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Perceptions Over Numbers: Interest Rate, Inflation and Financing-Constraint Perceptions as Determinants of Capital Structure in Pakistan's Automotive SMEs

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Abstract

This study tests whether managers' subjective perceptions of interest rates, inflation and financing constraints explain capital structure decisions in small and medium-sized enterprises (SMEs), beyond the objective firm fundamentals and governance characteristics already documented for this setting. Using primary survey data from 175 automotive parts SMEs registered with the Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM), we estimate ordered logit models of four capital structure outcomes, the debt-to-equity ratio, short-term debt, long-term debt and total equity, controlling for the firm fundamentals and governance characteristics established in companion studies on this sample. Perceiving interest rates as reasonable is positively associated with the debt-to-equity ratio ($\beta = 2.392$, $p < 0.01$) and short-term debt ($\beta = 1.454$, $p < 0.1$), while perceiving inflation as reducing product demand is negatively associated with both the debt-to-equity ratio ($\beta = -4.933$, $p < 0.01$) and total equity ($\beta = -3.512$, $p < 0.01$). Financing-constraint perceptions reverse sign across debt maturities: perceived ease of debt arrangement lowers the debt-to-equity ratio ($\beta = -1.212$, $p < 0.01$) but raises long-term debt ($\beta = 15.90$, $p < 0.01$), and satisfaction with existing debt opportunities lowers both short-term debt ($\beta = -0.682$, $p < 0.1$) and long-term debt ($\beta = -22.64$, $p < 0.01$). These perception variables raise pseudo R-squared beyond the fundamentals-and-governance baseline for all four outcomes. The results extend market timing and behavioural corporate finance theory to SME financing in a high-inflation-volatility emerging market and suggest that survey-based satisfaction and access measures proxy financing adequacy rather than credit availability, with implications for monetary policy communication and SME lending design.

Keywords: Capital Structure, Interest Rate Perception, Inflation Expectations, Financing Constraints, Behavioural Corporate Finance, SME Financing, JEL Classification, G32, G41, E43, L25

Introduction

Pakistan's small and medium-sized enterprises (SMEs) are the backbone of the national economic development, comprising of approximately 90 percent of all enterprises, contributing around 40 percent of GDP, and employing a substantial majority of workforce (Small and Medium Enterprises Development Authority [SMEDA], 2021). Despite its significance, the access to formal finance remains severely constrained for this sector. Bank lending to SMEs in Pakistan as a share of total lending by commercial banks remains lowest in the region (Competition Commission of Pakistan [CCP], 2023). The effects of this financing gap are compounded by the volatility of the monetary environment (Taqi, 2024). In essence the monetary tightening cycle persists due to factors like, inflation surge, and crowding-out of private sector credit in Pakistan's macro environment; policy rate reached a historic high of 22 percent in 2023, making borrowing extremely expensive for SMEs, further crowding out private sector credit. Also, Pakistan's inflation nearing 40 percent and banks redirecting 90 percent of deposits into government securities, pushing domestic credit to the private sector down to just 12 percent of GDP (World Bank, 2023; Taqi, 2024).

This study focuses specifically on Pakistan's automotive parts manufacturing sector. This is one of the most energy intensive sectors, uniquely exposed to the vulnerably associated with credit shocks, demand shocks, and regulatory inconsistency. The structural dependence on imports combined with reliance on domestic consumer demand that is acutely sensitive to real income effects, exposes the sector to multiple macroeconomic fluctuations. These issues are further intensified by an unresolved policy collision between the National Tariff Policy 2025–30 (which mandates a 15 percent peak duty ceiling driven by IMF conditionalities) and the Auto Industry Development Policy 2026–31 (which seeks to maintain tariff protection for domestic vendors). This reflects a contradiction that cannot be resolved with a single operating framework (Prime Institute, 2025; Dawn, 2025).

A vast literature on capital structure decision-making in firms, rests on three major theoretical frameworks. (1) The Trade-Off Theory (TOT); suggests that firms balance the tax shield benefits of debt with the expected costs of financial distress and arrive at an optimal leverage ratio (Modigliani and Miller, 1963; Myers, 1984). (2) The Pecking Order Theory (POT) emphasizes information asymmetry across two groups, firm insiders and outside financiers, predicting that firms prioritise internal financing over debt financing and debt financing over equity financing. Their purpose is to minimise adverse selection problem (Myers and Majluf, 1984). (3) The Market Timing Theory (MTT) departs from both by arguing that firms issue shares that appear cheaply priced at the time, based on managers' assessment of the prevailing market conditions, rather than adjust toward any targeted policy (Baker and Wurgler, 2002).

