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Hainz, Christa; Fidrmuc, Jarko; Hölzl, Werner

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Firm Credit Experience and Perceptions of Lending Policy: Business Survey Evidence from Austria

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Firm Credit Experience and Perceptions of Lending Policy: Business Survey Evidence from Austria

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Abstract

Bank lending has been a major concern since the financial crisis. We study the effect of a firm's own credit market experience on its perceived bank lending policy using the Austrian Business Climate Survey between 2011 and 2014 and. Our results show that firms' perceptions of aggregate lending policy depend on their individual credit market experience. Only if they get the loan at the expected terms, firms are more likely to perceive the banks' lending policy positively. Moreover, firms are more likely to update their perceptions during the period in which they need a loan. Our results are in line with theories on sticky information, rational inattention and pessimism bias when forming perceptions.

Keywords: Perception of lending policy, credit negotiations, formation of perceptions, sticky information, rational inattention, pessimism bias.

JEL Classification: G21, E51, D03.

1. Introduction

The formation of expectations as well as of perceptions of core economic variables have a far reaching impact on the effectiveness of economic and monetary policies. For a long time the prevailing view was that agents form their expectations rationally. This view has been challenged recently by both theoretical and empirical contributions. But policy makers may not only be concerned with firms' image of the future, their expectations, but also with the image of the current situation, their perceptions. Recent research results focus on the formation of expectations and show that an individuals' personal experience has a significant effect on his/her expectations about inflation, house prices and unemployment (Malmedier and Nagel, 2016; Kuchler and Zafar, 2015). Firms take decisions with potentially large real effects also on the whole economy.[1] Since the great recession bank lending was one of the major concerns for policy makers. Therefore, it is important to understand how firms adjust their perceptions of the banks' lending policy. In particular, firms may negotiate credit and may be more or less successful in obtaining a loan at the expected terms. To get more insights into the formation of firms' perceptions, we analyze empirically how the firm's own credit market experience, i.e. the result of a credit negotiation, affects a firm's perception of the bank readiness to lend.

We use unique information from the WIFO Business Climate Survey for the period 2011 – 2014. Firms are asked how they evaluate the lending policy of the banks in Austria (which we refer to as perceptions) and can chose between accommodating, normal and restrictive. In addition to their perception firms report their own credit market experience, i.e. whether they have had credit demand during the last three months and whether they were fully or partly successful in obtaining a loan or not. Note that as perceptions change, we refer to them as becoming more positive or negative depending on the direction of the change.

The survey data show surprising dynamics in the activities of individual firms on the credit market behind relatively stable macroeconomic trends and lending policy perceptions. Our analysis provides three new insights into how firms make up their

[1] See, for instance, Campello et al. (2010) on the effect of financial constraints on investment.

perceptions. First, firms form their perceptions based on their previous experience on the credit market. Second, they are more likely to update their perceptions when they have loan demand. Third, they have a more positive perception of the lending policy only if they have received a loan at the expected terms regarding amount and interest rate. As we would expect, firms are less positive about the lending policy if banks have recently rejected their loan applications. Somewhat surprisingly, worse lending terms regarding loan volume or interest rate render the perceptions of the lending policy less positive, too. Thus, our findings are in line with the ideas of stick information, rational inattention and pessimism in the formation of perceptions. We add to this literature by demonstrating that the individual credit market experience matters when a firm forms its perception of aggregate policies.

The paper is organized as follows. In section 2 we review the related literature. We derive the testable hypotheses in section 3. The empirical analysis with results and robustness test is presented in section 4. We conclude in section 5.

2. Literature Review

This paper is related to the literature on the formation of expectations. Most of the papers focus on inflation expectations whereas we study the perception of lending policy. There is also a literature on the factors determining credit financing in which use of credit, perceived access or actual access serve as proxies. Hainz and Nabokin (2013) document that perceived access serves as a good proxy for actual. Alternatively, firms are asked for their perception of the banks' lending policy in general. This seems a quite natural way to collect this information.

There is a recent and growing literature on the formation of expectations. Expectations feature prominently in the macroeconomic literature as they exert an influence on economic decision making and real outcomes, such as investments or financial market activity (Gennaioli et al., 2015; Chiang et al., 2011, Malmedier and Nagel, 2011). Recently they started being investigated with microdata as well. Malmedier and Nagel (2016) show that inflation expectations reported in household surveys depend on the respondent's personal experience. They compare age cohorts of respondents using

survey data that covers over 50 years. They show that inflation expectations depend on the respondent's age and are influenced by the experience a cohort; more recent experience has a stronger impact than experiences made earlier. Similarly, Kuchler and Zafar (2015) find that expectations about house prices in the U.S. are extrapolations of the recent development of house prices in the community of the respondent. They can also show that the distribution of expectations is wider if volatility of house prices was higher in the past. Moreover, expectations about the country-wide unemployment rate increases if the respondent itself is unemployed. Kuhnen (2015) analyses how a subject's experience influences its perception in a laboratory experiments where subjects can invest and, if they invest in the risky asset, end up with either in a loss or a gain. She finds that the subjective beliefs about the risky asset are overly pessimistic if the subject has experienced a loss (and also belief errors are larger). These papers contradict the rational expectations hypothesis. Our results are in line with these findings suggesting that perceptions are formed using imperfect information and that firms exhibit a pessimism bias.

Other papers focus on the role of media coverage on expectations, with more coverage improving the accuracy of expectations (Easaw and Ghoshray, 2010). It is worth noting that also the tone of the news matters as badly toned news may reverse the effect (Lamla and Lein, 2014).

