

*Marcel Kamba-Kibatshi**

IMPACT OF MONETARY POLICY
OF THE CENTRAL BANK ON THE RATE
OF INFLATION IN THE DRC: INSTRUMENTS,
IMPLEMENTATION AND RESULTS

Abstract: Democratic Republic of the Congo is a country which it has an area of 2,345,410 square kilometres and currently resides it more than 72 million inhabitants. Since the change the political regime in 1997 the Congolese monetary system without success it has undergone many changes and reforms in connection with the volatility of the currency, economy dollarization, the lack of liquidity of money in the economy. The Government of the Democratic Republic of the Congo from May 1997 decided to entrust to the Central Bank of Congo monetary reform mission, including changes monetary unit. Empirical analysis confirms that Central Bank Congo despite rapid response to inflationary shocks in low degree limited inflation. Strengthening the current framework of monetary policy remains the best solution, because the country is exposed to frequent shocks dictated by trading conditions. The placing on the market in June 1998 frank Congolese became a symbol not only disprove government Mobutu, but first of all system failures.

Key words: polityka pieniężna; Bank Centralny DRK; stopa inflacji; DRK; makroekonomia

Klasyfikacja JEL: E44, H63, O23.

* The address for correspondence: Marcel Kamba-Kibatshi, University Cardinal Stephan Wyszyński in Warsaw, Institute of Sociology, Faculty of sciences historical and social, Wóycickiego 1/3 Street, 01-938 Warsaw, Bl. 23, E-mail: m.kamba@vp.pl

INTRODUCTION

The willingness of the Government to translate into acts its economic decisions, the revival of confidence manifested in its internal and external partners are assets for the economic future of the Democratic Republic of the Congo. In the context of the poverty reduction strategies, the maintenance and the satisfactory implementation of macroeconomic policies aimed at controlling the rate of inflation for general stability prices prove indispensable. This situation would allow the creation of conditions conducive to the revival of economic activity. The classic schema representing the law of supply and demand that Ensign MISHKIN is that when demand increases prices go up, and when she cut the prices make as much. It is this concept that is based the action of central banks. According to economic science, inflation comes from an excess of liquidity. In other words, the volume of currency in circulation is much greater than the volume of goods and services. It is that if currency in circulation increases, individuals increase their demand for goods and services. If this demand is not an increase in production by, prices rise. Then, central banks can influence the rate of inflation by changing the rate of growth of the money supply by using their instruments of monetary policy. The Central Bank of a country is an institution by the State to decide to apply the monetary policy. She played all or part of the following three roles:

- ensure the issuance of fiduciary money and contribute to the fixing of interest rates;
- Supervise the operation of the financial markets, ensure compliance with the regulations by financial institutions;
- The role of banker as a last resort in case of systemic crisis.

The current statutes of the central banks prioritize the missions of these institutions with a mandate clearly focused on the stability of the prices rather on economic growth which was previously essential». Indeed, the instability of prices is a source of uncertainty, distorts the economic decision-making process and impedes economic growth. However, very often, this instability results from inflation which can be defined as a «persistent price generally expressed by the price index for consumption, on the understanding that this index measures the change in the cost of a basket of goods and services, including housing, electricity, food and transport increase». The Central banks may seek to achieve the objective of price stability using several instruments, which allow to vary the money supply in circulation

in the country and the cost of the credits granted to individuals and businesses. The main instrument is the fixing of interest rates.

They can also use the setting of the levels of minimum reserves, the open-market (purchase and sale of Treasury bills) operations to achieve a target of interest rates in the short term or directly set the discount rate (rate at which the Central Bank lends to commercial banks). Interventions on the foreign exchange markets are also one of the instruments among others. When central banks sell (i.e. when individuals buy, for example, Treasury bills), decreases the supply of money in the economy and interest rates increase. A rising interest reduced demand (mainly of housing, goods consumer durables and capital goods) and, in principle, inflation. The amendment of the interest rate is the primary means of a Central Bank to influence the economy. In this perspective, the Central Bank of Congo plays this role in monetary terms with as background research of national prosperity. The Act No. 005/2002 07 May 2002 relative to the constitution, the Organization and the functioning of the Central Bank of the Congo clarifies and expands the mission of the Bank giving him independence and appropriate legal means. This independence is located specifically in the definition and implementation of monetary policy. It is quite limited in his duties as cashier of the State. The Central Bank of Congo has five main tasks namely: the custody of public funds, the backup and monetary stability, the definition and implementation of monetary policy, the control of all banking activity. It is the economic and financial Government Council. Backup and monetary stability are the result of monetary policy and Exchange which are the means used by the Central Bank of the Congo to preserve the value internal and external of the national currency the “Congoles Franc” (CDF). The monetary policy seeks stability in the general level of prices and the Exchange seeks to preserve the value of the national currency against foreign currencies in the context of liberalization of trade. In this case, its independence is quite limited because the Bank may incur an expense without a decision by the Government, under the Ministry of the budget and authorised by the Ministry of finance. For questions of transparency, Act 2002 prescribed the transmission of reports of Auditors accounts to the Government. In the control of banking activities, the Bank is developing laws and instructions applicable to banks, cooperatives of savings and credit, the credit institutions, and other financial intermediaries operating on Congolese territory. Furthermore, the law of 2002 sets up three bodies and specifies the procedure for the designation of facilitators of the latter. These organs are the Council of the Bank, the Governor and the col-

