

Modernizing Monetary Policy in Mauritius: Implementation, Analytics, and Communication at the Bank of Mauritius

Leandro Medina (AFR) and Valeriu Nalban (ICD)

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Prepared by Leandro Medina and Valeriu Nalban

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ABSTRACT: Since the adoption of an explicit inflation-targeting regime in 2023, Mauritius has made notable progress in modernizing its monetary policy framework. Reforms have strengthened the design of monetary policy implementation, enhanced analytical capacity through a modern Forecasting and Policy Analysis System (FPAS), and improved central bank communication. At the same time, incomplete implementation of the operational framework—particularly persistent excess liquidity that generates deviations between the announced policy rate and the effective stance—has constrained monetary transmission, while forward-looking analytical insights need to be enhanced in external communication. This Selected Issues Paper reviews recent achievements and highlights that stronger alignment between implementation, analytics, and communication would enhance policy effectiveness, further anchor inflation expectations, and reinforce the credibility of monetary policy in Mauritius.

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Author’s E-Mail Address:	LMedina@imf.org

SELECTED ISSUES PAPERS

Modernizing Monetary Policy in Mauritius: Implementation, Analytics, and Communication at the Bank of Mauritius

Mauritius

Prepared by Leandro Medina, and Valeriu Nalban¹

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Abstract

Since the adoption of an explicit inflation-targeting regime in 2023, Mauritius has made notable progress in modernizing its monetary policy framework. Reforms have strengthened the design of monetary policy implementation, enhanced analytical capacity through a modern Forecasting and Policy Analysis System (FPAS), and improved central bank communication. At the same time, incomplete implementation of the operational framework—particularly persistent excess liquidity that generates deviations between the announced policy rate and the effective stance—has constrained monetary transmission, while forward-looking analytical insights need to be enhanced in external communication. This Selected Issues Paper reviews recent achievements and highlights that stronger alignment between implementation, analytics, and communication would enhance policy effectiveness, further anchor inflation expectations, and reinforce the credibility of monetary policy in Mauritius.

A. Introduction and Motivation

1. **Mauritius has undertaken a significant modernization of its monetary policy framework over recent years, culminating in the adoption of an explicit inflation-targeting (IT) regime in January 2023.**

This transition marked a structural shift away from a framework characterized by multiple objectives and less clearly defined operational targets toward a forward-looking, interest-rate-based regime aligned with international good practice.

2. **In parallel, the Bank of Mauritius (BOM) has invested in strengthening its analytical capacity and institutional processes, notably through the development, with technical assistance support from the IMF, of a Forecasting and Policy Analysis System (FPAS), and has expanded and professionalized its communication with financial markets and the public.** Together, these reforms have laid the foundations for a more consistent and transparent monetary policy framework.

3. **At the same time, the effectiveness of the overall framework depends critically on the degree of consistency and alignment across its core components.** Monetary policy implementation, analytical capacity, and communication are mutually reinforcing pillars: weaknesses or misalignments in any one of them can undermine policy transmission, weaken expectations formation, and erode credibility. This paper reviews recent developments across these three dimensions and discusses priorities to consolidate Mauritius's inflation-targeting framework.

B. Monetary Policy Implementation: Achievements and Next Steps

The 2023 Operational Framework

4. The 2023 reform of the monetary policy framework introduced a clear hierarchy between the ultimate objective of price stability, the intermediate target of inflation forecast, and the operational target of the overnight interbank rate. The framework is centered on a single policy rate—the “Key Rate”—used to signal the stance of monetary policy, with implementation relying on fixed-rate, full-allotment issuance of 7-day BOM bills within a symmetric interest rate corridor defined by standing deposit and lending facilities

5. **The 2023 reform of the monetary policy framework introduced a clear hierarchy between the ultimate objective of price stability, the intermediate target of inflation forecast, and the operational target of the overnight interbank rate.** The framework is centered on a single policy rate—the “Key Rate”—used to signal the stance of monetary policy, with implementation relying on fixed-rate, full-allotment issuance of 7-day BOM bills within a symmetric interest rate corridor defined by standing deposit and lending facilities.

