

Original Article

Macroeconomic Determinants of Indian Economic Growth: An ARDL-Based Estimation

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Abstract: *The determinants of the economic growth of developing nations are a burning topic among scholars and numerous researchers. The study is an attempt to identify macroeconomic determinants (Foreign Direct Investment (FDI), Foreign Aid (FAID), Remittances (REM), Trade (TRD), External Debt (EDEBT), Domestic Capital (DCAP)) of Indian economic growth (Gross Domestic Product Growth) from 1997-2024. The ADF and PP tests are employed to test the presence of unit root in the series. Further, the ARDL model is applied to test the long-run association among the variables. The long-run results suggest that the impact of FAID and FDI have a significant and positive impact on GDPG in India. The impact of EDEBT is considerably negative. Likewise, the effect of FAID and TRD is statistically insignificant. The short-run bound test results suggest that the influence of TRD, DCAP, and REM is insignificant and positive. This suggests that the Inflows from FAID and FDI boost economic growth in India. The policy suggestions since FDI and Foreign Aid (FAID) exhibit a significant and positive long-run impact on GDP growth, Indian policymakers should focus not merely on the volume but on the productive deployment of these inflows. Priority should be given to channelling FDI and aid toward infrastructure development, manufacturing, technology-intensive sectors, and human capital formation, where multiplier effects are high. The significant negative impact of external debt (EDEBT) on economic growth indicates the presence of debt overhang and repayment pressure in the Indian economy.*

Keywords: FDI, Remittances, Foreign Aid, External Debt, Trade, ARDL Model.

I. Introduction

The determinants of the economic growth of developing nations are a burning topic among scholars and numerous researchers. There is a lack of consensus on the topic, providing a genuine basis for continuous research and increasing scholarly attention. Economic growth is the process of continually or continuously raising an economy's productive capacity in an effort to generate steadily rising levels of income and national output (Chirwa & Odhiambo). Long-term increases in output per capita are referred to as economic growth. Gross Domestic Product (GDRP), which measures the total amount of goods and services produced by all production units, serves as a gauge for measuring regional economic growth. The economic growth of a country depends on various macroeconomic determinants, external and internal, such as employment, money supply, inflation level, budgetary deficit, level of exports and inflows of foreign capital, etc. the strength of an economy can be assessed by analyzing the macroeconomic determinants (Oyebowale and Algarhi, 2020).

The macroeconomic determinants of a country vary from country to country and from time to time. The economic growth of a nation is directly or indirectly affected by the growth of population (Furuoka & Oishi, 2010), technological innovations and advancements, human capital, domestic capital (Maria and Strykowski, 2009), and Exim policy of an economy (Rodriguez and Rodrik, 1999). The influence of these variables varies from country to country due to their different political structure, structural environment, and economic environments. Gokal and Hanif (2004) found a weak negative association between inflation and the growth of Fiji. Oyebowale and Algarhi (2020) found a positive influence of exports, domestic capital, and government expenditure on growth and no effect of monetary and fiscal policies on the economic growth of African nations. Taking the evidence given by Boldeanu and Constantinescu (2015), general government expenditure on consumption, trade openness, and FDI are the main determinants of economic growth. There are six major determinants of economic growth which are human resources, natural resources, capital formation, technology, demand, and efficiency (Poonam et al., 2024; Saini, 2022). Public spending, capital formation, private or public investment, employment rates, currency rates, etc., all have various effects on economic growth, and whether a state is developed or not will affect these effects differently (Boldeanu and Constantinescu (2015). Events and socio-political issues can also have a significant impact on a nation's ability to progress economically.



Foreign capital has historically played a crucial role in supplementing domestic savings in developing economies like India (Saini & Ravinder, 2022). In the early post-independence period, foreign aid was a major source of development finance, supporting infrastructure creation, industrialization, and poverty alleviation programs (Oyebowale & Algarhi, 2020). According to Chenery and Strout's (1966) dual-gap theory, foreign aid helps bridge the savings–investment and foreign exchange gaps that constrain growth in developing countries. Although India's dependence on foreign aid has declined over time, its historical and transitional role in financing development initiatives cannot be overlooked, particularly during periods of resource scarcity and balance of payments stress (Poonam et al., 2024).

