BANKING SECTOR DEVELOPMENT AND INVESTMENT DYNAMICS IN ROMANIA: EVIDENCE FROM A MULTIVARIATE

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Abstract:
This study examines the relationship between banking sector development and investment dynamics in Romania over the period 2010–2023. In the context of increasing financial complexity and post-crisis economic adjustments, the role of banking systems in shaping investment processes remains a key area of research for emerging economies.

The analysis employs a multivariate Ordinary Least Squares (OLS) model to evaluate the impact of credit expansion, lending interest rates, and macroeconomic conditions on both foreign direct investment (FDI) and domestic investment, measured by gross fixed capital formation. The empirical results reveal a differentiated impact of banking variables across investment types.

While domestic investment is positively and significantly influenced by credit to the private sector, FDI does not exhibit a statistically significant relationship with domestic banking variables. These findings suggest the existence of a dual investment structure in Romania, characterized by externally driven capital inflows and domestically financed investment.

The study contributes to the literature by highlighting the asymmetric role of financial intermediation in emerging economies and provides policy-relevant insights regarding financial deepening and investment strategies.

Key words: *banking sector, investment dynamics, financial intermediation, foreign direct investment, Romania*

1.Introduction

Investment activity is a fundamental driver of economic development, shaping national productivity, competitiveness, and social resilience. Within the contemporary global economy, investment processes have become increasingly complex, reflecting profound structural changes in finance, technology, and production systems. Romania’s transition from a centrally planned economy to a market-oriented system introduced new challenges in the management of investments, requiring a continuous adaptation of institutions, particularly within the banking sector. Over the past three decades, the Romanian banking system has evolved from an intermediary function—allocating credit between savers and investors—toward a multifaceted role integrating advisory, analytical, and risk-management capacities. This transformation has become even more pronounced in the context of digitalization, sustainable finance imperatives, and geopolitical pressures, including the post-COVID recovery and regional instability caused by the war in Ukraine.

From a theoretical perspective, investment management lies at the intersection of macroeconomic strategy, financial intermediation, and corporate governance. Banks act as key mediators in channeling resources from surplus to deficit units of the economy, influencing both the cost and direction of investment capital. The Romanian case offers a valuable empirical lens for studying how emerging European economies adapt when confronted with rapid global events and technological innovation. While traditional analyses have emphasized macro-stability, inflation control, and fiscal balance, fewer studies have explored the banking system’s dynamic capacity to innovate its investment functions in response to global shifts. This research aims to bridge that gap.

1.1. Research Context and Rationale

Since Romania’s accession to the European Union in 2007, the country has assimilated new financial instruments and regulatory frameworks encouraging investment diversification. The European Banking Authority and the National Bank of Romania have promoted prudential reforms intended to bolster transparency, credit quality, and digital resilience. Concurrently, the emergence of fintech platforms, crowdfunding mechanisms, and crypto-based financing has expanded the set of investment alternatives available to firms and households. Yet, structural obstacles remain: the uneven geographical distribution of investments, limited long-term financing capacity, and persistent dependence on foreign capital. Understanding how the banking system mediates these factors is crucial for designing coherent national investment strategies.

Romania's macroeconomic trajectory reflects cyclical fluctuations in FDI and domestic credit growth. Periods of expansion, particularly between 2015 and 2019, were followed by contractionary phases driven by higher interest rates and pandemic-induced uncertainty. As global attention turns toward sustainability and digital transformation, banks in Romania must navigate these shifts while maintaining financial stability and supporting economic modernization. The research seeks to determine how the management of the investment process can respond proactively to these systemic transitions.

