

**Volume 28, Issue 11****Research Announcement****Estimating monetary policy rules for Malaysia: an optimal monetary conditions index**

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**Abstract**

Based on the concept of the monetary conditions index (MCI) to underscore the important role of the interest rates parity, the paper attempts to estimate a model of optimal monetary policy for open emerging market economies. It is designed to shed a light of significance of the internal and external equilibrium and provide the basis for the analysis. The paper estimated the relative influence of interest rates and exchange rate on the output gap, the weights of real interest rates and real exchange rate, which are used to estimate the optimal monetary conditions index. The estimated weights are 1.6: 1, which can be used to specify operating target rule for monetary policy.

Completed draft available on request from:

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