With the liberalization of the Indian economy, Foreign Direct Investment (FDI) has emerged as a more significant and stable source of external finance than traditional aid. FDI is widely regarded as a catalyst for economic growth due to its potential to transfer technology, enhance managerial efficiency, generate employment, and integrate host economies into global value chains (Chirwa et al., 2016). In India, policy reforms such as easing sectoral caps, improving the business environment, and promoting “Make in India” have aimed to attract higher FDI inflows. Empirical evidence suggests that FDI contributes positively to growth, particularly when supported by adequate human capital and sound macroeconomic policies (Alfaro et al., 2004; Saini, 2022). However, the growth impact of FDI remains conditional and context-specific, warranting further investigation in the Indian setting (Oyebowale & Algarhi, 2020). It is expected that FDI promotes economic growth in developing nations through two major mechanisms: by increasing total domestic investment and increasing productivity. There are many pieces of research that analyzed the influence of FDI, trade, and economic growth (Ravinder & Saini, 2022; Arya et al., 2024).

Another critical determinant of economic growth is international trade. Trade openness enables countries to exploit comparative advantage, achieve economies of scale, and access advanced technologies and intermediate goods. Endogenous growth theories emphasize that trade fosters innovation and productivity growth by expanding market size and enhancing competitive pressures. India's trade regime has undergone substantial transformation since 1991, shifting from protectionism to outward orientation. The expansion of exports, diversification of trade partners, and participation in global supply chains have contributed to growth, though concerns related to trade deficits and external vulnerability persist. The relationship between trade and growth in India thus remains a subject of empirical and policy debate (Sharma et al., 2018; Avelino & Coronel, 2021; Poonam et al., 2024)). Many researchers reported that high trade openness helps to boost the economic growth of a country. Higher trade openness leads to a higher growth rate (Yanikkaya, 2003; Tahir et al., 2015; Hye and Lau, 2015). The influence of trade on the economic growth of South Asia has been tested by many researchers. Keho, 2017 tested the influence of capital formation and openness to trade on economic growth during the period 1965-2014 and reported a strong significant and positive influence of trade openness and capital formation on the economic growth of Cote d'Ivoire. Any economy's development depends heavily on international trade, which is also thought to be a growth driver. In addition to the trade of physical goods, there is also the exchange of ideas, technology, and expertise. Numerous factors contribute to how the economy is impacted by international trade. It produces capital development and employment, which raises the level of GDP and the GDP per capita and improves living conditions. The global trading system has been opening up and getting more competitive over the last few years. Joshua, 2019 found a positive influence of FDI on economic growth in Nigeria.

While external resources can accelerate growth, excessive reliance on borrowing may lead to macroeconomic instability. External debt represents a double-edged sword: when efficiently utilized, it can finance productive investment and promote growth; when mismanaged, it can result in debt overhang, crowding out private investment and constraining fiscal space (Kharusi & Ada, 2018). India's experience with external debt, particularly during the balance of payments crisis of 1991, underscores the importance of prudent debt management. Although India has maintained a relatively sustainable external debt profile in recent decades, rising global interest rates and external shocks highlight the need to reassess the growth–debt nexus in the current macroeconomic environment (Ajayi & Oke, 2012; Saini, 2022).

In contrast to external sources, domestic capital formation is widely regarded as the backbone of sustainable economic growth. According to the neoclassical growth model, capital accumulation directly influences output growth in the short run and indirectly affects long-term growth through productivity enhancement (Omri, 2014). In India, gross domestic capital formation reflects investment in infrastructure, manufacturing, services, and human capital. A robust domestic investment base reduces dependence on volatile external flows and strengthens economic resilience. However, investment cycles in India have been influenced by factors such as interest rates, policy uncertainty, and financial sector health, making domestic capital an essential variable in growth analysis (Thaddeus et al., 2024).

The interaction among foreign aid, FDI, trade, external debt, and domestic capital is particularly relevant for an economy like India, where growth is driven by both internal demand and external integration. Macroeconomic theory suggests that these variables do not operate in isolation but jointly influence growth through multiple transmission channels. For instance, trade openness may enhance the effectiveness of FDI, while high external debt may dampen the growth benefits of

foreign inflows. Similarly, domestic capital formation can complement external resources by improving absorptive capacity and productivity (Kharusi & Ada, 2018; Sharma et al., 2018; Avelino & Coronel, 2021).