3. Testable Hypotheses

The literature has so far focused on how expectations are formed. We, in contrast, study how perceptions develop. Starting from a theoretical analysis with full information, there is a major difference between expectations and perceptions. When developing perceptions a rational agent under full information could perfectly observe the current situation. Thus, in this case full information perceptions of a macroeconomic variable should be identical across agents. However, when forming expectations an agent has to decide what are the possible outcomes of the analyzed variable (the states of the world) as well as how likely is it that a particular state of the world arises. As a result, aggregate expectations will differ between homogenous individuals if they assign different probabilities to the states of the world. But the existing empirical evidence

suggests that the formation of expectation is not consistent with the idea that a fully rational agent has full information. There are several reasons why agents may not behave as predicted by the model of rational expectations.

Coibion and Gorodnichenko (2012) summarize the models on the formation of expectations and highlight two major reasons why expectations are not rational. First, there is so-called 'sticky' information. Here the agents face some costs when they acquire or update new information on a variable. Therefore, the agents update their information less frequently than in a frictionless world (as in Reis, 2006; Mankiw and Reis, 2002). Second, 'noisy' information plays a role. In this case the agent gets only noisy signals about the underlying variable and the precision of the noise may or may not vary across agents (for instance, Sims, 2003).

We can apply these models to derive testable hypothesis about how agents form their perceptions if information is imperfect. If information is sticky, agents use new information, previous experience and public information to form perceptions. The weights of the three components depend on when they update their information and therefore may differ across individuals (Madeira and Zafar, 2015). Our data contain the firms' perceptions of the banks' lending policy and also the experience firms have made on the credit market in the three month prior to the survey with the possible experience categories ranging from credit at expected or worse terms, to non-acceptable terms, rejections by the bank or to discouragement of the firms (for more details see section 4.1.). Based on the arguments for sticky information, we formulate the following hypothesis.

Hypothesis 1: A firm's perception of lending policy reflects its own experience on the credit market.

Taking the argument of sticky information one step further, it is argued that firms show rational inattention. This means that firms pay more attention to the important variable but by intent remain ignorant about less important variables (Maćkowiak and Wiederholt, 2009). In the context of our paper, firms may follow what happens on the product market and on the credit market. The firm will pay more attention to the market which is more important. As long as a firm does not need credit, the focus should be on the product market. Once the firm starts to realize that it will need a loan, it will also

pay attention to the credit market. In our survey firms report the results of credit negotiations during the last three months or state that they did not demand credit. Credit negotiations are likely to start after a process in which firms prepare for the negotiations with banks. The duration of the process varies between firms and could take several months. The talks between firm and bank will first focus on the chance of getting a loan. The firm receives imperfect signals about the readiness of the bank to grant a loan. The process ends either with an offer by the bank which also specifies the terms of the loan or with a rejection. If we suppose that firms get new and informative signals when preparing for credit negotiations and during the negotiations, the idea of rational inattention leads to next hypothesis.

Hypothesis 2: Firms with credit demand adjust their perceptions more frequently in the period(s) before the credit negotiations are completed.

With noisy information firms update their perceptions regularly but their perceptions differ because the way they process the signals is not the same. Previous literature on the formation of expectations assumes that individuals update information rationally. In our case, we have quarterly data on firms' perceptions. Firms may use their current perceptions to predict what happens in the next period. During credit negotiations and, in particular, when the bank decides about the credit offer, the firm can compare its previous perceptions with the actual lending policy. If perceptions differ from bank behavior, the firm should revise its perceptions. When the bank makes a credit offer it also specifies the terms of the loan. If firms operate rationally with noisy information we would expect the following.

Hypothesis 3: Firms which receive a loan at the expected terms do not change their perception. However, firms which receive a loan but at worse than the expected terms revise their perception.

A similar setting has been studied by Kuhnen (2015). In a lab experiment participants get signals about the profitability of their assets but the results show that they do not update their beliefs rationally. The experiment participants have a possibility to invest into a risky stock and a safe bond. The returns to assets are random because they are either from a 'good' or from a 'bad' distribution differing in the chance to face a gain.

The participants receive a calculation stating for each of the six rounds the Bayesian posterior probabilities of having a good distribution after observing a certain number of gains. Subjects are asked to assign a probability of having an asset with a good distribution. The individuals' beliefs differ from the given posterior probabilities as participants are less likely to report that they have a stock with a good distribution when they observe a loss. What is more, the subjective beliefs are also further away from the objective posterior probabilities when participants have experienced a loss. This can be interpreted as investors are becoming pessimistic if they face a loss. Thus, the behavior observed in the lab experiment is not in line with subjects acting rationally. In our context a pessimism bias in updating would imply the following.

Hypothesis 4: Firms with an unexpected experience at the credit market show a more negative perception of the banks' lending policy, i.e. firms that do not get a loan or get a loan but at worse terms more likely have negative perceptions.

4. Empirical Analysis

4.1. Data Description

We use data from the Wifo Business Climate Survey between November 2011 and February 2014. It provides a unique source of information on the perception of banks' lending behavior by Austrian manufacturing firms. We have about 7,000 observations in this data set. The surveys are available on a quarterly basis (for the months February, May, August and November).

The questions on bank lending policy have become increasingly popular in similar business surveys in the EU (Fidrmuc and Hainz, 2014, for Germany). Thus, the WIFO survey features the following question: *"How do you assess the readiness of banks to provide loans to firms?"* The possible answers include *accommodating*, *normal*, and *restrictive*.

