

Building a Financial Constraint Index for Turkey

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Abstract

This paper aims to build a “financial constraints” index for the firms in Turkey. Literature employs traditional indices like revised KZ Index (Baker et al., 2003) , WW Index (Whited and Wu, 2006), HP Index (Hadlock and Pierce, 2010). However, all these indices are developed based on US or European firms. In this study we make use of “Investment Tendency Survey” that is sent to firms from CBRT to extract a “real” indicator of financial constraint based on firms’ own statements. The question of factors that affects investment is evaluated as a true indicator of financial constraints and then this response is predicted with various balance sheet indicators. In this way we are able to construct a financial constraints index that is specific to firms active in Turkish economy that would have many practical applications. As a next step, we estimated the success of this index in predicting future investment dynamics with local projections methodology (Jorda, 2005).

Keywords: financial constraints, investment, Turkey

JEL Codes: E44, E60, G30