeconomic stability and investment dynamics influence overall economic performance.

This study models GDP growth as a function of inflation, foreign direct investment (FDI), consumption, and capital formation to capture key macroeconomic channels influencing economic performance. Inflation is included as a measure of macroeconomic stability, as high and volatile prices can distort investment and consumption decisions. FDI (% of GDP) represents external capital inflows and potential productivity spillovers. Final consumption expenditure captures demand-side effects and the structural orientation of growth, while gross capital formation proxies domestic investment and productive capacity expansion. Together, these variables allow for a balanced assessment of demand- and supply-side drivers of economic growth and help reduce omitted variable bias in the empirical specification.

4. Results and Findings

This section presents the empirical findings of the study by combining trend-based descriptive analysis with regression results obtained using STATA for the period 2000–2024. While the graphical analysis captures broad macroeconomic movements and structural patterns, the regression analysis provides statistical evidence on the relative contribution of inflation, investment, and consumption dynamics to GDP growth.

4.1 Trend Analysis

Figure 1: GDP Growth and Inflation (2000–2024)

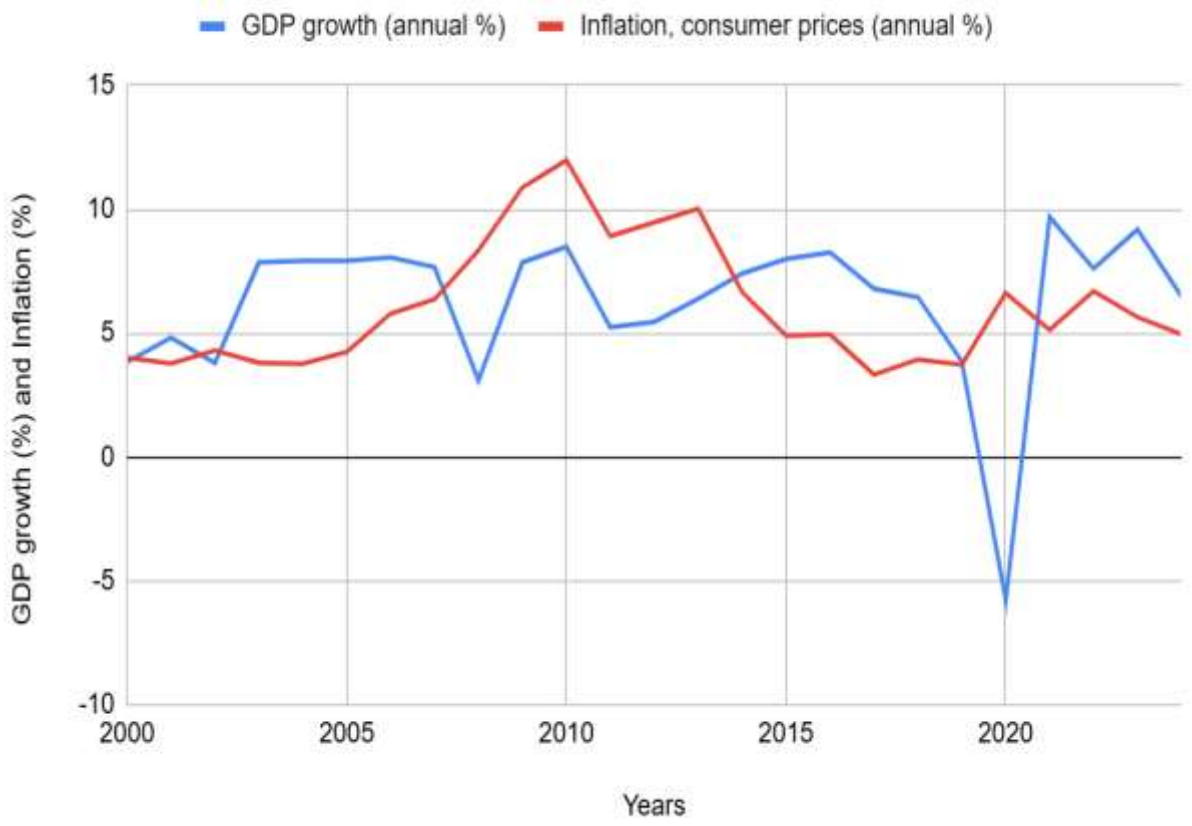

Figure 1 illustrates the evolution of GDP growth and inflation over the period 2000–2024. GDP growth exhibits pronounced cyclical fluctuations, with a sustained expansion during the mid-2000s, a slowdown during the global financial crisis, and a sharp contraction in 2020. Growth rebounds strongly in 2021 before moderating in subsequent years, reflecting a temporary post-crisis recovery.

Inflation shows considerable volatility across the sample period. Peaks in inflation often coincide with periods of economic recovery, while troughs align with slowdowns, suggesting short-term macroeconomic pressures. Overall, the figure highlights a weak and time-varying relationship between GDP growth and inflation, indicating that growth and inflation do not move in a consistent one-to-one pattern over time.

Figure 2: Foreign Direct Investment and Gross Capital Formation (2000-2024)