Moreover, the WIFO survey includes also a question on the firm's credit market experience. Namely, the firms are asked: "*Did you sign a loan agreement in the last three months?*" The possible answers include several yes categories (*at expected terms, at expected volume but with worse terms, worse terms but expected volume, lower volume and worse terms*) and several no categories (*no need, non-acceptable terms,*

rejection by the bank, no realistic chance). Thus, there are different categories in which firms end up without loans that range from rejections either by bank or by firm to discouraged firms. Our data set includes information on three distinct categories describing how the terms of a loan (that is, interest rate and amount, or both, are deviate from the previous expectations). For these three categories, although the firm gets a loan, its expectations are not fully met.

Moreover, the survey includes several other questions, among which especially the firm's future situation is interesting for our analysis. In particular, the firms' prospects determine their creditworthiness and thereby access to credit and the firms' perceptions of the banks' lending behavior could be positively correlated with the firm's future business situation. Thus, the question on state of business is included as the main explanatory variable. This question is stated as: "*Our business will develop in the next six months as follows: it will improve, it will be stable (given the seasonal effects), it will worsen*".

Finally, we have altogether 10 consecutive quarterly surveys with anonymous but identified firms. This allows us to exploit the time dimension and to conduct panel analysis. The coverage of the data is also relatively good. Reflecting that we lose at least one survey for the computation of lagged variables, we can still use on average 5.1 (maximum 9) observations per firm.

Figures 1 and 2 present the development of the firm's credit market experience, the perception of the lending policy and the state of business. Surprisingly, the developments are somewhat opposing. On the one hand, Figure 1 shows that approximately 20 percent of firms signed a new credit contract in each of the surveyed periods, the majority of them at expected terms. On the other hand, the share of firms perceiving the lending policy as accommodating was only 7 to 10 percent. Similarly, in Figure 2 only 1 percent of loan applications have been rejected by the banks, actually less than the share of firms which did not accept the lending terms offered by the bank (approximately 2 percent). The share of discouraged firms is also relatively small at 3 percent. Despite of this, approximately one third of firms view the lending policy as restrictive. Finally, while the firms' credit market experience and perceptions of the lending policy have been surprisingly stable during the analyzed period, the expectations of the business situation underwent quite important cyclical changes.

The individual survey data show surprising dynamics of the firm's credit market experience behind relatively stable macroeconomic trends. On average, each firm had 0.9 loans. However, more than a half of the firms (60 percent) did not try to get loans during the analyzed periods. Firms with loans had on average 2.5 loans within the ten surveys in our dataset. Nearly all firms with loans had at least one period when they did not receive a loan despite they tried so. Similarly, nearly all firms with demand but no loans in a particular period had loans in a different period.

4.2. Empirical Strategy

We start our analysis with probit estimations. First, we estimate the probability that firms perceive the lending policy, *lpol*, as accommodating, *lpol=alp*, or restrictive, *lpol=rlp*. The bank lending policy is a dummy variable that equals one if the firm reports that it perceives the lending policy as accommodating (restricitive) and zero otherwise.

Our main variable of interest is lagged experience in the credit market, *c*, that is, dummy variables for the eight indicators described above. The core explanatory variables include the expectations of business situation of the firm in the previous quarter as a proxy for creditworthiness, *b*, and contemporaneous employment (in logs) as a measure for firm size, *e*, as well as other controls **Z** (regional, time and sectoral effects). The estimation equation can be stated as

$$P(lpol_{it} = 1) = \sum_{i=1}^{8} \alpha_i c_{it-1} + \beta_1 b_{it-1} + \beta_2 e_{it} + \mathbf{Z}_{it}\gamma + \varepsilon_{it}. \text{ with } lpol = alp,\ rlp \qquad (4)$$

Our approach reflects that applying for a loan is a relatively long process. During the loan applications, the firms update their perceptions of bank lending policy. This process can take several months and the firms can possibly negotiate with several banks. While we do not have detailed information on the stepwise process of information acquisition of the firms, we show that the interactions with the banks represent an important source of information for loan applicants. For this purpose we look at the change in perceptions. In particular, we define a dummy variable *dpall*, which equals to one if the firm changes its perception and zero otherwise. . Similarly, we study whether the firms improve or deteriorate their perceptions using analogous dummy variables, *dpplus* and *dpmin*, respectively. As the process of credit negotiations may take several

months, we estimate theprobit models for these variables using different time horizons,

$$P(dpol_{it}=1)=\sum_{i=1}^{8}\alpha_i c_{it}+\beta_1 b_{it-1}+\beta_2 e_{it}+\mathbf{Z}_{it}\gamma+\varepsilon_{it} \text{ with } dpol = dpall, dpplus, dpmin \quad (5)$$

where all explanatory variables are defined as above.

4.3. Results

Perceived Bank Lending Policy

Table 1 reports the estimation results for the probit regression with accommodating lending policy being the dependent variable. Lagged credit market experience is included either stepwise or all cases are included and then no need is taken as the reference category (last column). The results are strong and they show the important role of the individual experience of the firms on the formation of perceptions for the overall economy. Only banks' decision to offer credit at terms as expected comes with a higher probability (7 percentage points) that a firm will evaluate the lending policy as accommodating in the next period. Negative experience is clearly correlated with a worse perception of the lending policy. Worse credit terms come along with the probability of accommodating evaluation being lower by 4 percentage points, worse terms and lower volume already by 10 percentage points, non-acceptable terms by 14 percentage points. Actually, there are no firms that evaluate the lending policy as accommodating after their credit has recently been rejected by a bank, which means that this coefficient cannot be estimated. Discouraged firms evaluate the lending policy also less likely as accommodating (by -8 percentage points). In turn, firms without need are less likely (-2 percentage points) in the next quarter.

Moreover, the results show that firms with positive business expectations are 1.5 percentage points more likely to evaluate the lending policy as accommodating. Finally, large firms are less likely to view the lending policy as accommodating in general.