Despite a vast body of literature on economic growth, empirical findings on the relative importance and direction of these macroeconomic determinants remain mixed, especially in the Indian context. Differences in time periods, econometric methodologies, and variable selection have led to varied conclusions. Moreover, structural changes in the Indian economy, globalization, and evolving policy frameworks necessitate renewed empirical investigation using comprehensive macroeconomic indicators.

Against this backdrop, the present study seeks to examine the macroeconomic determinants of Indian economic growth by focusing on GDP growth as the dependent variable and foreign aid, FDI, trade, external debt, and domestic capital as key explanatory variables. By analyzing their long-run and short-run dynamics, the study aims to contribute to the existing literature and provide policy-relevant insights into how India can sustain high and inclusive economic growth while maintaining macroeconomic stability. Government spending affects growth both positively and negatively. The amount of an economy's investable surplus that is accessible is reduced as a result of increased government spending. As a result, less cash is accessible to the private sector. Pro-globalists support minimal government because of this. Growth will suffer if government spending is put toward administrative costs, interest payments, and other non-productive activities. If it is used for productive reasons, such as the discovery of an oil field or the establishment of a technological university, it will promote growth. Joshua (2019) found the positive influence of government spending on the economic growth of Nigeria. Whereas Bounsaythip and Inthakason (2022) found the negative impact of government spending on the economic growth of Lao PDR. The government uses public spending as a key tool to manage the economy. It is crucial to the operation of an economy, whether in wealthy or developing nations (Okoro, 2013).

Table 1: Review of Literature

Sr. No	(Author(s) Year) Country	Data Period	Variables	Methodology	Results/Contribution
1	(Bhavan 2023) South Asia	1995-2008	FDI , GDP	2 SLS Model	Foreign Investments play a vital role in deciding economic performance in developing countries like Sri Lanka.
2	(Atique & Malik 2012) Pakistan	1980-2010	Total Investment, Inflation, Labor Participation Rate, Corruption Rate	OLS Method	Economic development is slowed down by external debt relative to the quantity of domestic debt.
3	(Albulescu 2015) Central and Eastern Europe	2005-2012	FDI, FPI	GMM Model	A positive impact of FDI and FPI has been found on economic growth
4	(Rahman and Kim, 2015) BIMSTEC	2000-2013	Economic Welfare, Industry Outputs and Exports	Model Simulation	Liberalization of non- policy barriers will spur BIMSTEC’s trade and economic cooperations.
5	(Ijirshar et al., 2016) Nigeria	1981-2014	Exports, Fixed Capital Growth, External Debt Stock, Inflation Rate, Interest Rate	ADF and Johansen co-integration test	The affirmative effect of external debt on GDP in the long run Nigerian economy.
6	(Kharusi & Ada 2018) Oman	1990-2015	Population Growth, Domestic Capital, Trade GDP Ratio, Inflation, Human Capital	ARDL Model	The negative impact of debt and the positive impact of domestic capital on economic growth has been found in Oman.
7	(Husein 2019) Jordan	1970-2014	ODA, Worker's Remittances, Domestic Savings, Human Capital	ARDL Model	A positive association between remittances and growth discovered
8	(Anetor 2019) Nigeria	1981-2017	Remittances, Financial Development, Population Growth, Domestic Capital	ARDL model	The negative impact of inflation, positive impact of trade openness, government expenditure and no impact of population growth have been found.
9	Htun, and Vishwanatha, 2025 BIMSTEC, Indi	1997-2024	Trade Patterns	Gravity Model	GDP, per capita GDP, Trade GDP ratio, common border, and BIMSTEC membership, all had a significant beneficial impact on trade between India and country j while tax and distance are negatively