1.2. Research objectives

This study aims to examine how banking-sector development and institutional conditions shape investment dynamics in Romania during 2010–2023. More specifically, the paper pursues four objectives. First, it analyzes the evolution of Romania's investment indicators, with emphasis on foreign direct investment (FDI) inflows and gross fixed capital formation. Second, it evaluates whether banking-sector variables, particularly credit expansion and lending costs, are statistically associated with investment outcomes after accounting for key macroeconomic controls. Third, it assesses whether Romania differs from comparable Central and Eastern European (CEE) economies in the relationship between external capital inflows and domestic financial intermediation. Fourth, it uses qualitative evidence from institutional reports to contextualize the quantitative results and to identify the main policy and regulatory mechanisms affecting investment behavior.

1.3. Research questions and hypotheses

Research questions

The empirical analysis is guided by the following research questions:

RQ1: To what extent are banking-sector variables associated with Romania's investment performance during 2010–2023?

RQ2: Does the relationship between banking development and investment remain significant when macroeconomic factors such as GDP growth and inflation are taken into account?

RQ3: How does Romania compare with selected CEE economies in terms of investment structure, credit penetration, and financing patterns?

RQ4: What institutional and regulatory themes emerging from policy documents help explain the observed quantitative patterns?

Hypotheses

Drawing on financial intermediation theory, information asymmetry arguments, and institutional perspectives, the study tests three hypotheses:

H1: Expansion in domestic credit to the private sector is positively associated with investment performance in Romania, measured through FDI inflows and gross fixed capital formation.

H2: Higher lending interest rates are negatively associated with investment performance in Romania, after controlling for GDP growth and inflation.

H3: Stronger institutional and regulatory conditions strengthen the positive relationship between banking development and investment performance.

1.4. Theoretical and practical contribution

This study does not claim to introduce a wholly new theory of investment behavior. Its contribution is primarily empirical and contextual. First, it re-examines well-known relationships between banking development, lending conditions, and investment in the specific case of Romania, a post-transition economy characterized by relatively high FDI dependence and comparatively modest domestic credit penetration. Second, it combines multivariate quantitative analysis with targeted qualitative evidence from institutional documents in order to explain not only whether these relationships exist, but also how they are framed in the Romanian policy and banking environment. Third, the paper contributes to the comparative literature on CEE economies by highlighting the structural tension between externally financed investment and the limited depth of domestic financial intermediation.

From a practical perspective, the paper provides evidence relevant for policymakers, regulators, and financial institutions concerned with investment competitiveness, financial deepening, and regulatory stability. The findings may inform discussions on credit allocation, digital banking development, and the design of more predictable investment-support frameworks.

1.5. Structure of the paper

The remainder of the paper is structured as follows. Section 2 develops the theoretical framework and reviews the relevant literature. Section 3 presents the research design, variables, data sources, and empirical strategy. Section 4 reports the descriptive, comparative, and multivariate results. Section 5 discusses the findings in relation to the theoretical framework and alternative explanations. Section 6 concludes with implications, limitations, and directions for future research.

2. Literature Review

2.1. Theoretical framework

The relationship between banking sector development and investment dynamics can be interpreted through several complementary theoretical perspectives, particularly financial intermediation theory, information asymmetry theory, and institutional economics.

Financial intermediation theory emphasizes the role of banks as key agents in channeling funds from surplus units to deficit units of the economy. By transforming maturities, managing risk, and allocating capital, banks influence both the availability and cost of investment financing. Within this framework, expansion in credit to the private sector is expected to stimulate investment activity by reducing financing constraints and improving capital allocation efficiency (Arestis & Demetriades, 2021; Adrian & Narain, 2020).

Information asymmetry theory provides a microeconomic explanation for the role of banking modernization in investment processes. In imperfect markets, lenders and investors face asymmetric information regarding borrower quality and project risk. Banking innovations—such as digital credit scoring, data-driven risk assessment, and fintech integration—reduce information costs and mitigate adverse selection and moral hazard problems. As a result, enhanced information-processing capacity within banks is expected to improve access to finance and support investment growth, particularly for small and medium-sized enterprises (SMEs) (Haque & Borkowska, 2021).