Table 2 shows that the marginal probability effects for the lending policy being perceived as restrictive are even higher than those for accommodating. In particular, credit rejections increase the average probability that the firm evaluates the lending policy as restrictive by 57 percentage points. The average marginal probability effects are only slightly lower if lending terms are worse in terms of costs and credit volume (53 percentage points). The decomposition of this impact into price and volume effect

shows that the former (31 percentage points) is slightly more important than the loan volume (26 percentage points). As for accommodating lending policy, this overall impact is even larger than for firms which view the terms of the loan as non-acceptable (45 percentage points). By contrast, the marginal probability effects for firms having received loans at expected terms change the evaluation of the lending policy only marginally (-5 percentage points). Firms without demand are less likely to consider the lending policy as restrictive by 19 percentage points.

The comparison of probit results for accommodating and restrictive lending policy perception shows that the latter coefficients are higher in absolute size. For example, firms which received loans but both at worse terms and lower volume assess the lending policy less likely (by 9.5 percentage points) as accommodating. At the same time, these firms are twice more likely (25.9 percentage points) to assess the lending policy as restrictive.

In sum, we find support for *hypothesis 1* that individual experience matters for the perception of the whole economy. Thus, our results are in line with the recent literature which provides ample evidence that the personal experience influences the expectations of inflation, house prices and unemployment (Malmedier and Nagel, 2016; Kuchler and Zafar, 2015, Madeira and Zafar, 2015). Our results also support *hypothesis 4* that the way in which firms form their beliefs depends on their experience. In particular, we find that firms which get the loan at the expected terms are more likely to perceive the lending policy as accommodating. But firms that do not get a loan or not at the expected terms are more likely to report perceptions being restrictive and less likely to report perceptions being accommodating. This result is consistent with the notion of pessimism in updating beliefs which Kuhnen (2015) has demonstrated in a lab experiment.

Change of Perceived Bank Lending Policy

The descriptive statistics in Table 3 show that about one quarter of all firms with no demand change their perception of the lending policy. Mainly firms receiving a loan at expected terms change the perceptions of the lending policy, nearly one third of these firms. The share is only slightly lower for firms receiving a loan but at worse terms either in volume or interest rate. In turn, only 15 percent of the firms receiving either

lower volume and higher interest rate or not receiving (or taking) a loan change the perception of the lending policy. The share is actually lowest for the firms that were rejected by the banks (only 8 percent of those firms).

In Table 4 we provide regression results for two different time intervals. In columns (1) to (3) we report the total changes (1), the improvements (2) and deteriorations (3) relative to the survey before the credit negotiations ended, i.e. there are three month between these two surveys. In columns (4) – (6) changes are relative to one survey earlier (i.e. six month have passed between the two surveys).

First, we consider firms which had no demand for the last three months. In the next period, we see that firms that receive a loan are more likely to change their perceptions than those without credit demand (which is the reference category). However, firms that have negotiated but not signed a loan contract are less likely to change their perceptions. Firms with loans at the expected terms are more likely to improve and less likely to worsen their perceptions. The firms receiving loans but with constraints regarding either the loan volume or the interest rate are more likely to worsen their perceptions whereas those that face both constraints are less likely to improve them. The result that firms that did not succeed in getting a loan are less likely to change their perceptions is mainly due to the fact that they are less likely to increase their perceptions.

For a period of six month, we observe interesting differences. Firms with loans as expected do not differ in the change of expectations significantly from firms without credit demand. Together with the results from the first three columns this suggests that they change perceptions in the second to last quarter in one direction (rather decrease it) and in the last quarter before the survey, when the loan offer is made, in the other direction (improving it). Firms with loans but with constraints do not differ in their total perception changes either. However, those with higher interest rates are more likely to decrease their perception. But the coefficient is somewhat smaller than in the three month period. This means that most of the downgrading is due to what happens in the three month before the survey. Similarly, firms with a constrained loan volume are more likely to increase their perception in the six month interval; but in the three month interval they are more likely to decrease it. Thus, the downgrading is motivated by the experience made in the three month before the survey. The same argument can be made

for firms with a loan that face both restrictions as they are less likely to upgrade in the six than in the three month interval. For firms that did not get a loan the probability of a change is somewhat higher in the six than in the three period interval. This suggests that the immediate experience from the loan negotiations outweigh the opposite experience from the second to last quarter. Interestingly the effects remain quite stable for discouraged firms.

In sum, we find some support for *hypothesis 2* stating that firms with credit demand adjust their perceptions more frequently. Indeed, our results for firms with a loan are in line with this hypothesis. However, firms without a loan seem to adjust less frequently than firms without credit demand. This would be consistent with the explanation that signal they obtained in the periods we study do not convey new information to them despite they made an effort to get new information. As we only study a period of up to six month this could be due a process of preparing and conducting credit negotiations which takes more time, especially for firms that , face some problems in getting a loan.

Our results are not in line *hypothesis 3* which predicts that firms which get a loan as expected should not change their perception whereas those with constraints on the terms of their loan do. According to our data, firms with loans at expected terms are most active in changing perceptions.

In unreported regressions we also included publicly available information on bank lending behavior. We use the bank lending survey conducted by the Austrian National Bank (OeNB) which is conducted as a part of the euro-wide surveys initiated by the ECB. The bank lending survey measures on a five point scale whether bank have tightened or eased its lending standards during the last quarter. Interestingly, public information is hardly significant in the regressions. One reason might be that public information on the banks' willingness to lend was ambiguous during our sample period. On the one hand, lose monetary policy by the ECB might suggest that banks have a lot of liquidity and a high willingness to lend. On the other hand, the bank lending survey (BLS) of the ECB shows that banks were slightly tightening their lending standards.

4.4. Robustness Analysis

We conduct several additional tests to show the robustness of our results.