					correlated with total trade of the nations.
10	Towhid, and Kiyoto, 2019 BIMSTEC Nations	1991-2016	GDP Per Capita, Trade Openness, Education, Terms of Trade, FDI (% OF GDP)	Regression Model	Openness to trade has no positive impact on the economic growth of BIMSTEC nations.
11	(Boateng et.al. 2020) Sub-Saharan Africa	1980-2017	Foreign Aid, Aid Volatility	GMM Model	Foreign aid positively affects economic growth but its volatility hurts economic growth.
12	(Qutb 2022) Egypt	1980-2017	Remittances, FDI, Foreign Aid, Trade	VECM Model	The long-term negative impact of remittances on the growth of Egypt
13	Ali and Medhekar, 2021	2004-2020	Imports, and Exports	Standard Deviation	Import expenses in Bangladesh hurt economy of Bangladesh
14	(Adikari et al., 2022) Sri Lanka	1971-2019	FDI Inflows, Domestic Investment, Human Capital, Inflation Rate, Trade Openness	ADF and PP for unit root ECM ARDL	FDI inflows to Sri Lanka are favourably impacted by the GDP growth rate.
15	(Lupu and Nuță., 2022) Eastern Europe	1990-2020	GDP Real Growth Rate, Education Government Spending, Trade Openness, Labor	ADF unit root test Zivot and Andrews test ARDL Model	In the long run, there is no relationship for six nations and a mixed relationship for five between public education spending and economic growth.
16	(Wagner & Delios 2023) India	2000-2017	FDI, GDP Growth, Corporate Tax, Exports	Hausman–Taylor estimation	As India moves towards a knowledge economy, FDI that augments assets rather than exploits them is drawn to the country
17	(Alam et al. 2024) SAARC	2011-2019	FDI, GDP, Trade, Inflation, NPA	PLS Fixed Effect	There is a statistically significant and negative correlation between the banking sector's credit risk and foreign direct investment inflows

Source: The Authors' Compilations

Based on the available empirical literature, it is found that there is limited literature present on selecting the macroeconomic factors affecting Indian economic growth. The study focused on identifying macroeconomic determinants of economic growth of India from 1997-2024. The findings will contribute to the growing literature on macroeconomic determinants of economic growth and offer policy recommendations for achieving equitable and sustainable growth.

II. DATA, MODEL, AND METHODOLOGY

This paper aims to investigate the relationship between economic growth and its determinants from 1997 to 2024 using the ARDL model. The description of the variables is given below.

Table 2: Description of variables

Symbols	Description of variables
GDPG	GDP Growth (Annual %)
DCAP	Gross Fixed capital formation (% of GDP)
EDEBT	External debt stocks (% of GNI)
FAID	Net ODA received, total (% of GNI)
FDI	Foreign direct investment, net inflows (% of GDP)
REM	Inflation, consumer prices (annual %)
TRD	Trade (% of GDP)

Source: WDI, 2025

The following econometric equation is estimated:

$$GDPG_T = f(DCAP_t, FDI_t, EDEBT_t, FAID_t, REM_t, TRD_t) \tag{1}$$

First, a simple summary statistic is calculated for each variable. After that, the series unit root tests are used. The Phillips-Perron test is used to determine if the unit root is stationary. The long-run relationship between the variables is tested using the ARDL bound test once mixed order integration in the series has been established. Because it can estimate and is appropriate for mixed order integration, it has advantages over standard co-integration approaches like the Engle and Granger model and the Johansen co-integration method. When the time series exhibits a varied order of integration, the ARDL can be

used. The ARDL model allows us to determine the long and short-run dynamics among the underlying variables in the model. Lastly, diagnostic testing is performed to validate the findings. Several statistical tests are performed for autocorrelation, heteroscedasticity, normality, and specification.

III. EMPIRICAL RESULTS

Table 2: Descriptive Statistics

	GDPG	DCAP	EDEBT	FAID	FDI	REM	TRD
Mean	7.27	31.96	20.10	0.18	2.35	3.08	39.95
Median	6.64	31.23	20.00	0.15	1.52	3.06	41.92
Maximum	33.36	41.95	23.54	0.40	23.54	4.17	55.79
Minimum	-10.22	0.77	14.88	0.07	0.47	2.25	21.45
Std. Dev.	6.91	7.80	2.22	0.10	4.29	0.46	10.73
Skewness	1.61	-2.30	-0.33	1.03	4.69	0.36	-0.32
Kurtosis	10.04	10.55	2.46	2.66	23.68	2.71	1.92
Jarque-Bera	67.51	87.81	0.83	4.92	580.31	0.67	1.78
Probability	0.00	0.00	0.66	0.09	0.00	0.72	0.41

Source: The Authors' calculations from EViews12.

The analysis begins with summary statistics and testing the unconditional correlation among the selected variables. The descriptive analysis shows that GDPG has an average of 7.27 which signifies that the economy has been performing well over the last two decades. Although the spread of COVID-19 in the late 2020s compelled the economy to slow down. REM and TRD have an average of 3.08% and 39.95% respectively. The average rate of DCAP ranges from a minimum of 0.77% to a maximum of 41.95. Furthermore, the average FDI is 2.35%. DCAP and EDEBT values are negatively skewed, whereas the other series are positively skewed. The TRD is more dispersed and volatile, whereas the FAID series is the least dispersed and least volatile (Table 2).