Institutional theory highlights the importance of regulatory quality, policy stability, and governance structures in shaping investment behavior. In emerging economies, institutional frameworks influence investor confidence, the predictability of returns, and the perceived risk of financial intermediation. Stable and transparent regulatory environments are expected to strengthen the effectiveness of banking intermediation and facilitate long-term investment decisions (OECD, 2023; European Commission, 2023).

Taken together, these theoretical perspectives suggest that investment dynamics depend on the interaction between financial intermediation capacity, information processing mechanisms, and institutional conditions. Accordingly, the empirical analysis examines how credit expansion, lending conditions, and regulatory factors interact in shaping Romania's investment performance.

2.2. Banking systems and investment management in emerging economies

Investment management has long been recognized as a central component of economic development, particularly in emerging economies where capital allocation mechanisms are still evolving. In such contexts, the banking sector plays a dominant role in financing investment projects, often compensating for the limited depth of capital markets.

Previous studies emphasize that in post-transition economies, banks act not only as financial intermediaries but also as facilitators of investment processes by reducing transaction costs and providing monitoring and advisory functions. Efficient banking systems contribute to improved capital allocation and support economic growth by directing resources toward productive sectors (Pantea et al., 2014; World Bank, 2020).

However, empirical evidence also suggests that the effectiveness of banking intermediation varies significantly depending on institutional quality and macroeconomic stability. In emerging European economies, periods of financial expansion are often associated with increased investment activity, while financial constraints and credit tightening tend to limit capital formation (OECD, 2023).

2.3. Investment determinants and macro-financial conditions

Investment behavior is influenced by a combination of macroeconomic and financial variables. Among the most widely studied determinants are interest rates, credit availability, economic growth, and inflation dynamics.

From a macro-financial perspective, lower lending rates reduce the cost of capital and stimulate investment, while higher rates tend to discourage borrowing and delay investment decisions. Similarly, the expansion of credit to the private sector increases access to financing and supports capital formation, particularly in economies where alternative financing sources are limited (Eurostat, 2023; World Bank, 2023).

Empirical studies on Central and Eastern European economies show that investment patterns are closely linked to economic cycles, fiscal policy, and external capital flows. In Romania, investment growth has historically been associated with periods of economic expansion and increased access to credit, while downturns—such as the global financial crisis and the COVID-19 pandemic—have led to contraction in investment activity (Fiscal Council of Romania, 2023; OECD, 2023).

At the same time, macroeconomic stability plays a crucial role in shaping investor expectations. Volatility in inflation, exchange rates, or fiscal policy can increase uncertainty and reduce investment incentives, even in the presence of available financing (European Commission, 2023).

2.4. Banking modernization and financial innovation

In recent years, the role of the banking sector in investment management has evolved significantly due to digitalization and financial innovation. The emergence of fintech platforms, digital lending models, and automated risk assessment tools has transformed traditional banking operations.

The literature suggests that digitalization reduces transaction costs, improves information processing, and expands access to financial services. These developments are particularly relevant for SMEs, which often face barriers in accessing traditional bank financing due to informational constraints or lack of collateral (Haque & Borkowska, 2021).

In the Romanian context, the adoption of fintech solutions and digital banking services has increased gradually, contributing to improved efficiency in credit allocation. However, the level of financial innovation remains uneven compared to other CEE economies, indicating potential for further development (OECD, 2023).

Alternative financing mechanisms, such as crowdfunding and venture capital, have also gained importance as complementary sources of investment funding. Although still relatively underdeveloped, these instruments contribute to diversifying the financial ecosystem and reducing dependence on traditional bank lending (Vidrascu, 2018; Vasilescu & Sitnikov, 2022).

2.5. Institutional context and regulatory influence

Institutional factors play a critical role in shaping investment dynamics, particularly in emerging economies characterized by evolving regulatory frameworks. The literature consistently highlights that policy stability, regulatory transparency, and governance quality are key determinants of investment performance (OECD, 2023; European Commission, 2023).