Firm Random Effect Probit Models

Unobservable factors including firm credibility and their self-evaluation can influence the impact of previous credit experience on lending policy evaluation. To deal with the omitted variable problems, we estimate (4) with random effect probit. Tables 5 and 6 show that worse terms, lower volume and discouragement have no longer a significant impact on firms' evaluation of lending policy as accommodating. However, the size of the remaining coefficients increase. As before, only loans at expected terms are inducing a positive evaluation of the lending policy.

Moreover, all categories of credit experience remain significant when we consider the impact on lending policy evaluation as restrictive. As above, the inclusion of firm random effects increases the size of coefficients.

Ordered Probit

The main drawback for the previous results is that they treat different perception categories as distinct values. Moreover, they do not utilize the information on the full ordering over different categories. Finally, probit models cannot be estimated for a category which is a perfect predictor of some outcome, e.g. we can see that no firms that were rejected by banks evaluate the policy as accommodating.

Therefore, we present ordered probit estimation in Table 7. Note that while coefficients are estimated jointly for all categories, see column (I), the marginal probability effects have to be computed for all categories, columns (II) to (III).

The results are largely similar to the previous results. Only firms with loans at expected terms are less likely to evaluate the lending policy as restrictive (by 9.9 percentage points) and more likely to evaluate it as accommodating or normal (by 4.7 and 5.2 percentage points, respectively). In all remaining categories (again except no deman) coefficients have the opposite sign. Compared to probit and panel probit results, the marginal probability effects are smaller but still quite high: The rejections, for example, increase the probability of restrictive perception by 58 percentage points and lower the probability of accommodating perception by 27 percentage points. Compared to the

previous results, the size of coefficient is more consistent with general expectations.

Lag Structure

The lending policy perceptions are likely to be based not only on the recent but on the longer-term experience on the credit market. Therefore, we include up to 4 lags of previous credit experience (see Table 8), which lowers the number of observations to less than a half of that for the full sample. Moreover, we present only the results for our preferred specification, which is ordered probit with all credit access categories. Finally, we present only estimated coefficients and not marginal probability effects.[2]

Positive experience on the credit market seems to have only little impact on formation of lending policy perceptions. The effects become actually insignificant if more lags are included.

By contrast, negative experience has strong impact on the perception. Worse credit terms resulting in either in an offer that was not taken by a firm or in a credit contract, have long-lasting significant effects which lower the perceptions of lending policy even after four quarters. As expected, coefficients become smaller and less significant with the time.

Compared to worse credit terms, loan rejections have a surprisingly short-living impact on firms' perceptions, which day out already after two quarters. Similarly, discouraged firms do not evaluate the lending policy differently from the remaining firms already after one quarter.

Subsample with No Recent Credit Experience

Alternatively to the inclusion of more lags, which both reduces the number of observations and increases the number of parameters, we can focus on firms which did not demand a loan at least for several periods and then tried to receive a credit (Table

[2] The presentation of coefficients ordered probit is motivated especially by the possibility to present the robustness analysis in readable tables. The marginal probability effects are, if significant, similar to those presented in previous estimations. Detailed results are available upon request from authors.

9).[3] This allows seeing the impact of a particular experience on the credit market more clearly. However, the number of observations declines. Moreover, selection bias may be important in this analysis.

Despite these considerations, the estimations for subsamples without recent credit market experience confirm the previous findings. As before, only firms receiving loans at expected terms are more positive in the perceived lending policy. Similarly, rejections and worse credit terms (both regarding general terms and credit volume) lead to more negative perceptions.

5. Conclusions

We review several theories on expectation formation and apply them to perceptions, reflecting that firms use similar imperfect information for their expectations and perceptions. Moreover, we test several hypotheses derived from the theoretical literature on the formation of expectations or perceptions. We can track firms for a period of ten quarterly surveys and thus we can derive new insights into how perceptions are formed over time. We obtain three main results. First, firms form their perceptions based on their previous credit market experience. Second, they update their perceptions if credit financing becomes important to them. Finally, when forming their perceptions firm are more optimistic if they get a loan at expected terms but are more pessimistic if they get a loan but terms are not as expected. Our results are thus consistent with the theory of sticky information, rational inattention and a pessimism bias when they form perceptions.

[3] In particular, in this robustness analysis we focus on firms withoutcredit demand for 1 up to 4 quarters before the credit experience, which is taken with an additional lag into estimation. Thus, the no credit experience is 2 to 6 quarters before the survey in time *t*.