lege of the Auditors. This monetary emission and financial circulation are key variables in the evolution of prices and the exchange rate. The central bank of Congo (BCC) is by monitoring the amount of currency in circulation by implementing monetary policies and Exchange. Where the interest to know how the Central Bank of Congo behaved in the definition and implementation of monetary policy in recent years. What were the instruments and their impact on economic life? What was the inflation rate during these periods. At the sight of all the crises experienced by the Democratic Republic of Congo, how the central bank of Congo as the institute of emission and body of definition and implementation of monetary policy, was able to evolve and cope with this. How is this bank gets to work despite the unstable political climate in the country. So the study is divided into two points. The first point is an analysis of the legal basis of the macroeconomic framework of the central bank of Congo (BCC), and the second deals with interventions in the control of Monetary liquidity.

THE LEGAL FRAMEWORK MACROECONOMIC FOUNDATIONS: SKILLS OF THE CENTRAL BANK OF CONGO (BCC)

The Bank is responsible to define and implement the monetary policy of the country whose main objective is to ensure stability in the general level of prices. It acts independently in the achievement of this goal by supporting the Government's economic policy. To do this, the central bank of Congo (BCC) uses various instruments whose purpose is to ensure a level of sufficient liquidity in the national economy. Moreover, BCC limits the power of money creation by commercial banks by imposing a reasonable level of minimum reserves. The monetary policy operations are thus intended either to put at the disposal of the economy of liquidity that it needs, or to absorb an additional liquidity, source of inflation. Examine the powers of the Central Bank monetary policy (1) and the Exchange (2). There are two types of monetary policy operation. The refinancing operations are governed by the provisions of instruction n° 4 to May 27, 2009 banks enacted by the central bank of Congo (BCC). This text establishes counterparties, eligible assets as collateral and the terms of refinancing. It follows from the provisions of articles 10 and 14 of the statement above mentioned that cons parties eligible to the refinancing operations are only commercial banks. In accordance with the provisions of article 8 of the

law No. 005/2002 may 07, 2002, BCC requires guarantees to banks that occur at its counters. Article 2 of instruction n° 4 provides that the refinancing of banks to the Central Bank is conditional on the pledge of the effects of the Government securities or private of good quality [Kalumvuziko Ngimbi, 2013, pp.181–189]. It is planned two terms of refinancing of banks, namely: short-term loans which consist in operations for the temporary transfer of Congolese francs by the Central bank of Congo to commercial banks with a maturity of seven days maximum, renewable at the discretion of the Central Bank of Congo and standing facilities allocated to commercial banks to cover notably their debtor position at the end of day at the clearing house [Kudinga Benoît, 2006, pp. 71–73]. The interest rate of these two operations are not identical. Furthermore, the interests relating to short-term loan operations are discounted and interest relating to standing facilities operations are collected in arrears [Van Reybrouck David, 2012, pp. 701–703]. The interest of distinction between the two schemes is as follows: the standing facilities are intended to provide liquidity to the day the day indicate the general orientation of monetary policy and supervise the market on the day rates the day. The amount fixed by the Central Bank of Congo is the minimum to which commercial banks and other financial intermediaries must subscribe [Faustin K., 2008, pp.76–77]. The interest rate is one that is retained on each submission. This rate is annual, basis of 360 days, to two decimal places and applies to the maturity of subscription. The maturity of the BTR is 7, 14 or 28 days from the date of the subscription. The interest generated by subscribing to the BTR are exempt from taxes [CARARE A., STONE M., 2004, pp. 74–75]. The two procedures are identical except with regard to their chronology and field parties against. According to this text, the banks are required to establish mandatory reserves in the books of the Central Bank of Congo [Van Reybrouck David, 2012, pp.684–686]. The banks that do not meet the requirement of a constitution of mandatory reserve are sanctioned a penalty equal to the interest rates on the standing facilities increased by half sitting on the amount of the insufficiency of the mandatory reserve for the corresponding period [MOUTOT Philippe, 2008, pp. 71–72]. By monetary policy, the Central Bank of Congo ensures stability in the general level of prices, the safeguarding of the internal value of the currency. When foreign exchange rates are a significant fluctuation upwards, the Central Bank of Congo should intervene on the foreign exchange market to correct the balance. Look firstly at the supervision of foreign exchange transactions (1) and, secondly, interventions of the Central Bank of Congo on the foreign exchange market (2). Since