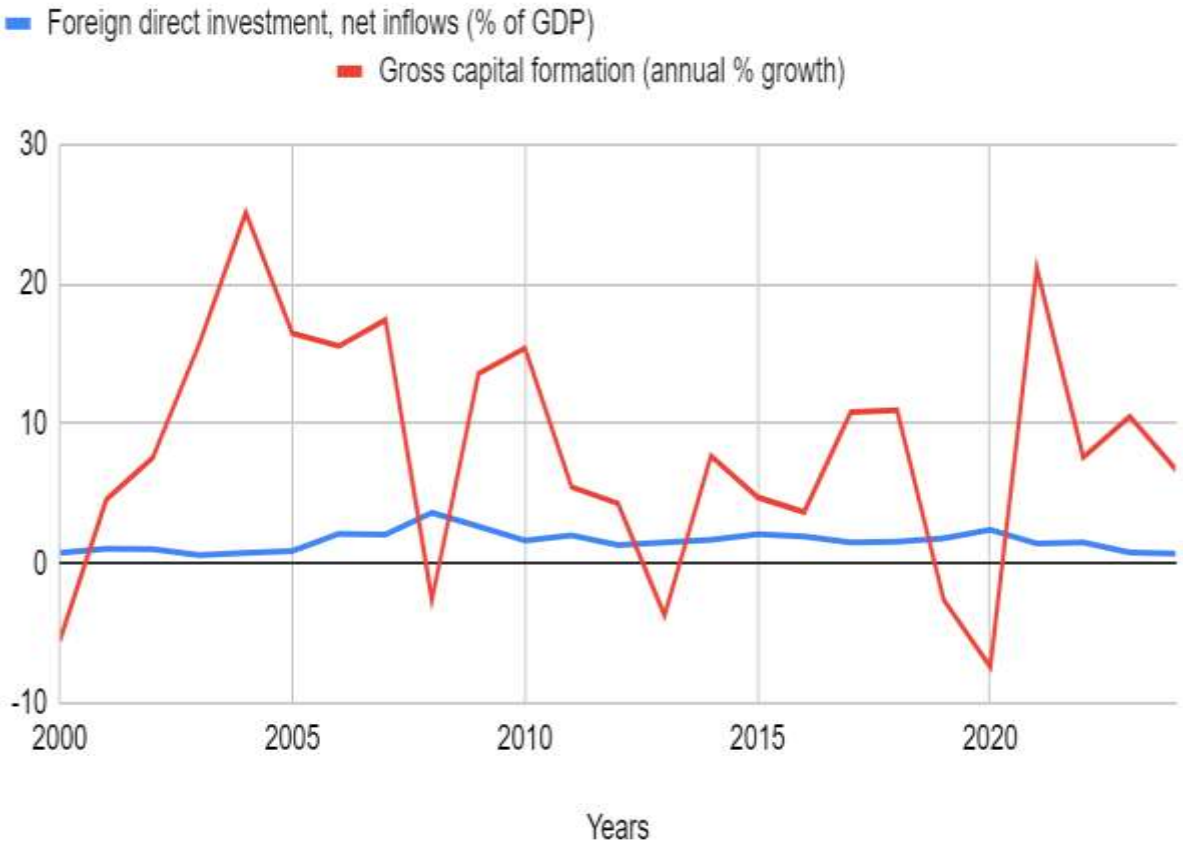

Figure 2 shows that foreign direct investment remained relatively stable across the period, generally fluctuating between 1 and 3%, indicating steady and relatively low investment. Gross capital formation, on the other hand, is very volatile with sharp peaks and drops, like during the pandemic.

The relationship between the two variables is very weak, and there may not be a strong correlation between these two factors. There are some moments of alignment, for example around the mid-2000s, but these patterns do not persist. Foreign direct investment also seems to be resilient to economic crises, as during the COVID pandemic, it remained constant in the range of 1-3%.

Figure 3: Consumption Expenditure (2000-2024)