In the European context, regulatory convergence and integration have strengthened financial stability while also imposing new compliance requirements on banking institutions. In Romania, reforms aimed at improving prudential regulation and aligning with EU directives have contributed to strengthening the banking system (BNR, 2022; IMF, 2023).

Nevertheless, challenges remain. Regulatory uncertainty, frequent policy changes, and administrative inefficiencies can negatively affect investor confidence and limit the effectiveness of financial intermediation. Comparative studies indicate that countries with more stable and predictable regulatory environments tend to achieve more consistent investment growth (European Commission, 2023).

2.6. Comparative perspectives and research gap

Comparative analyses of CEE economies reveal important differences in the structure of investment financing. While some countries exhibit high levels of domestic credit penetration, others rely more heavily on foreign direct investment as a source of capital (European Commission, 2023).

Romania presents a distinctive case characterized by relatively strong FDI inflows alongside comparatively modest levels of domestic credit to the private sector. This structural configuration suggests a potential imbalance between external and internal financing mechanisms, raising questions about the role of the banking sector in supporting long-term investment development (World Bank, 2023; OECD, 2023).

Despite extensive research on investment determinants and banking systems in emerging economies, limited attention has been given to the interaction between domestic financial intermediation, institutional conditions, and reliance on external capital in shaping investment outcomes. This gap is particularly relevant in the Romanian context, where the coexistence of high FDI and relatively low financial deepening challenges conventional expectations derived from financial development theory.

Accordingly, this study seeks to contribute to the literature by examining these relationships through a combined quantitative and qualitative approach, with a focus on understanding how banking sector characteristics and institutional factors jointly influence investment performance.

3. Methodology

3.1. Research design

This study employs a quantitative research design complemented by targeted qualitative insights in order to examine the relationship between banking sector development and investment dynamics in Romania over the period 2010–2023.

The quantitative component constitutes the core of the empirical analysis and is based on time-series data and comparative indicators. Unlike purely descriptive approaches, this study introduces a multivariate framework that allows the simultaneous examination of multiple determinants of investment performance.

The qualitative component is used to contextualize the empirical findings and to identify institutional and regulatory patterns reflected in official reports. Rather than constituting a standalone analysis, it supports the interpretation of quantitative results.

3.2. Data sources and variables

The empirical analysis is based exclusively on secondary data obtained from internationally recognized institutional databases to ensure reliability and comparability.

The main data sources include:

National Bank of Romania (BNR) – credit volumes, lending rates

World Bank – FDI inflows, GDP growth

Eurostat – interest rates and macroeconomic indicators

European Commission and OECD – regulatory and structural indicators

The study covers the period 2010–2023, which captures post-crisis recovery, pandemic disruption, and recent economic adjustments.

The variables used in the empirical model are defined as follows:

Dependent variables (Investment performance):

FDI inflows (% of GDP)

Gross fixed capital formation (% of GDP)

Independent variables (Banking sector):

Credit to the private sector (% of GDP)

Lending interest rate (%)

Control variables (Macroeconomic conditions):

GDP growth rate (%)

Inflation rate (%)

These variables allow testing the relationship between financial intermediation, cost of capital, and investment activity while controlling for broader macroeconomic conditions.

3.3. Empirical model

To address the limitations of simple correlation analysis, the study employs a multivariate regression model estimated using Ordinary Least Squares (OLS).

The baseline specification is:

$$Investment\_t = \beta0 + \beta1\ Credit\_t + \beta2\ InterestRate\_t + \beta3\ GDPGrowth\_t + \beta4\ Inflation\_t + \varepsilon\_t$$

where:

Investment_t represents investment performance (FDI or capital formation)

Credit_t captures financial intermediation

InterestRate_t reflects cost of borrowing

GDPGrowth_t and Inflation_t control for macroeconomic conditions

ε_t is the error term

This specification allows the isolation of the individual effect of banking variables on investment, addressing the reviewer's concern regarding omitted variable bias.