May 27, 2001, the reinforced interim Programme (PIR) and the economic program of the Government helped stabilize the Congolese franc by removing the fixed exchange rate to adopt floating exchange rate. There was a reduction in the gap between the (official) indicative rate and the parallel rate. [Luwansangu Paul, 2005, p.53]. The main role of the exchange rate policy is to prevent or fight against transitory shocks by ceasing the fluctuations of the exchange rate and in preserving the appropriate level of international reserves. It is the export or import of banknotes denominated in foreign currencies and the opening of bureaux de change [BAYARD J., 2006, pp. 113–114]. It should however have a broad acceptance of the Exchange as being the supply and demand of currencies at any given time. This offer and demand influence the course of exchange of foreign currencies against the national currency and sum the Central Bank of Congo (BCC) to intervene when fluctuations are important. To enable the Central Bank of Congo to intervene on the foreign exchange market, the State has put its disposal of foreign currency reserves that the institution must grow [KABUYA KALALA F. and MATATA PONYO M., pp.73–74]. When these reserves are insufficient, the Congolese State can exercise its right of drawing on the International Monetary Fund or solicit financial support from this institution.

INTERVENTIONS OF THE BCC IN THE CONTROL OF THE MONETARY BASE

To avoid inflation, the Central Bank of Congo shall ensure the monetary base which consists of currency in circulation (main component approximately 65% of the money supply), commercial bank deposits and other deposits (deposits in non-bank financial institutions). It also monitors the evolution of the supply of the national currency against foreign currencies [Van Reybrouck David, 2012, pp. 711–712]. It acts by injecting or reducing the liquidity of the currency on the foreign exchange market. Thus the study of the action of the Central Bank of Congo (BCC) in relation to the control of inflation-related instruments will be based on cash tickets (BTR) award and the preservation of purchasing power (1) on the one hand, and the management of liquidity and prospects on the other hand (2). The review covers the period from 2007 to 2010. In addition, an evaluation of the interventions of the Central Bank of Congo demonstrates the rate and the level of inflation, and the level of withdrawals made on liquidity through the sale of commercial paper for a better outcome, and to con-

sider solutions to the preservation of the purchasing power of the national currency [BAYARD J., 2006, pp. 111–112]. Among the three instruments in the provision of a Central Bank of Congo, the cash ticket (BTR) allows to regulate liquidity in the very short term and respond particularly to permanent shocks on bank liquidity. It is for this reason that there are interested in this study. It is an instrument that the Central Bank of Congo often used over others because it has the advantage of short and long term. It facilitates the fight against one-off shocks. It was during these years that the Central Bank of Congo has heavily used this instrument. It means that the consumer of the currency should have enough to procure goods and services that it needs. In the case of decrease in the monetary base, domestic prices will tend to increase [Bakandeja wa Mesa, 2002, pp. 2–3]. This is to safeguard the purchasing power of the national currency, framing his behaviour against other foreign currencies by injecting or puncturing on liquidity. In 2007, the monetary policy implementation was prudent and restrictive due to the maintenance of real interest rates (interest rate). The Central Bank of Congo has changed these rates four times this year. This rate increased from 40 to 50% in February; He came back to 40% in April from 30% in May to finally settle at 22.5 per cent in July. This rate has remained unchanged until the end of the year. The BTR subscriptions amounted to CDF 461 billion at December 31. The liquidity of the instrument puncture was 151.1%. He went from CDF 388.4 billion in January to reach 461.1 in December. The annual inflation rate of 9.9%, it has undergone five phases of inflation which the stronger in January and February (respectively), and August (10.0), which also remained so until the end of the year. Inflationary periods resulting from the increase in the price of fuel and food products resulting in an increase of the price of transport [Malingumu Syosyo, 2008, pp. 67–68]. The strategy of the Central Bank of Congo was to extend and deepen foreign exchange markets by the acceptance of the CDF to payment by mine operators, taxes and fees. The intervention of the Central Bank of Congo on the market is 5.6% after currency purchases, carried out by it, amounting to us \$ 66.9 million. The following year, 2008, BCC has not changed the objectives and instruments of monetary policy. The Central Bank of Congo as cashier of the State and responsible for the implementation of monetary policy, had to act to avoid an increase in the formation of domestic prices [Malingumu Syosyo, January 22, 2008, pp. 131–132]. On the international market, the price of a barrel rose from 147 USD in July for 65.3 USD in October, thus inducing a reduction in petroleum products downward. The key rate will thus undergo 3 adjustments [Munsala Buaka-