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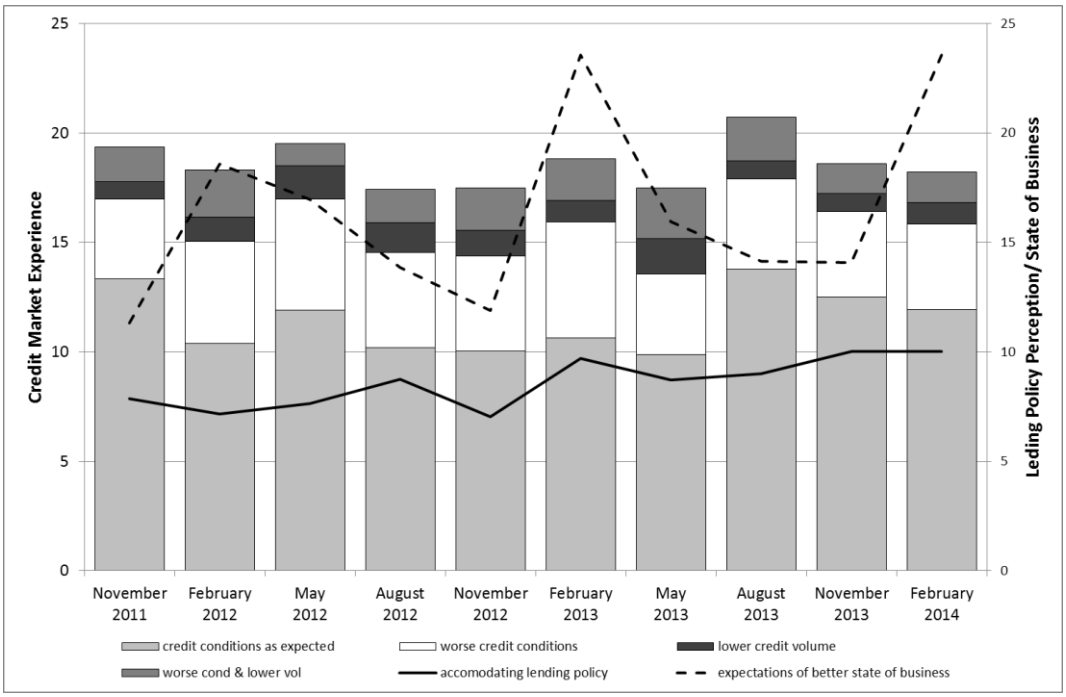
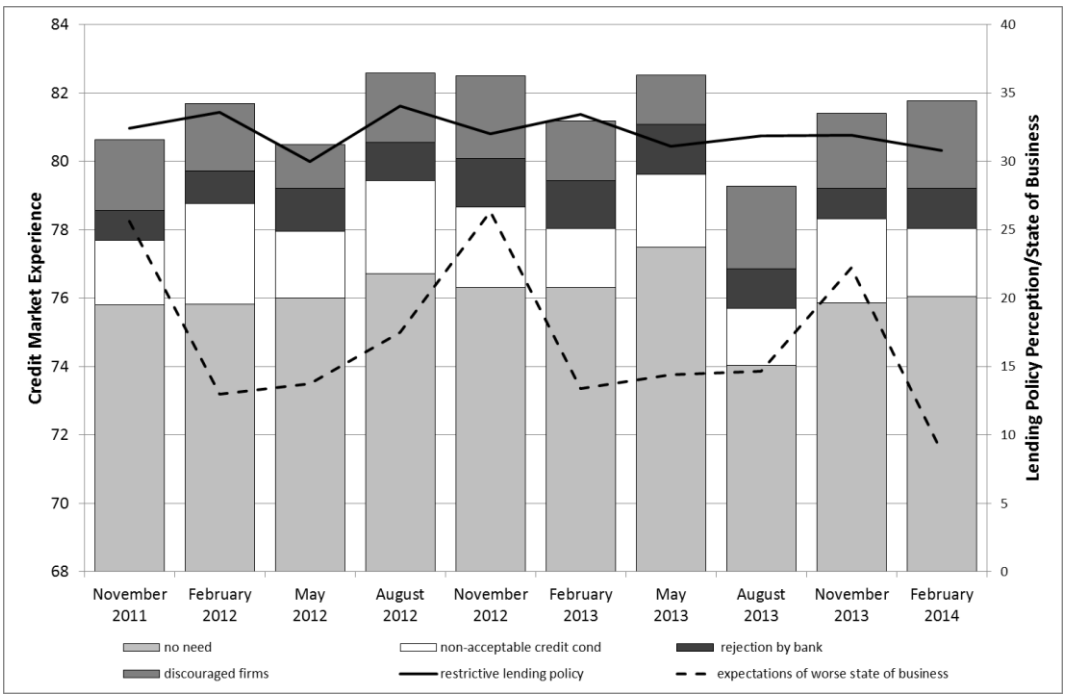
Figure 1: Having a Loan, Accommodating Lending Policy Perception, and Better Business Expectation



Source: WIFO, own computation.

Figure 2: Having No Loan, Restrictive Lending Policy Perception, and Worse Business Expectations



Source: WIFO, own computation.

Table 1: Determinants of Lending Policy Perceptions, Perception of Accommodating Lending Policy, Average Marginal Probability Effects

	(I)		(II)		(III)		(IV)		(V)		(VI)		(VII)		(VIII)		(IX)	
business exp. (lag)	0.015	***	0.015	***	0.016	***	0.016	***	0.015	***	0.015	***	0.016	***	0.016	***	0.014	***
	(0.005)		(0.005)		(0.005)		(0.005)		(0.005)		(0.005)		(0.005)		(0.005)		(0.005)	
employment (log)	-0.005	**	-0.004	**	-0.005	**	-0.005	**	-0.005	**	-0.005	**	-0.005	**	-0.005	**	-0.006	***
	(0.002)		(0.002)		(0.002)		(0.002)		(0.002)		(0.002)		(0.002)		(0.002)		(0.002)	
as expected (lag)	0.071	***															0.066	***
	(0.007)																(0.007)	
worse cond (lag)			-0.042	**													-0.034	*
			(0.018)														(0.018)	
lower volume (lag)					0.034												0.038	
					(0.026)												(0.026)	
both (lag)							-0.095	**									-0.086	**
							(0.038)										(0.038)	
no need (lag)									-0.020	***							REF	
									(0.006)									
non-accept. cond. (lag)											-0.138	***					-0.129	***
											(0.048)						(0.047)	
rejection (lag)													NE				NE	
discouraged (lag)															-0.076	***	-0.068	**
															(0.029)		(0.028)	
No of obs	8314		8314		8314		8314		8314		8314		8229		8314		8229	

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. Rejection predicts failure perfectly. NE – not estimated. REF – reference category.