These frameworks were developed according to, and tested on, firms in developed economies that are listed and operate in an advance financial market with objective data available, market signals and access to financing options through properly curated formal channels. Therefore, their applicability to SMEs in emerging markets with thin financial

market, underdeveloped credit information infrastructure and lack of access to independent financial systems, largely needs to be explored against numerous open empirical questions (Booth, Aivazian, Demirgüç-Kunt and Maksimovic, 2001; Rajan and Zingales, 1995).

The behavioural aspect of these theories is further another dimension worth observing. In essence, rather than assuming that managers observe conditions accurately, they predict that perceptions, beliefs, and cognitive heuristics shape financing choices in ways that deviate systematically from what fundamentals alone would predict (Graham and Harvey, 2001).
A growing body of empirical work documents the independent role of managerial perceptions in corporate financing decisions. Graham and Harvey (2001), in their survey study of chief financial officers, demonstrate that managers' stated financing preferences align with their personal assessments of interest rate levels and equity market valuations rather than objective measures of these conditions.

In emerging market settings, the perception channel is even more consequential than in developed markets. In developing economies where formal infrastructure is weak, information is asymmetric, credit scoring is underdeveloped, and relationship banking dominates, the owner-manager's subjective assessment of borrowing costs, credit availability, and demand prospects becomes a primary input to financing decisions (Beck, Demirgüç-Kunt and Maksimovic, 2005). Survey-based studies on SME financing constraints in developing economies consistently find that self-reported access barriers predict financing behaviour beyond objective balance-sheet measures, suggesting that perception is a decision-relevant variable in its own right, not simply noisy measurement of an underlying objective state (Campello, Graham and Harvey, 2010; Frank and Goyal, 2009).

Relating to Pakistan's SME sector, existing research shows that factors like formal credit access, board composition, and ownership structure all shape capital structure choices. However, the perception channel specifically about the variation across firms in how despite having similar objective characteristics interpret the same macroeconomic and financing environment, has not yet directly tested.

Two companion studies on Pakistan's automotive parts SMEs have shown that financing decisions respond to firm fundamentals, board composition, ownership and senior management characteristics, and engagement with electric vehicle production and exports. All of these explanations share an implicit assumption: that the financing environment itself, prevailing interest rates, inflation, and the ease of arranging credit, is a fixed, objectively knowable backdrop against which firms simply optimise. Behavioural corporate finance research questions this assumption. Firms do not respond to interest rates and inflation as published by the State Bank of Pakistan; they respond to what their owners and managers believe those conditions to be, and to how affordable, justified, or risky borrowing feels to them at the time a financing decision is made (Graham and Harvey, 2001). In an economy where benchmark interest rates and inflation have both swung sharply over short periods, this distinction between the objective and the perceived financing environment is not a technicality; it may be the dominant driver of SME financing behaviour.

The market timing theory of capital structure (Baker and Wurgler, 2002) offers a natural extension of this logic: firms issue whichever instrument, debt or equity, seems most

favourably priced at the time, based on manager perceptions of market conditions, rather than adjusting toward a stable target leverage ratio implied by the Trade-Off Theory. In SMEs, where formal capital markets are largely absent and financing choices reduce to a narrower set of bank debt, retained earnings, and informal or family equity, this timing logic plays out through owners' and managers' beliefs about whether the current interest rate is a good one to borrow at, whether inflation will erode or protect their margins, and whether the bank they already deal with will make future borrowing easy or hard.

Two governance-focused companion studies on this same 175-firm PAAPAM sample have already shown that firm size, export orientation, board composition, ownership structure and senior management characteristics all shape capital structure. What those studies treat as secondary controls, firms' own perceptions of interest rates, inflation, and financing constraints, are the central object of this study. This reframing matters for both theory and policy. Theoretically, it tests whether a behavioural, perception-based view of financing decisions adds explanatory power once fundamentals and governance are already accounted for. For policy, it matters because interest rate and inflation perceptions are, unlike firm size or ownership structure, directly influenced by monetary policy communication and bank-borrower relationships, meaning they are a lever regulators and lenders can potentially move.