6. **Relative to the previous operational setup, the new framework represents a substantial improvement in conceptual clarity and internal consistency.** By explicitly identifying the overnight interbank rate as the operational target, the framework has aimed to strengthen the link between policy decisions and short-term market rates, thereby improving monetary transmission via the interest rate channel.

Main Achievements

Several aspects of the reform have worked as intended. The introduction of a single policy rate has reinforced the role of interest rates as the primary instrument for signaling the stance of monetary policy. Survey evidence indicates that banks view the “Key Rate” as an important reference for pricing loans, and that changes in the policy rate are generally reflected in administered lending rates²

7. **The symmetric corridor system, combined with the expanded liquidity management toolkit—including reserve requirements, short-term bills, longer-term BOM securities, and standing facilities—has enhanced BOM’s operational flexibility and improved transparency regarding the use of policy instruments.** These reforms have contributed to a clearer understanding of the monetary policy framework among market participants.

Incomplete Implementation and Transmission Challenges

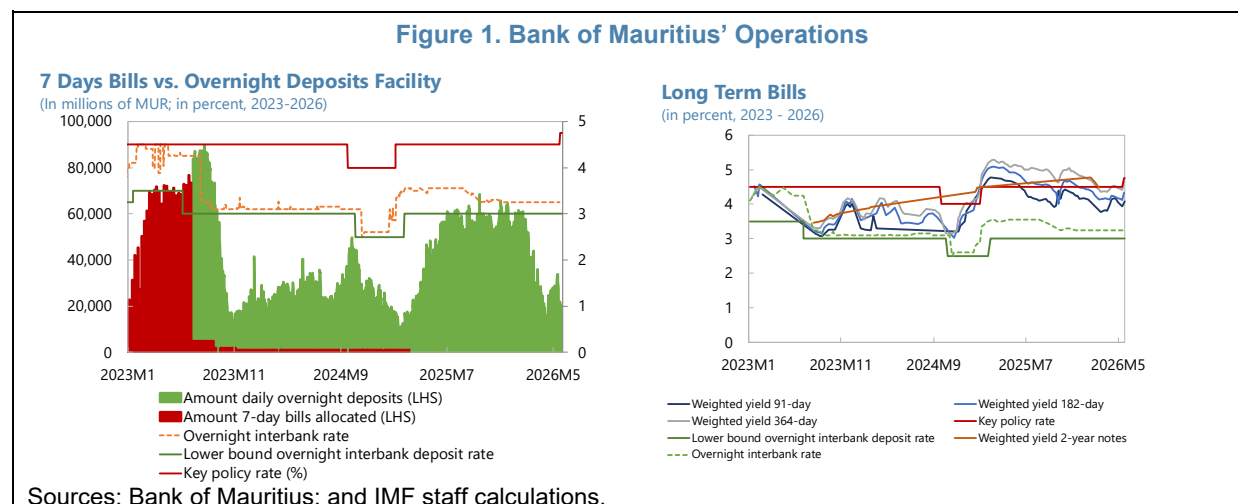
8. **Despite improvements in framework design, implementation has remained incomplete. Since mid-2023, issuance of 7-day BOM bills has been capped, resulting in persistent excess liquidity in the banking system (Figure 1).** As a consequence, the effective marginal absorption rate has been determined largely by the overnight deposit facility rate rather than by the “Key Rate”. This has weakened the link between the announced policy rate and the effective monetary policy stance, delivering a looser stance than implied by the “Key Rate.” The overnight interbank rate has tended to trade close to the deposit facility rate rather than around the policy rate, reducing the anchoring role of the “Key Rate” and limiting its usefulness as a pricing reference for financial contracts. The loose liquidity conditions also contribute to the lack of a univocal operational target of monetary policy implementation. These conditions have broader structural implications, including wider intermediation margins, heightened interest-rate risk for banks, and a shallow money market that may constrain the development of the broader capital market.