Table 2: Determinants of Lending Policy Perceptions, Perception of Restrictive Lending Policy, Average Marginal Probability Effects

	(I)		(II)		(III)		(IV)		(V)		(VI)		(VII)		(VIII)		(IX)	
business exp. (lag)	-0.031	***	-0.028	***	-0.033	***	-0.032	***	-0.031	***	-0.029	***	-0.031	***	-0.030	***	-0.024	***
	(0.009)		(0.009)		(0.009)		(0.009)		(0.009)		(0.009)		(0.009)		(0.009)		(0.008)	
employment (log)	-0.011	***	-0.014	***	-0.011	***	-0.012	***	-0.014	***	-0.010	***	-0.010	***	-0.010	***	-0.008	**
	(0.003)		(0.003)		(0.003)		(0.003)		(0.003)		(0.003)		(0.003)		(0.003)		(0.003)	
as expected (lag)	-0.051	***															0.016	
	(0.016)																(0.015)	
worse cond (lag)			0.312	***													0.327	***
			(0.023)														(0.021)	
lower volume (lag)					0.259	***											0.285	***
					(0.047)												(0.042)	
both (lag)							0.526	***									0.529	***
							(0.041)										(0.037)	
no need (lag)									-0.192	***							REF	
									(0.010)									
non-accept. cond. (lag)											0.453	***					0.460	***
											(0.036)						(0.033)	
rejection (lag)													0.566	***			0.565	***
													(0.055)				(0.050)	
discouraged (lag)															0.368	***	0.380	***
															(0.034)		(0.030)	
No of obs	8314		8314		8314		8314		8314		8314		8314		8314		8314	

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. REF – reference category.

Table 3: Change of Perceived Bank Lending Policy

	no need	as expected	lower volume	worse terms	both vol./cond.	non-accept.	rejected by bank	dis-couraged
upgrade	580	201	36	8	3	8	1	11
downgrade	597	88	17	36	21	14	8	16
no change	4100	623	311	311	123	142	97	86
share of changes	22.3%	31.7%	14.6%	12.4%	16.3%	13.4%	8.5%	23.9%

Table 4: Determinants of Changes of the Lending Policy Perceptions, Probit Models, Marginal Probability Effects

	t-1			t-2		
	change	upgrade	down.	change	upgrade	down.
business exp. (lag)	0.018	-0.003	0.036	-0.013	0.025	-0.045
employment (log)	-0.023*	-0.011	-0.025*	-0.028**	-0.022	-0.021
as expected (lag)	0.300***	0.486***	-0.118*	0.094	0.066	0.080
worse cond (lag)	0.240***	-0.022	0.358***	0.113	-0.061	0.224
lower volume (lag)	0.300*	-0.170	0.505***	0.110	0.352*	-0.352
both (lag)	-0.193	-0.803***	0.169	-0.074	-0.457**	0.220
non-accept. (lag)	-0.443***	-0.674***	-0.156	-0.367**	-0.415**	-0.183
rejection (lag)	-0.623***	-1.089***	-0.235	-0.542***	-0.610**	-0.291
discouraged (lag)	-0.307**	-0.424**	-0.106	-0.345**	-0.500**	-0.081
N	6496	6496	6496	5052	5052	5052

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. No-need is taken as the reference category. Marginal probability effects are evaluated at the mean of dependent variables.

Table 5: Determinants of Lending Policy Perceptions, Perception of Accommodating Lending Policy, Random Effects Probit, Average Marginal Probability Effects

	(I)		(II)		(III)		(IV)		(V)		(VI)		(VII)		(VIII)		(IX)	
business exp. (laged)	0.102	*	0.100	*	0.103	*	0.103	*	0.103	*	0.102	*	0.102	*	0.103	*	0.101	*
	(0.057)		(0.058)		(0.058)		(0.058)		(0.058)		(0.058)		(0.058)		(0.058)		(0.057)	
employment (log)	-0.078	**	-0.075	**	-0.074	**	-0.075	**	-0.076	**	-0.077	**	-0.076	**	-0.077	**	-0.081	**
	(0.035)		(0.036)		(0.036)		(0.036)		(0.036)		(0.036)		(0.036)		(0.036)		(0.035)	
as expected (lag)	0.477	***															0.435	***
	(0.087)																(0.089)	
worse cond (lag)			-0.302														-0.219	
			(0.199)														(0.197)	
lower volume (lag)					0.346												0.333	
					(0.295)												(0.294)	
both (lag)							-0.725	*									0.746	*
							(0.397)										(0.394)	
no need (lag)									-0.175	**							REF	
									(0.075)									
non-accept. cond. (lag)											-1.283	***					-1.276	***
											(0.491)						(0.485)	
rejection (lag)													NE				NE	
discouraged (lag)															-0.460		-0.513	
															(0.331)		(0.331)	
No of obs	8314		8314		8314		8314		8314		8314		8229		8314		8229	

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. Rejection predicts failure perfectly. NE- not estimated. REF – reference category.

Table 6: Determinants of Lending Policy Perceptions, Perception of Restrictive Lending Policy, Random Effects Probit, Average Marginal Probability Effects

	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)
business exp. (lag)	-0.028	-0.031	-0.030	-0.034	-0.029	-0.023	-0.030	-0.028	-0.036
	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)	(0.046)
employment (log)	-0.065 *	-0.069 *	-0.066 *	-0.066 *	-0.071 *	-0.065 *	-0.067 *	-0.066 *	-0.056
	(0.038)	(0.037)	(0.038)	(0.037)	(0.036)	(0.037)	(0.037)	(0.037)	(0.034)
as expected (lag)	-0.219 ***								0.047
	(0.081)								(0.815)
worse cond (lag)		0.573 ***							0.863 ***
		(0.118)							(0.119)
lower volume (lag)			0.538 **						0.908 ***
			(0.223)						(0.220)
both (lag)				1.221 ***					1.610 ***
				(0.203)					(0.200)
no need (lag)					-0.424 ***				REF
					(0.062)				
non-accept. cond. (lag)						0.880 ***			1.200 ***
						(0.179)			(0.177)
rejection (lag)							0.995 ***		1.507 ***
							(0.265)		(0.264)
discouraged (lag)								0.522 ***	0.958 ***
								(0.188)	(0.036)
No of obs	8314	8314	8314	8314	8314	8314	8314	8314	8314

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. REF – reference category.