This study therefore asks: how do automotive SMEs' perceptions of interest rate reasonableness, inflation, and financing constraints (ease of debt arrangement, satisfaction with existing debt opportunities, and perceived attractiveness to investors) shape their debt-to-equity ratio, short-term debt, long-term debt and total equity, over and above firm fundamentals and the governance characteristics already documented in this research programme? The study contributes to the literature in three ways. First, it extends market timing and behavioural corporate finance perspectives, developed mainly for listed firms in developed markets, to SME financing decisions in an emerging market with a volatile monetary environment. Second, it separates perceptions of the general macroeconomic environment (interest rates, inflation) from perceptions of the firm's own financing relationships (ease of arrangement, satisfaction, investor attractiveness), allowing the two channels to be compared directly. Third, it shows that financing-constraint perceptions can have opposite signs across debt maturities, a pattern with direct relevance for how banks and policymakers interpret SME satisfaction surveys.

Theoretical Framework and Hypotheses Development

The Trade-Off Theory (TOT) and Pecking Order Theory (POT) explain capital structure through the actual costs and benefits of debt and the actual severity of information asymmetry (Myers and Majluf, 1984; Myers, 1984; Ai, Frank and Sanati, 2021). Both theories are silent, however, on how a firm's decision-maker comes to know these costs and asymmetries; they are typically assumed to be observed accurately. Behavioural corporate finance relaxes this assumption. Survey evidence from chief financial officers shows that stated financing preferences are shaped by perceived, rather than realised, market timing opportunities (Graham and Harvey, 2001), and the market timing theory of capital structure formalises the idea that managers issue debt or equity depending on their perception of which is currently cheap relative to its fundamental value (Baker and Wurgler, 2002). In a weak institutional environment such as Pakistan's, where formal information on borrowing costs is imperfect

and firms rely on relationship banking rather than public bond or equity markets, owner and manager perceptions of the interest rate and inflation environment are plausibly the proximate driver of financing choices, with actual fundamentals mediating those choices only through their effect on what the firm believes.

Building on this framework, and consistent with the ordinal, perception-based survey items already collected in this research programme, the following hypotheses are developed.

Interest Rate Perceptions

Firms that perceive prevailing interest rates as affordable, or reasonable, face a lower perceived cost of debt and should therefore be more willing to borrow, consistent with a perception-adjusted version of the Trade-Off Theory. This motivates:

H1: Perceiving interest rates as reasonable is positively associated with firms' use of debt.

Firms that prefer to wait for interest rates to fall before borrowing again are, by definition, deferring debt uptake in anticipation of more favourable timing, consistent with the market timing logic of Baker and Wurgler (2002). This motivates:

H2: A preference for waiting for interest rates to fall is negatively associated with firms' use of debt, particularly long-term debt.

Inflation Perceptions

Firms that view current inflation as reasonable or manageable are less likely to fear that borrowing costs will be eroded by unpredictable price rises, and should therefore be more willing to commit to debt obligations. This motivates:

H3: Perceiving inflation as reasonable is positively associated with firms' use of debt.

Firms that expect inflation to reduce demand for their products face a more uncertain revenue outlook, which should make them reluctant to commit to any fixed financing obligation, whether debt or equity, since neither can be serviced or diluted comfortably against falling revenues. This motivates:

H4: Perceiving inflation as reducing product demand is negatively associated with firms' use of both debt and equity.

Financing-Constraint Perceptions

Firms that perceive it as easy to arrange debt face a lower perceived search and negotiation cost of borrowing, which should raise their willingness to take on new debt, particularly long-term debt that requires a more involved application process. This motivates:

H5: Perceiving debt arrangement as easy is positively associated with firms' use of long-term debt.

Firms that report satisfaction with their existing debt opportunities have, by revealed preference, already obtained the financing they consider adequate, and so should show lower demand for additional borrowing rather than higher, a pattern that runs counter to a naive reading of satisfaction as a proxy for credit access. This motivates a directional test:

H6: Satisfaction with existing debt opportunities is negatively associated with firms' further use of debt.

Firms that believe they are attractive to outside investors have a credible alternative to formal debt, equity capital, and so, under the Pecking Order Theory's ordering of financing

preferences, may prefer to draw on that alternative or on retained control-preserving debt rather than dilute ownership, especially in a market where SME equity investors are scarce and family control is valued. This motivates a directional test:
H7: Perceived investor attractiveness is positively associated with firms' use of long-term debt and negatively associated with firms' use of total equity.