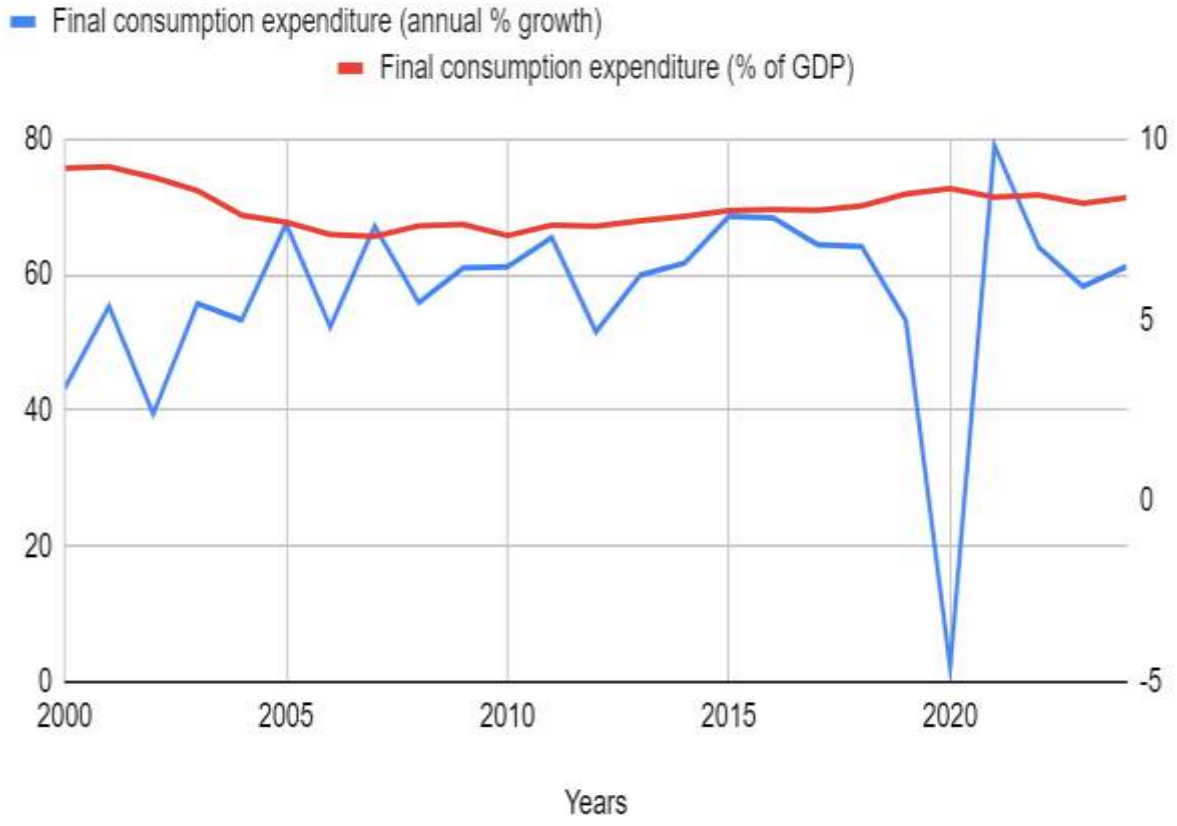

Figure 3 indicates that final consumer expenditure growth and its proportion of GDP have a consistent long-term connection with short-term divergence. Over time, final consumption spending as a proportion of GDP stays constant, demonstrating that consumption continuously makes up a sizable and stable portion of the economy. Growth in final consumer expenditures is more erratic, indicating sensitivity to shocks and economic cycles.

This discrepancy is especially noticeable around 2020, when growth collapses dramatically yet the consumption proportion of GDP changes only slightly, demonstrating that consumption growth is still very important to the economy even when it declines. Overall, the graph shows that while consumption's contribution to GDP is structurally constant, its growth varies with the state of the economy. Consumption is not a fast-changing driver of the economy, but rather a constant.

Figure 4: GDP Growth and FDI inflows (2000-2025)