To improve robustness, the model is estimated separately for the two dependent variables (FDI and gross fixed capital formation).

3.4. Estimation approach and interpretation

The OLS estimation is used due to the relatively small sample size and the focus on identifying general relationships rather than forecasting.

The results are interpreted based on:

Sign and magnitude of coefficients

Statistical significance (p-values)

Model explanatory power (R^2)

A positive and significant coefficient for credit would support H1, while a negative and significant coefficient for interest rates would support H2.

The inclusion of control variables ensures that the observed relationships are not driven solely by macroeconomic fluctuations.

3.5. Comparative analysis (CEE perspective)

In addition to the Romania-focused analysis, the study includes a comparative evaluation with selected Central and Eastern European economies (Poland, Hungary, and Bulgaria).

The comparison is based on averaged indicators for the period 2015–2023, including:

FDI inflows (% of GDP)

Gross fixed capital formation (% of GDP)

Credit to private sector (% of GDP)

Lending interest rates (%)

This comparative perspective allows identifying structural differences in investment financing patterns and supports the interpretation of Romania's specific position within the region.

3.6. Qualitative component

To complement the quantitative analysis, the study incorporates a qualitative review of institutional documents, including:

National Bank of Romania Financial Stability Reports

OECD Economic Surveys

European Commission assessments

A thematic approach is applied to identify recurring patterns related to:

regulatory stability

digitalization of banking services

investment constraints and financing gaps

These qualitative insights are used to interpret the empirical findings and to explain observed relationships, particularly in cases where statistical results may reflect broader institutional dynamics.

3.7. Limitations of the methodology

Several limitations should be acknowledged.

First, the analysis relies on aggregate macroeconomic data, which limits the ability to capture firm-level investment behavior and sectoral heterogeneity.

Second, the use of OLS does not fully address potential endogeneity issues, such as reverse causality between investment and banking sector development.

Third, data availability constrains the inclusion of more granular indicators related to fintech adoption and alternative financing mechanisms.

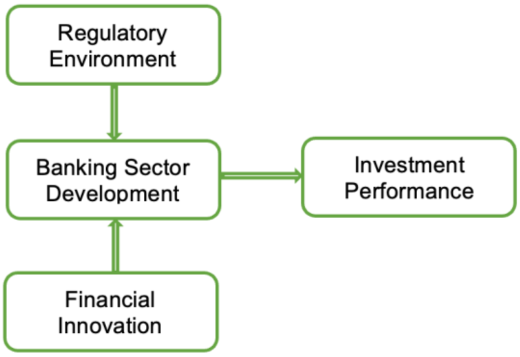
Despite these limitations, the multivariate approach represents a significant improvement over purely descriptive analyses and provides a more robust basis for evaluating the relationship between banking variables and investment performance.

Figure 1. Conceptual framework linking regulation, banking development, and investment performance.
Source: Author’s own elaboration.

4. Results and Findings
4.1. Descriptive overview

Before conducting the regression analysis, the evolution of key investment and banking indicators in Romania between 2010 and 2023 was examined. The data reveal significant fluctuations in both foreign direct investment (FDI) and domestic investment, reflecting macroeconomic cycles, pandemic-related disruptions, and post-2021 recovery dynamics.

At the same time, credit to the private sector shows a gradual upward trend, while lending interest rates display variability influenced by inflationary pressures and monetary policy adjustments.