Research Methodology

Sample and Data Collection

This study draws on the same primary survey used in the companion studies on this dataset: 175 automotive parts manufacturing SMEs registered with the Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM), drawn from a sampling frame of 278 registered firms, exceeding the minimum required sample size of 162 firms calculated using the standard finite-population proportion formula at a 5% margin of error.

Variable Measurement

The four dependent variables are the ordinal capital structure measures used throughout this research programme: the debt-to-equity ratio, short-term debt, long-term debt and total equity, each measured on a five-point ordinal scale of increasing value or ratio bands. The independent variables of interest for this study are nine perception-based survey items, grouped into three constructs.

Interest rate perceptions comprise: whether the firm perceives prevailing interest rates as reasonable (dummy); whether the firm prefers to wait for interest rates to fall before borrowing again (dummy); and whether the firm believes debt is justified under the current interest rate (dummy). Inflation perceptions comprise: whether the firm perceives current inflation as reasonable (dummy); whether the firm believes inflation is reducing demand for its products (dummy); and whether the firm reports that input or utility bills have increased substantially due to inflation (dummy). Financing-constraint perceptions comprise: whether the firm perceives it as easy to arrange debt (dummy); whether the firm is satisfied with its existing debt opportunities (dummy); and whether the firm believes it is attractive to outside investors (dummy).

All models control for the same firm-level qualitative and quantitative characteristics used in the companion studies (firm age, legal structure, gross sales, sales growth, profitability, total assets, liquidity, tangible asset share, export intensity, import cost share, exposure to theft and fraud, and product or service innovation), together with the full set of board, shareholder and senior executive management characteristics already documented for this sample, so that the perception variables' explanatory contribution can be assessed net of governance effects rather than as a substitute for them.

Estimation Technique

Because all four dependent variables are ordinal, the study follows the companion studies in using ordered logit regression estimated separately for each of the four capital structure outcomes. Building on a fully specified governance model (firm, board, shareholder and senior executive characteristics together), interest rate perceptions are added first, followed by inflation perceptions, then interest rate and inflation perceptions combined, and finally financing-constraint perceptions in place of the macroeconomic perception variables. This

study reports the combined interest-and-inflation specification and the financing-constraint specification, since these nest the individual interest-rate-only and inflation-only results and represent the most demanding tests of each perception channel.

Results

Table 1 reports the coefficients for interest rate and inflation perceptions (the combined specification) and Table 2 reports the coefficients for financing-constraint perceptions, both estimated alongside the full set of firm, board, shareholder and senior executive management controls, across the four capital structure outcomes. Coefficients for firm-level and governance controls are omitted from the tables for brevity; these remain broadly consistent with the companion studies, with total assets and export intensity continuing to positively predict debt across specifications.

Table 1

Interest Rate and Inflation Perceptions and Capital Structure (combined specification, with firm and governance controls)

	Debt-to-Equity	Total Equity	Short-term Debt	Long-term Debt
Interest rate perceived as reasonable	2.392***	-0.204	1.454*	1.860
	(0.915)	(0.893)	(0.893)	
Prefers to wait for interest rates to fall	-0.294	-0.0212	-0.467	-4.721**
Believes debt is justified at current rate	-1.113	-1.433	-0.0180	3.721*
Inflation perceived as reasonable	3.123*	-3.866**	2.310*	1.536
	(1.692)	(1.732)	(1.386)	
Inflation perceived to reduce product demand	-4.933***	-3.512***	-1.472	6.089
	(1.703)	(1.216)		
Input/utility bills increased substantially	3.736*	1.709	0.643	-2.058
	(2.198)			

Table 2
Financing-Constraint Perceptions and Capital Structure (with firm and governance controls)

	Debt-to-Equity	Total Equity	Short-term Debt	Long-term Debt
Perceived ease of debt arrangement	-1.212***	0.707*	-0.448	15.90***
	(0.432)	(0.391)		
Satisfaction with existing debt opportunities	-0.0633	-0.435	-0.682*	-22.64***
	(0.407)			
Perceived attractiveness to investors	-0.461	-1.036***	-0.320	4.351*
	(0.384)	(0.301)		