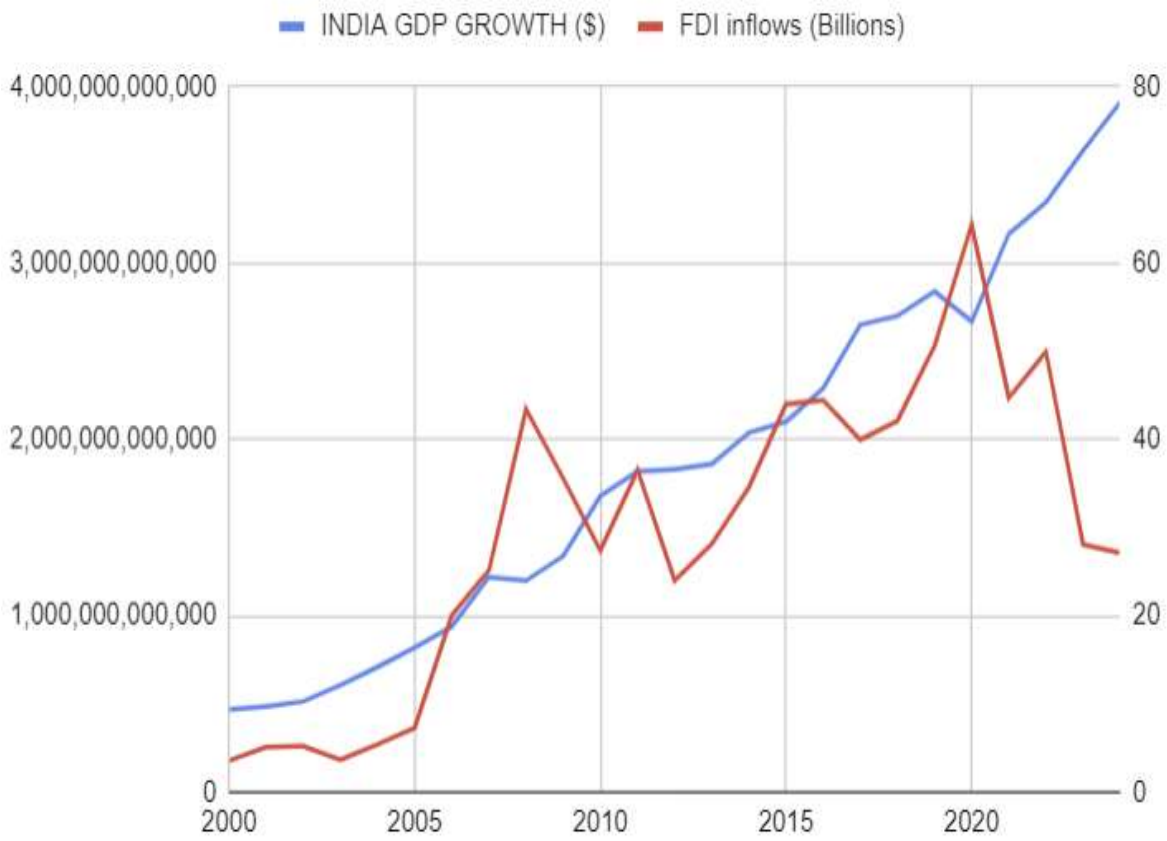

Figure 4 illustrates the trend in India's GDP (current US$) and FDI inflows (US$ billion) from 2000 to 2024. While GDP shows a consistent upward trajectory with a temporary slowdown during the 2020 pandemic, FDI inflows exhibit greater volatility, with sharp increases during periods of economic expansion and declines during global and domestic shocks such as the 2008 financial crisis and post-pandemic adjustments.

4.2 Regression Results

Table 1 reports the Ordinary Least Squares (OLS) regression results examining the determinants of GDP growth over the period 2000–2024. GDP growth is specified as the dependent variable, while inflation, foreign direct investment (FDI), consumption growth, and gross capital formation are included as explanatory variables.

The empirical model is specified as:

$$\text{GDP Growth} = \beta_0 + \beta_1 \text{ Inflation} + \beta_2 \text{ FDI} + \beta_3 \text{ Consumption Growth} + \beta_4 \text{ Gross Capital Formation} + \varepsilon$$

Table 1: OLS Regression Results: Determinants of GDP Growth (2000–2024)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Inflation	0.150	0.104	1.44	0.166
Foreign Direct Investment (FDI)	−0.917	0.381	−2.41	0.026
Consumption Growth	0.822	0.099	8.29	0.000
Gross Capital Formation	0.108	0.033	3.30	0.004
Constant	1.172	0.846	1.38	0.181

N= 25; R-squared = 0.890; Adjusted R-squared = 0.868; F-statistic = 40.51 ($p < 0.01$); Durbin–Watson = 2.16

The regression model is statistically significant, with an F-statistic of 40.51 ($p < 0.01$), indicating that the explanatory variables jointly have a strong effect on GDP growth. The R-squared value of 0.89 suggests that about 89 percent of the variation in GDP growth over 2000–2024 is explained by the model, while the adjusted R-squared of 0.87 confirms a strong fit after accounting for