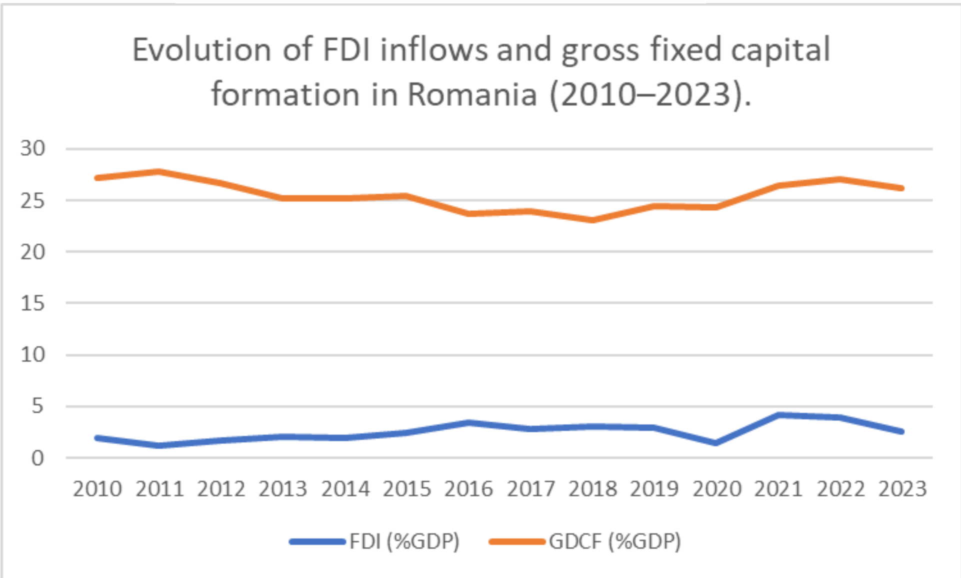


Figure 2. Evolution of FDI inflows and gross fixed capital formation in Romania (2010–2023).
Source: World Bank, Eurostat.

4.2. Regression results – FDI model

The first regression model examines the determinants of foreign direct investment inflows.

The model exhibits a moderate explanatory power, with an R^2 value of 0.599, indicating that approximately 60% of the variation in FDI is explained by the included variables. The overall model is marginally significant at the 10% level ($F = 3.36$; $p = 0.060$), suggesting moderate statistical validity.

Credit to the private sector does not display a statistically significant effect on FDI inflows (β = -0.033; p > 0.5). This result suggests that foreign investment in Romania is not strongly dependent on domestic financial intermediation.

Lending interest rates exhibit a negative but statistically insignificant relationship with FDI (β = -0.167; p > 0.1). Similarly, GDP growth and inflation show positive but insignificant coefficients, indicating that macroeconomic variables alone do not fully explain FDI dynamics.

These findings suggest that foreign investment inflows are influenced by factors beyond domestic banking conditions, including external capital flows, multinational investment strategies, and European integration mechanisms.

4.3. Regression results – domestic investment model

The second regression model examines domestic investment, measured by gross fixed capital formation.

The model demonstrates strong explanatory power, with an R^2 value of 0.717, indicating that approximately 72% of the variation in domestic investment is explained by the included variables. The model is statistically significant at the 5% level ($F = 5.69$; $p < 0.05$).

Credit to the private sector exhibits a positive and statistically significant effect on domestic investment (β = 0.210; p < 0.05). This finding confirms the importance of banking sector development in supporting internal capital formation.

Inflation also shows a positive and significant relationship with investment (β = 0.256; p < 0.01), suggesting that periods of increased economic activity and price dynamics are associated with higher investment levels.

In contrast, lending interest rates and GDP growth do not display statistically significant effects, indicating that domestic investment may be driven more strongly by credit availability than by general macroeconomic conditions.

The detailed regression results are summarized in Table 1.

Variable	**FDI Model (Coef.)**	**p-value**	**GFCF Model (Coef.)**	**p-value**
Credit	-0.033	0.560	0.210	0.021
Interest Rate	-0.167	0.206	-0.053	0.760
GDP Growth	0.078	0.234	0.027	0.751
Inflation	0.071	0.226	0.256	0.008

Table 1. Regression results for FDI and domestic investment models.
Source: Author's calculations.

The results highlight the contrasting roles of banking variables in explaining external versus domestic investment dynamics.

4.4. Comparative interpretation

The combined results of the two models reveal a structural distinction between external and internal investment dynamics in Romania.