Table 7: Determinants of Lending Policy Perceptions, Ordered Probit

	estimated coefficients		Average Marginal Probability Effects restrictive LP		standard LP		accommodating LP	
business exp. (laged)	0.099	***	0.031	***	0.016	***	0.015	***
	(0.027)		(0.003)		(0.004)		(0.004)	
employment (log)	0.001		0.000		0.000		0.000	
	(0.010)		(0.003)		(0.002)		(0.001)	
as expected (lag)	0.213	***	-0.067	***	0.035	***	0.032	***
	(0.046)		(0.014)		(0.008)		(0.007)	
worse cond (lag)	-0.933	***	0.293	***	-0.155	***	-0.138	***
	(0.084)		(0.0254)		(0.014)		(0.013)	
lower volume (lag)	-0.614	***	0.192	***	-0.102	***	-0.091	***
	(0.181)		(0.057)		(0.030)		(0.027)	
both (lag)	-1.679	***	0.527	***	-0.278	***	-0.248	***
	(0.181)		(0.046)		(0.025)		(0.023)	
non-accept. cond. (lag)	-1.535	***	0.608	***	-0.254	***	-0.227	***
	(0.127)		(0.057)		(0.021)		(0.020)	
rejection (lag)	-1.937	***	0.608	***	-0.321	***	-0.287	***
	(0.184)		(0.057)		(0.020)		(0.028)	
discouraged (lag)	-1.198	***	0.376	***	-0.198	***	-0.177	***
	(0.121)		(0.037)		(0.020)		(0.018)	
No of obs	7050							
Log pseudolikelihood	-5665.53							
Pseudo R2	0.0878							

Note: Regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. No-need is taken as the reference category.

Table 8: Determinants of Lending Policy Perceptions, Ordered Probit, Lag Structure

	as expected		worse cond.		lower volume	both		non-accept. cond		rejection		discou-raged	
1st Lag	0.339	***	-0.611	***	-0.187	-1.115	***	-0.810	***	-0.945	***	-0.682	***
	(0.077)		(0.128)		(0.309)	(0.255)		(0.219)		(0.261)		(0.204)	
2nd Lag	0.202	**	-0.293	**	-0.090	-0.718	***	-0.872	***	-0.830	**	-0.107	
	(0.079)		(0.133)		(0.306)	(0.242)		(0.238)		(0.357)		(0.214)	
3rd Lag	0.050		-0.312	**	-0.051	-0.885	***	-0.710	***	-0.446		-0.509	**
	(0.080)		(0.121)		(0.268)	(0.290)		(0.205)		(0.297)		(0.223)	
4th Lag	0.059		-0.263	**	-0.128	-0.780	***	-0.575	***	-0.439		-0.471	**
	(0.077)		(0.122)		(0.221)	(0.278)		(0.194)		(0.259)	*	(0.211)	
No of obs	3483												

Note: Core variables, regional, time, and sectoral effects are not reported. Robust standard errors in parentheses. Only estimated coefficients are reported (no marginal probability effects). No-need is taken as the reference category.

Table 9: Determinants of Lending Policy Perceptions, Subsample of Firms with No Recent Credit Experience

	basic		no credit need during a previous period of								
	specification		1 quarter		2 quarters		3 quarters		4 quarters		
business exp. (lag)	0.099	***	0.119	***	0.105	**	0.074		0.067		
	(0.027)		(0.37)		(0.045)		(0.055)		(0.067)		
employment (log)	0.001		0.010		0.013		0.022		0.018		
	(0.010)		(0.014)		(0.017)		(0.019)		(0.023)		
as expected (lag)	0.213	***	0.272	***	0.405	***	0.407	***	0.435	**	
	(0.046)		(0.082)		(0.114)		(0.156)		(0.201)		
worse cond (lag)	-0.933	***	-0.736	***	-0.607	**	-0.810	***	-1.396	***	
	(0.084)		(0.183)		(0.254)		(0.303)		(0.509)		
lower volume (lag)	-0.614	***	-0.146		-0.339		-0.375		-0.900		
	(0.181)		(0.375)		(0.432)		(0.441)		(0.901)		
both (lag)	-1.679	***	-1.349	***	-1.346	***	-1.375	***	-1.019	**	
	(0.181)		(0.334)		(0.486)		(0.481)		(0.539)		
non-accept. cond. (lag)	-1.535	***	-1.109	***	-1.113	***	-0.884	**	-1.303	**	
	(0.127)		(0.258)		(0.387)		(0.433)		(0.621)		
rejection (lag)	-1.937	***	-5.828	***	-5.631	***	-5.484	***	-5.517	***	
	(0.184)		(0.084)		(0.121)		(0.181)		(0.265)		
discouraged (lag)	-1.198	***	-0.726	***	-0.546		-0.023		-0.910		
	(0.121)		(0.265)		(0.346)		(0.441)		(0.760)		
No of obs	7050		3988		2796		2018		1465		

Note: Regional, time, and sectoral effects are not reported. Only estimated coefficients are reported (no marginal probability effects). Robust standard errors in parentheses. No-need is taken as the reference category.