Policy Priorities

9. **Restoring fixed-rate, full-allotment issuance of 7-day BOM bills at the policy rate is needed to realign the effective stance with the announced “Key Rate” under the present framework, and strengthening interest-rate transmission.** This step would also support capital market development. Given current liquidity conditions, any realignment would need to be carefully calibrated and clearly communicated.

² During 2025, IMF’s AFRITAC South conducted a survey among commercial banks to elicit their views and assessment of the interbank money market, funding and liquidity management, pricing and monetary policy transmission.

More broadly, enhanced monitoring and communication of the effective monetary policy stance, together with a transparent framework guiding the mix between short- and longer-term liquidity absorption instruments, would support credibility and accountability.



C. Strengthening Forecasting and Policy Analysis Under Inflation Targeting

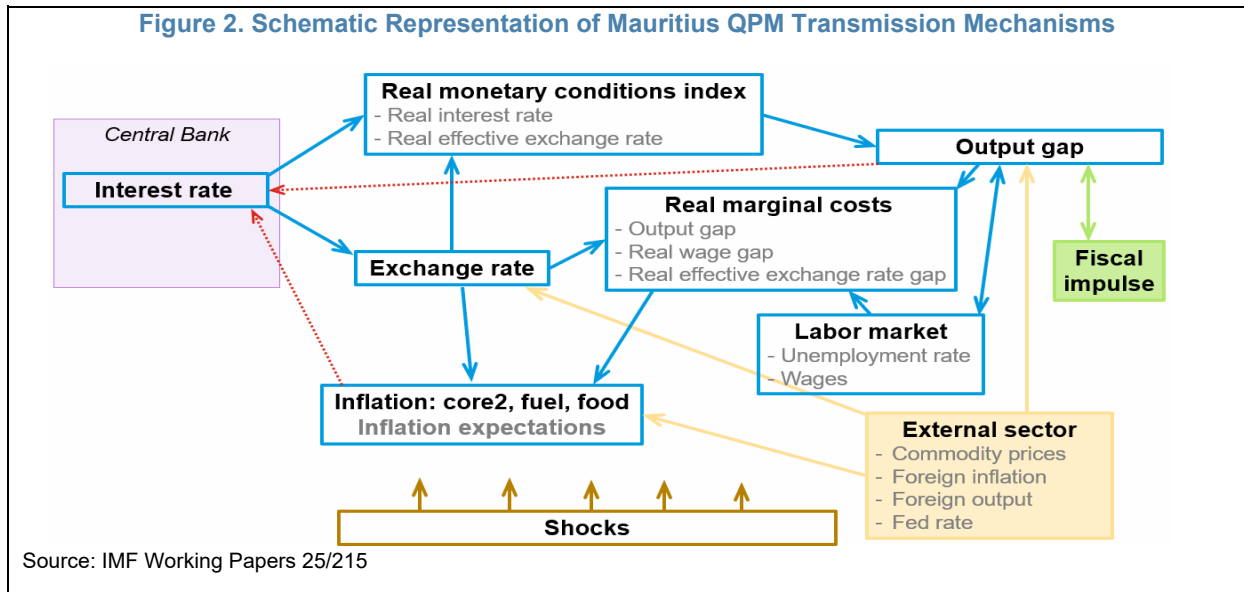
FPAS as the Analytical Backbone

10. In parallel with operational reforms, BOM has made substantial progress in strengthening its **Forecasting and Policy Analysis System (FPAS)**. FPAS has become the analytical backbone of the inflation-targeting framework, supporting model-based forecasting, structured policy analysis, and forward-looking decision-making.