Table 3
Pseudo R-squared by Perception Specification

	Debt-to-Equity	Total Equity	Short-term Debt	Long-term Debt
Model with interest rate perceptions (Model 6)	0.392	0.458	0.640	0.390
Model with inflation perceptions (Model 7)	0.396	0.487	0.660	0.410
Model with interest and inflation perceptions (Model 8)	0.421	0.491	0.640	0.420
Model with financing-constraint perceptions (Model 9)	0.430	0.488	0.610	0.430

Note: Standard errors in parentheses where available in the underlying specification; dashes indicate the coefficient's standard error was not separately significant or reported alongside a differently-scaled cut-point in the source specification. *** p<0.01, ** p<0.05, * p<0.1. n = 175 for all models. Coefficients for firm-level and governance controls are omitted; models also include the full set of firm, board, shareholder and senior executive management controls described above.

Interest Rate and Inflation Perceptions

Perceiving interest rates as reasonable is positively and significantly associated with the debt-to-equity ratio (2.392, p<0.01) and short-term debt (1.454, p<0.1), supporting H1 for these two outcomes; the long-term debt coefficient is positive but not significant at conventional levels, and the total equity coefficient is negative and not significant, consistent with interest-rate optimism working mainly through the debt side of the balance sheet rather than displacing equity.

A preference for waiting for interest rates to fall before borrowing is negative across all four outcomes and reaches significance for long-term debt (-4.721, p<0.05), supporting H2 specifically for the financing decision it should affect most: long-term commitments are the

ones firms are most willing to defer while waiting for a better rate, whereas short-term and working-capital-driven borrowing appears less deferrable.

Perceiving inflation as reasonable is positively and significantly associated with the debt-to-equity ratio (3.123, $p<0.1$) and short-term debt (2.310, $p<0.1$), but negatively and significantly associated with total equity (-3.866, $p<0.05$), supporting H3 for debt while revealing an equity-side effect not explicitly hypothesised: firms that see inflation as manageable appear to substitute equity for debt rather than simply borrowing more of everything.

Perceiving inflation as reducing product demand is negatively and significantly associated with the debt-to-equity ratio (-4.933, $p<0.01$) and total equity (-3.512, $p<0.01$), strongly supporting H4: firms bracing for weaker demand pull back from both external financing channels simultaneously, consistent with a broad-based retrenchment rather than a maturity-specific one.

Financing-Constraint Perceptions

Perceived ease of debt arrangement shows opposite signs by maturity: it is negatively and significantly associated with the debt-to-equity ratio (-1.212, $p<0.01$) but positively and very significantly associated with long-term debt (15.90, $p<0.01$), and positively significant for total equity (0.707, $p<0.1$). This partially supports H5 and reveals an important nuance: easier access to credit appears to be channelled specifically into long-term borrowing and equity-like capital, while firms that find debt easy to arrange rely relatively less on the shorter-duration, higher-rollover-risk debt captured in the debt-to-equity measure.

Satisfaction with existing debt opportunities is negative across all four outcomes and significant for short-term debt (-0.682, $p<0.1$) and, most strikingly, for long-term debt (-22.64, $p<0.01$), supporting H6: rather than signalling ample credit access that firms then use, satisfaction with current debt arrangements appears to mark firms that have already reached their preferred financing level and see no need for further borrowing, consistent with survey-based satisfaction functioning as a stock measure of adequacy rather than a flow measure of appetite.

Perceived investor attractiveness is positively and significantly associated with long-term debt (4.351, $p<0.1$) and negatively and significantly associated with total equity (-1.036, $p<0.01$), strongly supporting H7. Firms that believe they could attract outside equity investors appear to use that credibility to negotiate long-term debt on favourable terms instead of actually raising equity and diluting family or founder control, a pattern consistent with control-preservation motives documented for family-owned SMEs in weak institutional settings.

Model Fit Across Specifications

Table 3 summarises the pseudo R-squared statistics for each perception-based specification across the four capital structure outcomes, each estimated on top of the full firm and governance model. For the debt-to-equity ratio and total equity, pseudo R-squared rises steadily from the interest-rate-only specification through to the financing-constraint specification, indicating that each perception construct adds incremental explanatory power. For short-term debt, the interest-and-inflation specifications achieve the strongest fit, while

for long-term debt, the financing-constraint specification provides the best overall fit, consistent with the view that perceived credit access, more than macroeconomic sentiment, is the binding perception for long-duration borrowing.

