

**THE RELATIVE STRENGTH OF EXCHANGE RATE, INTEREST RATE AND CREDIT CHANNELS IN
MALAYSIA**

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ABSTRACT

This paper estimates the augmented monetary conditions for Malaysia using Autoregressive Distributed Lag Model from 1980:1-2004:4. Results reveal evidence of cointegration between the real GDP and exchange rate, short- and long-term interest rate, asset price, and credits on private sector. While the exchange rate, interest rate and credit channels are the key transmission mechanisms in the conduct of monetary policy in Malaysia, the asset price channel is the least relevant. The relative strength of the monetary transmission mechanism channels that drive the real GDP is the credit channel, followed by the exchange rate channel, and interest rate channels, with short rate relatively potency than the long rate at the margin.

Keywords: *cointegration, transmission channels, monetary policy stance, ARDL, Malaysia*