While domestic investment is significantly influenced by banking sector variables—particularly credit expansion—FDI appears to be largely independent of domestic financial intermediation. This suggests that Romania's investment model relies on two distinct mechanisms: externally driven investment flows and internally financed capital formation.

This dual structure highlights a potential imbalance between foreign capital dependence and domestic financial deepening, which is further explored in the discussion section.

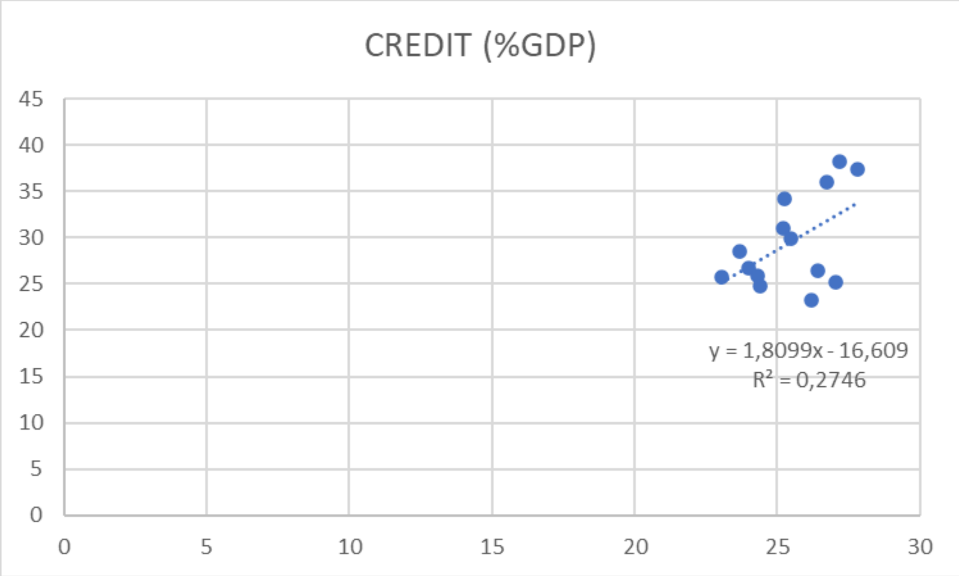


Figure 3. Relationship between credit to the private sector and domestic investment in Romania.
Source: Author's calculations based on World Bank and BNR data.

5. Discussion

5.1. Interpreting the dual structure of investment in Romania

The empirical results reveal a clear distinction between the determinants of foreign direct investment (FDI) and domestic investment in Romania. While domestic investment is significantly influenced by banking sector variables—particularly credit to the private sector—FDI appears to be largely independent of domestic financial intermediation.

This finding suggests the existence of a dual investment structure. On the one hand, domestic capital formation is strongly linked to the availability of credit and the functioning of the banking system, consistent with financial intermediation theory. On the other hand, FDI inflows are primarily driven by external factors, including multinational investment strategies, European integration, and global capital flows.

This distinction contributes to the literature by highlighting that, in the Romanian case, banking sector development plays an asymmetric role: it is critical for internal investment, but less relevant for attracting foreign capital.

5.2. Banking sector development and investment mechanisms

The positive and statistically significant relationship between credit and domestic investment confirms the central role of financial intermediation in supporting capital formation. This result aligns with theoretical expectations that improved access to finance reduces investment constraints and enhances economic activity.

However, the absence of a significant relationship between credit and FDI suggests that foreign investors do not rely primarily on domestic banking systems when making investment decisions. Instead, they may depend on internal financing, international capital markets, or parent-company funding structures.

This divergence indicates that the Romanian banking sector contributes more effectively to domestic economic development than to the attraction of external capital, emphasizing the need to strengthen the link between local financial systems and international investment flows.

5.3. Alternative explanations and endogeneity considerations

The interpretation of the results must take into account potential alternative explanations and methodological limitations.

First, the relationship between credit expansion and domestic investment may be influenced by reverse causality. Higher investment demand can stimulate credit growth, rather than the other way around. While the regression model identifies statistical associations, it does not establish causality.