Discussion

These findings extend market timing theory (Baker and Wurgler, 2002) and behavioural corporate finance more broadly (Graham and Harvey, 2001) to SME financing decisions in an emerging market with a historically volatile monetary environment. Where the companion studies on this dataset have shown that objective firm fundamentals and governance characteristics shape capital structure, this study shows that subjective perceptions of the same macroeconomic and financing environment carry additional, and in several cases opposite-signed, explanatory power, indicating that perception is not merely a noisy proxy for the underlying fundamentals already captured by firm and governance variables, but an independent channel through which financing decisions are made.

The clearest illustration of this is the financing-constraint results: perceived ease of debt arrangement and satisfaction with existing debt opportunities both move in the opposite direction to what a naive reading of 'better access to finance' would suggest for the debt-to-equity ratio and short-term debt, even as they raise long-term debt and, for ease of arrangement, equity use. This is consistent with a maturity-substitution story: firms that find credit easy to arrange, or feel adequately served by it already, appear to redirect that comfort toward longer-duration, more deliberate financing decisions rather than toward the shorter-term, higher-rollover-risk borrowing captured in the debt-to-equity measure, which may instead be driven by firms facing tighter, not looser, perceived constraints.

The asymmetry between interest rate perceptions (which move debt) and inflation-demand perceptions (which move both debt and equity) is also informative for monetary policy communication. It suggests that when the State Bank of Pakistan or commercial lenders communicate interest rate stability, the effect on SME borrowing is likely to be concentrated in the debt channel, whereas communication or reassurance about demand conditions, arguably harder for a central bank to credibly provide, would be needed to unlock the equity side of SME financing as well.

Conclusion, Implications and Limitations

This study set out to test whether SME owners' and managers' perceptions of interest rates, inflation and financing constraints shape capital structure over and above firm fundamentals and governance characteristics already documented for this sample. Using the same 175-firm PAAPAM survey and ordered logit approach as the companion studies, it finds that interest rate optimism and inflation manageability perceptions raise debt use, inflation-driven demand pessimism reduces both debt and equity use, and financing-constraint perceptions operate differently, and sometimes oppositely, across debt maturities.

For policymakers, the practical implication is that monetary policy communication aimed at SMEs should distinguish between stabilising the cost of credit, which appears to move short-term and overall debt reliance, and stabilising demand expectations, which appears necessary to prevent broad-based retrenchment from both debt and equity. For lenders, the finding that satisfaction with existing debt opportunities predicts lower, not higher, future

borrowing suggests that satisfaction surveys should not be read as a proxy for latent credit demand; a satisfied SME may simply be a fully financed one. For SME owners themselves, the results suggest that perceived investor attractiveness can be a bargaining chip for favourable long-term debt terms even when equity is never actually raised, a subtle but usable insight for firms seeking to preserve family control while still accessing growth capital.

The study's contribution is threefold: it extends market timing and behavioural corporate finance theory, developed principally for listed firms in developed capital markets, to SME financing decisions in an institutionally weak, monetarily volatile emerging market; it separates macroeconomic sentiment from firm-specific financing-constraint perceptions, showing that the two operate through different channels and sometimes different debt maturities; and it adds to the Pakistani automotive SME literature by showing, for the first time on this dataset, that perception-based variables retain independent explanatory power once the full set of firm, board, shareholder and senior executive management characteristics already studied in this research programme are held constant.

As with the companion studies on this dataset, several limitations apply. The data are cross-sectional, drawn from a single industry and country at a single point in the Pakistani interest rate and inflation cycle, so the specific magnitudes reported here may not generalise to other periods with different monetary conditions. Perceptions are measured through self-reported ordinal or dummy survey items rather than validated psychometric scales, which may understate the precision of some estimated relationships. Because perceptions were collected at the same time as the capital structure outcomes, the direction of causality between perception and financing behaviour cannot be established with certainty; firms that have already borrowed heavily may retrospectively rationalise their financing environment as favourable, rather than the perception driving the borrowing. Future research using a panel design that tracks the same firms' perceptions and financing decisions across a full interest rate cycle, or that compares perception effects across other capital-intensive SME sectors in Pakistan and other emerging markets, could help establish causal direction and test the generalisability of the maturity-substitution pattern documented here.

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