degrees of freedom. Among the explanatory variables, consumption growth shows the strongest positive impact, with a one percent increase in consumption growth associated with approximately a 0.82 percent increase in GDP growth. Gross capital formation also contributes positively, with a one percent rise in domestic investment linked to about a 0.11 percent increase in GDP growth. In contrast, foreign direct investment appears to have a negative short-term effect, where a one percent increase corresponds to an approximate 0.92 percent decline in GDP growth. Inflation exhibits a positive relationship with GDP growth, but this effect is not statistically significant over the study period.

Diagnostic tests indicate that the results are reliable: the Variance Inflation Factor (VIF) values are all well below 5, suggesting no multicollinearity among the variables, and the Durbin–Watson statistic is approximately 2.16, indicating no first-order autocorrelation in the residuals. Overall, the results suggest that domestic demand and internal investment are the main drivers of GDP growth, while external inflows and inflation play more secondary or indirect roles.

5. Discussion

The analysis of GDP growth, inflation, investment, and consumption over 2000–2024 offers a detailed view of the cyclical dynamics and structural patterns in the economy. The trend analysis reveals pronounced fluctuations in GDP growth, consistent with business cycle theory. The mid-2000s expansion was supported by favorable macroeconomic conditions, including rising domestic demand and investment, whereas the slowdown during the global financial crisis and the sharp contraction in 2020 reflect major economic shocks. These patterns suggest that while the economy benefits from periods of stability and expansion, it remains vulnerable to both global and domestic disruptions.