Table 3: Correlation Matrix

	GDPG	DCAP	EDEBT	FAID	FDI	REM	TRD
GDPG	1.00	-0.44	-0.38	-0.03	0.73	0.03	-0.25
DCAP	-0.44	1.00	-0.24	-0.09	-0.74	0.26	0.70
EDEBT	-0.38	-0.24	1.00	0.32	-0.21	-0.01	-0.21
FAID	-0.03	-0.09	0.32	1.00	-0.29	-0.45	-0.59
FDI	0.73	-0.74	-0.21	-0.29	1.00	0.19	-0.24
REM	0.03	0.26	-0.01	-0.45	0.19	1.00	0.64
TRD	-0.25	0.70	-0.21	-0.59	-0.24	0.64	1.00

Source: The Authors' computations from Eviews12.

It is necessary to test the correlation between the variables. Therefore, the study proceeds with the estimation of an unconditional correlation matrix. The correlation matrix shows that there is a moderate correlation among the variables. FDI and REM have a positive correlation with GDPG. DCAP, EDEBT, FAID and TRD have a negative correlation with GDPG in India. As it is an unconditional correlation, it cannot be concluded that GDPG, DCAP, EDEBT and TRD hurt the GDPG of India. For this clarification, statistical analysis is to be done (Table 3).

Table 4: Unit Root Test Results

Variables	ADF			PP		
	Level	First Difference	Decision	Level	First Difference	Decision
GDPG	0.6127	0.0001	I(1)	0.5274	0.0001	I(1)
DCAP	0.0035	0.0924	I(0)	0.9899	0.0001	I(1)
EDEBT	0.4718	0.0008	I(1)	0.0043	0.0008	I(0)
FAID	0.0237	0.0000	I(1)	0.1835	0	I(1)
FDI	0.9343	0.0007	I(1)	0.9245	0.0007	I(1)
REM	0.0364	0.0007	I(0)	0.0082	0.0003	I(0)
TRD	0.9437	0.0054	I(1)	0.9853	0.0001	I(1)

Source: The author's computation from e-views 12.

It is evident from the ADF and PP test results that DCAP, FAID and REM are stationary at a level while EDEBT, FDI, GDPG and TRD are stationary at first difference. The mixed order of integration is revealed by testing unit roots in the series. Therefore, the ARDL method for examining co-integration becomes appropriate following the results obtained from the unit root tests. As the variables are integrated at mixed order, it allows to apply the ARDL model for testing the long-run association among the variables.

Table 5: Bound Test results

F-Bounds Test		Null Hypothesis: No levels of relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	6.138	1%	2.88	3.99
k	6	5%	2.27	3.28
		10%	1.99	2.94

Source: The author's computation from e-views 12.

As the mixed order of integration is found, it allows the author to apply the ARDL model for further analysis. Thus, the customary Engle-Granger and Johansen co-integration techniques were not suitable. The Johansen co-integration test is applicable when all variables of the series are integrated at first difference. At the same time, ARDL can deal with series having variables integrated at mixed order of integration. Also, the ARDL model deals efficiently with small samples. At the same time, Johansen co-integration can efficiently deal with a large sample. The measured F-stat. value (6.138) is greater than the superior and lesser bound values which confirms the long-run association among the variables (Table 5).

Table 6: Long and Short-Run Co-Integration Test results

Long-run Bound Test Results				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DCAP	0.29	0.40	0.71	0.49
EDEBT	-0.20	0.65	-0.30	0.77
FAID	38.69	16.26	2.38	0.03
FDI	1.70	0.63	2.70	0.02
REM	-1.75	3.19	-0.55	0.59
TRD	0.26	0.26	1.03	0.32
C	-14.73	18.81	-0.78	0.45
Short-run Bound Test Results				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EDEBT)	-1.59	0.42	-3.82	0.00
D(FAID)	-0.68	10.89	-0.06	0.95
CointEq(-1)*	-1.10	0.13	-8.40	0.00

Source: The author's computation from e-views 12.

The long-run results suggest that the impact of FAID and FDI have a significant and positive impact on GDPG in India. The impact of EDEBT is considerably negative. Likewise, the effect of FAID and TRD is positively insignificant. The short-run bound test results suggest that the influence of TRD, DCAP, and REM is insignificant and positive. This suggests that the Inflows from FAID and FDI boost health expenditure in India. The significant and negative ECT also confirms the findings (Table 6).