Second, FDI dynamics may be driven by external variables not included in the model, such as European Union funding programs, global economic conditions, or sector-specific investment incentives. These factors may explain why domestic banking variables do not significantly affect foreign investment inflows.

Third, macroeconomic variables such as GDP growth and interest rates do not show significant effects in the models, suggesting that investment decisions may depend more on structural and institutional conditions than on short-term macroeconomic fluctuations.

By acknowledging these alternative explanations, the study addresses concerns related to omitted variable bias and strengthens the credibility of the findings.

5.4. Institutional context and regulatory implications

The qualitative analysis supports the quantitative findings by highlighting the role of institutional factors in shaping investment dynamics. Policy stability, regulatory transparency, and financial system development emerge as key themes influencing both domestic and foreign investment.

In particular, the weak relationship between banking variables and FDI suggests that improving domestic financial intermediation alone may not be sufficient to attract foreign capital. Instead, broader institutional factors—such as regulatory predictability, investment incentives, and integration within European markets—play a more decisive role.

At the same time, the strong link between credit and domestic investment underscores the importance of policies aimed at financial deepening, SME financing, and digital banking development.

5.5. Contribution to literature and comparative perspective

The study contributes to the existing literature by providing empirical evidence on the differentiated role of banking systems in shaping investment dynamics in a post-transition economy.

While previous research has established the general relationship between financial development and investment, this study highlights a structural nuance: the coexistence of relatively high FDI inflows with comparatively low levels of domestic credit penetration. This finding challenges the assumption that financial deepening uniformly supports all types of investment.

From a comparative perspective, the Romanian case suggests that emerging economies may follow hybrid investment models, combining externally driven capital inflows with domestically financed investment. This has implications for both theoretical models of financial development and policy design in similar contexts.

5.6. Implications for policy and practice

The findings suggest several implications for policymakers and financial institutions.

First, strengthening domestic credit markets remains essential for supporting internal investment and economic growth. Policies that enhance access to finance, particularly for SMEs, can have a direct impact on capital formation.

Second, attracting foreign investment requires a broader policy approach that goes beyond banking sector development. Institutional stability, regulatory consistency, and integration within international markets play a critical role.

Third, the coexistence of external and internal investment mechanisms highlights the need for coordinated policy strategies that align financial sector development with national investment objectives.

6. Conclusions

This study examined the relationship between banking sector development and investment dynamics in Romania over the period 2010–2023, using a multivariate empirical approach complemented by qualitative insights.

The results indicate a differentiated impact of banking variables on investment. Domestic investment, measured by gross fixed capital formation, is significantly influenced by credit to the private sector, confirming the importance of financial intermediation in supporting internal capital formation. In contrast, foreign direct investment does not exhibit a statistically significant relationship with domestic banking variables, suggesting that external investment flows are largely driven by factors beyond the national financial system.

These findings highlight the existence of a dual investment structure in Romania, characterized by externally driven FDI and domestically financed investment. This structural distinction provides a more nuanced understanding of how financial development affects investment in post-transition economies.

From a policy perspective, the results suggest that strengthening domestic credit markets can directly support internal investment, particularly in sectors reliant on bank financing. At the same time, attracting foreign investment requires broader institutional measures, including regulatory stability, policy predictability, and integration within international markets.

Several limitations should be acknowledged. The analysis is based on aggregate macroeconomic data, which does not capture firm-level heterogeneity. In addition, the use of OLS does not fully address potential endogeneity issues or dynamic relationships between variables. Future research could extend this analysis by employing panel data methods, incorporating firm-level datasets, or examining the role of sectoral investment patterns.

Overall, the study provides empirical evidence that financial intermediation and institutional conditions play distinct roles in shaping investment dynamics. The Romanian case illustrates that investment processes in emerging economies may follow hybrid structures, combining external capital dependence with domestically driven financial development.

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