The relationship between GDP growth and inflation highlights a nuanced growth–stability trade-off. Inflation does not appear to have a strong independent effect on growth, which may be partly explained by the distribution of inflationary pressure across the sample: for much of 2000–2024, inflation remained moderate and contained, with significant price surges concentrated in the post-pandemic window of 2021–2023 rather than spread consistently across the full period, meaning the variable carries

limited explanatory power when estimated over the entire timeframe. The weak and variable relationship between GDP growth and inflation therefore suggests that economic agents and policymakers face a complex balancing act, where inflationary pressures do not always translate directly into slower or faster growth. These findings are consistent with prior studies, such as Xiong (2023), who found no linear relationship between inflation and GDP, concluding that inflation can exert positive, negative, or neutral effects on economic growth and hence supporting the view that the inflation–output link is context-dependent rather than systematic.

Investment patterns reveal an interesting divergence between domestic and foreign capital. Gross capital formation shows a strong and positive influence on growth, underscoring the critical role of domestic investment in expanding productive capacity and supporting cyclical upswings. Trend analysis complements this view: gross capital formation fluctuated in line with the business cycle, rising during expansions and contracting during downturns, while FDI remained comparatively stable across both the global financial crisis and the pandemic period, highlighting its detachment from domestic cyclical dynamics. In contrast, FDI exhibits a negative association with growth during this period. Possible reasons include FDI being concentrated in sectors with limited spillover to the wider economy, delayed implementation of foreign projects, or repatriation of profits limiting domestic reinvestment. It should be noted that the regression framework employed here captures only contemporaneous associations and cannot account for lagged transmission mechanisms or sector-specific effects—a methodological constraint that likely explains the muted and negative FDI coefficient. These results are consistent with previous research that found the relationship between FDI and economic growth is far from stable and that the mediating effects of human capital and financial depth established in the early FDI literature no longer hold in the post-1990 period (Atigala et al., 2022).

Consumption growth emerges as the dominant driver of GDP fluctuations. These findings are consistent with Keynesian demand-side theory, which emphasizes the role of consumption in driving short-run economic growth. While the share of consumption in GDP remains structurally stable, short-term variations in consumption growth align closely with the economic cycle. This responsiveness was particularly evident during the 2020–2021 period, where the pandemic-driven collapse in household spending contributed to the sharpest GDP contraction in the sample, followed by a rapid rebound as consumption recovered, reinforcing its role as both a short-term amplifier and a stabilizer of economic activity. This aligns with Kharroubi and Kohlscheen (2017), who found that GDP growth has increasingly been led by consumption and that while private consumption is less cyclical than investment, it constitutes a large enough share of GDP that even small variations in its growth rate produce significant shifts in aggregate output (Bénétrix et al., 2023).

Collectively, the findings point to a growth model where domestic demand and internal investment are the primary engines of economic expansion, while inflation and external investment play more nuanced, secondary roles. From a policy standpoint, the most productive directions that follow from these findings are focused and specific. First, examining the lagged effects of FDI at the sector level would clarify whether foreign investment in higher-productivity industries produces stronger growth outcomes than aggregate figures suggest, directly addressing the methodological limitation identified here. Second, testing whether the consumption–growth relationship weakens during sustained inflationary episodes such as the 2021–2023 spike would verify whether the findings from this study hold under more volatile price conditions. Third, decomposing gross capital formation into public and private components would shed light on whether state-led infrastructure spending and private capital accumulation produce different effects on long-run output, an important distinction for evaluating investment policy. Reliance on foreign capital should meanwhile be complemented by strategies that ensure inflows are channelled into productive activities with broad-based economic benefits, rather than concentrated in enclave sectors with limited domestic spillover.