Table 7: Diagnostic Test Results

Diagnostic Tests	F-Stat.	P-value
Heteroskedasticity Test: Breusch-Pagan-Godfrey	1.60907	0.1948
Breusch-Godfrey Serial Correlation LM Test:	3.68652	0.0741
Ramsey RESET Test	0.21317	0.8341
Normality Test	3.603	0.164

Source: The author's computation from e-views 12.

Lastly, the diagnostic tests are conducted to validate the findings. Various diagnostic tests are employed to test the presence of heteroscedasticity, autocorrelation, and normality of the data. The outcomes reveal that there is no heteroscedasticity found in the data as the calculated f-value is greater than the significance level. When applying regression-like models to observed data series, the validity of certain modeling assumptions is evaluated using the Breusch–Godfrey test. It looks for serial correlation that isn't represented in a model structure that has been suggested. Since there is no serial correlation, the findings demonstrate this since the p-value is 0.07, which is significant at the 5% level. Consequently, the model has no autocorrelation. The Breusch-Pagan test, a statistical test used to detect heteroskedasticity, indicates that there is no evidence of heteroskedasticity in the model. This conclusion is drawn from the p-value of 0.65, which is not statistically significant, and is greater than the 5% level of significance. The results reveal that there is no serial correlation in the series. The normality test findings indicate that the data is normally distributed. There is no link between the powers of the fitted values and the DV (dependent variable) y, indicating that there are no missing variables from the model. The other possibility is if there is an issue with a missing variable in the model. The results of the Ramsey Reset test show that there are no omitted variables (Table 7).

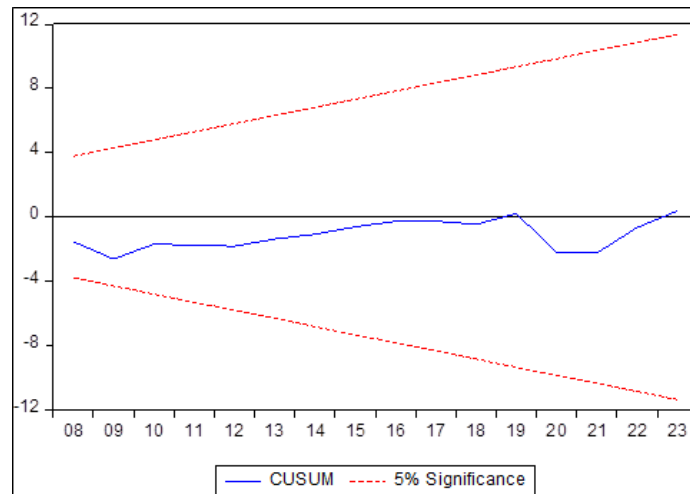


Figure 1. CUSUM Test

Source: The author's computation from e-views 12.

The CUSUM test results reveal that all the parameters exhibit long-run stability at the 5% significance level (Figure 1).

IV. CONCLUSION

The determinants of the economic growth of developing nations are a burning topic among scholars and numerous researchers. The study is an attempt to identify macroeconomic determinants (Foreign Direct Investment (FDI), Foreign Aid (FAID), Remittances (REM), Trade (TRD), External Debt (EDEBT), Domestic Capital (DCAP)) of Indian economic growth (Gross Domestic Product Growth) from 1997-2024. The ADF and PP test are employed to test the presence of unit root in the series. Further the ARDL model is applied to test the long-run association among the variables. The long-run results suggest that the impact of FAID and FDI have a significant and positive impact on GDPG in India. The impact of EDEBT is considerably negative. Likewise, the effect of FAID and TRD is statistically insignificant. The short-run bound test results suggest that the influence of TRD, DCAP, and REM is insignificant and positive. This suggests that the Inflows from FAID and FDI boost economic growth in India. The policy suggestions since FDI and Foreign Aid (FAID) exhibit a significant and positive long-run impact on GDP growth, Indian policymakers should focus not merely on the volume but on the productive deployment of these inflows. Priority should be given to channelling FDI and aid toward infrastructure development, manufacturing, technology-intensive sectors, and human capital formation, where multiplier effects are high. The significant negative impact of external debt (EDEBT) on economic growth indicates the presence of debt overhang and repayment pressure in the Indian economy.

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