

Improving the Real Sector Confidence Index for Turkey as a Leading Macroeconomic Indicator

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Reliable and timely information on business conditions is crucial for a Central Bank in order to formulate forward looking monetary policies. For this purpose, the Central Bank of the Republic of Turkey (CBRT) conducts the Business Tendency Survey (BTS) on a monthly basis and a Real Sector Confidence Index (RSCI) is computed from responses given to the questions of the survey. The motivation of this paper is to revise the components of the existing RSCI and test its performance as an indicator of business cycles in Turkey. The questions in BTS are analysed for the period between January 2007 and January 2013 through cross-correlations, Granger causality tests and turning point analyses, along with a reference series in line with the OECD procedure. Industrial Production Index (IPI) is chosen as the reference series. Our findings show that it is possible to construct the index with fewer variables without weakening robustness of the current RSCI as a leading indicator.

Key Words: Business Cycle, Business Tendency Survey, Cross-correlation, Industrial Production Index