6. Conclusion

The analysis of GDP growth and its macroeconomic determinants over the period 2000–2024 provides a clear picture of how economic activity evolves through cyclical movements and structural drivers. By examining the relationship between GDP growth, inflation, foreign direct investment, consumption growth, and gross capital formation, the study identifies the relative importance of domestic demand and investment dynamics in shaping overall economic performance. The combined use of trend analysis and regression results allows for a comprehensive understanding of how these variables interact over time, highlighting both short-term fluctuations and broader structural patterns within the economy. One of the most prominent findings of the study is that GDP growth follows clear cyclical patterns. The descriptive analysis shows that growth experienced a strong expansion during the mid-2000s, slowed during the global financial crisis, and contracted sharply during the pandemic in 2020 before rebounding in the following year. These fluctuations align with standard business cycle dynamics, where periods of expansion are followed by slowdowns triggered by global shocks, financial instability, or sudden changes in demand. The cyclical nature of GDP growth suggests that economic performance is not determined by a single variable but rather by the interaction of multiple macroeconomic forces that influence both demand and productive capacity.

Within these cycles, domestic demand emerges as the most important driver of economic fluctuations. Consumption growth and domestic investment display strong relationships with GDP growth, indicating that internal economic activity plays a central role in determining the pace of expansion or contraction. Regression results reinforce this observation, with consumption growth showing the strongest positive effect among the explanatory variables. The findings suggest that increases in household spending directly stimulate production, investment, and employment, amplifying economic growth during expansions and helping the economy recover following downturns. Because consumption constitutes a large and stable share of GDP, even relatively small changes in its growth rate can produce significant changes in overall economic performance. Gross capital formation also plays a crucial role in supporting economic growth. The analysis demonstrates that domestic investment contributes positively to GDP growth by expanding productive capacity and enabling firms to increase output over time. Periods of stronger growth often coincide with rising levels of capital formation, while slowdowns are frequently associated with declines in investment activity. This pattern highlights the importance of domestic investment in sustaining long-term economic development. By financing infrastructure, industrial expansion, and technological improvements, capital formation strengthens the supply side of the economy and supports productivity growth.

In contrast, inflation appears to have a relatively weak and inconsistent relationship with GDP growth during the study period. This outcome is partly contextual: inflation was broadly low and stable in the decade following the global financial crisis, before surging sharply during the pandemic recovery period, meaning that significant inflationary pressure was concentrated within a narrow window of the full sample rather than distributed consistently across it. This uneven distribution likely weakens inflation's statistical relationship with growth when examined over the entire 2000–2024 period. The regression results confirm that the coefficient for inflation is not statistically significant, suggesting that moderate changes in price levels may not strongly influence output dynamics in the short run. The findings therefore suggest that while price stability remains an important objective of macroeconomic policy, inflation alone does not appear to be a primary determinant of growth within the observed period. Foreign direct investment also exhibits a limited relationship with GDP growth, and this represents a recognized limitation of the study's approach. The regression captures short-term associations between variables within a fixed time frame, but the benefits of FDI, technology transfer, productivity spillovers, and improved business practices, are likely to materialize over longer horizons or vary significantly depending on which sectors attract investment. The model is not designed to capture these lagged or sector-specific dynamics, which means the weak and negative coefficient for FDI should be interpreted as

a constraint of the methodology rather than evidence that foreign investment harms growth. Future work incorporating distributed lag structures or disaggregated sector-level data would be better positioned to isolate FDI's true contribution. The policy implications that follow from these findings are focused and actionable. Strategies aimed at strengthening domestic economic activity, supporting stable household income, encouraging consumption, and promoting productive investment are most likely to sustain long-term growth. Maintaining a stable macroeconomic environment remains important to prevent inflation from distorting investment decisions, and foreign capital can complement domestic formation when it is effectively integrated into the broader economic structure. Future research in this field could incorporate certain aspects. First, examining the lagged effects of FDI at the sector level would clarify whether foreign investment in higher-productivity industries produces stronger growth outcomes than aggregate figures suggest. Second, investigating whether the consumption-growth relationship weakens during sustained inflationary episodes, such as the 2021–2023 spike, would test whether the findings from this study hold under more volatile price conditions. Third, decomposing gross capital formation into public and private investment would shed light on whether state-led infrastructure spending and private sector capital accumulation produce different effects on long-run output, an important distinction for evaluating investment policy.

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