11. At the core of FPAS is a **Mauritius-tailored Quarterly Projection Model (QPM)**, complemented by a suite of satellite tools for nowcasting, near-term forecasting, and sectoral analysis (see text figure for schematic representation of BOM's QPM).³ Together, these tools generate internally consistent baseline projections and alternative scenarios that inform policy deliberations.

³ Mauritius QPM is described in detail in Pampusa et al (2025).

Figure 2. Schematic Representation of Mauritius QPM Transmission Mechanisms



Institutional Integration and Use in Policymaking

12. **FPAS is well embedded in BOM's institutional processes through a structured quarterly forecasting calendar aligned with pre-announced Monetary Policy Committee (MPC) meeting dates.** Staff roles are clearly defined, and coordination across BOM departments supports a unified institutional view of the economic outlook.
13. **Baseline projections and alternative scenarios play a central role in MPC discussions, allowing policymakers to assess risks, evaluate trade-offs, and compare alternative policy paths in a consistent analytical framework.** This has improved forecasts and the transparency and discipline of internal policy deliberations.

Priorities for Forecasting and Policy Analysis

14. **While FPAS has substantially strengthened BOM's analytical capacity, further progress is needed to consolidate gains.** Priorities include refining model extensions and satellite tools, ensuring continuity of staff capacity, and deepening the integration of FPAS outputs into external communication. As monetary policy becomes increasingly evidence-based and forward-looking, systematic communication of projections, scenarios, and risks will be essential to anchor expectations and enhance policy credibility.

D. Communication as a Policy Instrument: Strengths and Reform Priorities

Current Communication Framework

15. **BOM communicates through a broad set of channels, including monetary policy decisions and press releases, Monetary Policy Report, Financial Stability Report, statistical publications, speeches, and digital platforms.** Communication with financial market participants is frequent and professional, supported by established bilateral exchanges.

16. **Survey evidence from commercial banks and selected non-bank financial institutions suggests that core stakeholders generally have a good understanding of BOM's mandate and monetary policy framework, and view communication as clear and relevant for decision-making.** Readability analysis indicates that BOM's publications compare favorably with those of peer central banks.

17. **At the same time, strategic planning and message coordination could be enhanced. Forward-looking content—particularly explicit discussion of risks, contingencies, and conditional policy responses—remains more limited than in peer inflation-targeting countries.** Communication related to exchange-rate policy and foreign exchange operations is perceived as less clear by survey respondents.

18. **While trust in BOM's commitment to price stability remains high,** concerns among survey respondents about perceived political influence underscore the importance of transparent, consistent, and well-structured communication to reinforce institutional credibility and independence.

Reform Priorities for the Communication Framework

19. **International experience highlights the importance of a clear communication strategy aligned with the policy framework, predictable communication cycles, strong message discipline, explicit audience segmentation, and systematic evaluation of effectiveness.** In an increasingly complex information environment with higher uncertainty, clear and timely communication can help support public understanding of monetary policy and reinforce central bank credibility. For BOM, priorities include formalizing an institutional communication strategy; strengthening the role of the Communications Unit in planning and narrative development; adopting a more structured, forward-looking approach to monetary policy communication; expanding integrated, multi-channel outreach; and institutionalizing monitoring and evaluation of communication effectiveness.

E. Policy Priorities to further Modernize Monetary Policy in Mauritius

20. **Mauritius has made significant progress in building and implementing the core components of a modern inflation-targeting regime.** Overall policy priorities center on strengthening both monetary policy implementation, and forecasting and policy analysis—in coordination with an upgraded BOM communication strategy. Fully implementing the operational framework, comprehensively leveraging FPAS as the organizing framework for both internal deliberations and external narratives, and adopting a more strategic, forward-looking communication approach would materially strengthen the monetary policy framework. Stronger alignment across these pillars would help increase the signal value of the announced policy rate, anchor inflation expectations more firmly and reinforce the credibility and effectiveness of monetary policy in achieving its inflation objective—supporting macroeconomic stability in an increasingly complex and uncertain global environment.

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