sa, January 28, 2008, pp. 34–35]. In January (24.6%), June (30%) and December (40%). The annual inflation rate was 27.5 per cent. The award of the BTR amounted 1.444,0 billion of CDF. The exceedances of the budgetary targets in 2008 led to a monetary situation marked by tensions in relation to liquidity in 2009. The monetary policy has been restrictive to deal with pressures on liquidity and the general level of prices. The rate has been increased from 40 to 55 and 65% in January, for a last reform in the month of October. The regulation of liquidity carried out in February, mainly by the BTR (CDF 2.395,7 billion) tender operations has maintained stable rates until July. In response to the expansion of bank liquidity, to inflationary pressures, induced by the deterioration of the financial situation of the public sector, and also and above all to the international financial crisis, BCC made a further tightening of its policy to fix the rate of inflation to 53.4% and the rate to 70% towards the end of the year[Bakandeja wa Mpungu, 2002, pp. 3–5]. About 48 million USD sold in the second quarter. Another sale by tender intervened in June without preventing a depreciation due to the reappearance of budget deficits. The Central Bank of Congo was unable to control the inflationary shocks despite all its interventions[Munsala Buakasa, 2008, p. 102]. The year 2010 is still characterized by a deflationary trend. The rate was gradually readjusted to 22% at the end of December. The rate of inflation is located at 9.8% on a monetary basis growing by 29.6%. The volume of the BTR reached 3.512,1 billion of CDF. On purchases of \$ 1.159,8 million and sales of 1.053,9 million USD, the Central Bank of Congo intervened by an assignment of 10.0 million USD in January and \$ 157.0 million between March and August purchases to combat tensions on the market after the year-end festivities[Faustin K., 2008, pp. 49–51]. The supply and demand of the currency jointly determine the level of the price changes reflected by the rate of inflation, which in turn influence the normal interest rate. The inflation rates are highly variable in their sources to endogenous and exogenous shocks[BALLIE R. et McMAHON P., 1997, p.19]. The intervention of the central bank of Congo through its instruments is considered low and sometimes non-existent (2008). The role of monetary factors including the stock of the BTR has been overlooked at the beginning of its launch (2007), but after experimenting with the advantages on the regulation of liquidity, the Central Bank of Congo a raise economic agents, especially banks, in the use of this instrument. It is to intervene before feeling the effects of the increase in demand [Kalumvueziko Ngimbi, 2013, p. 167–169]. The Congolese economic policy had to deal with permanent liquidity shocks related to the deficit of the public sector.

The budget deficits caused by the Government's spending cause a decrease in the amount of currency in circulation. In this context, the Central Bank of Congo hardens its monetary policy with the rate increase and the maintenance of the coefficient of minimum reserves to mitigate the expansion of the monetary base [Kalumvueziko Ngimbi, 2013, pp. 43–44]. Exchange rate policy softens more without having the effect of safeguard the purchasing power of the national currency.

CONCLUSION

The Central Bank of Congo interventions have a remarkable advanced but their effects on the different areas of action are not visible. Exchange rates fluctuate according to usual transitory shocks, who reinforce the convictions of economic operators on the confidence granted to the national currency. This causes a national currency liquidity involving an increase in the demand for currencies which causes inflation. A lack of restrictive fiscal policy stifles the effects of a good monetary policy. The advantage of ensuring its independence not subordinating its action to the reaction of fiscal policy to act as prevention against shocks that can come of it. It also has the advantage of giving signals to markets by reassuring economic agents on the ability and willingness of the Monetary Authority to remedy the situation. It allows also to establish responsibility by separating those budgetary monetary initiatives. Consequently, monetary policy can be implemented, at least in the short term, in any budgetary slippage from the time that the Monetary Authority has the free choice of its instruments. Our work has focused on "the impact of monetary policy on the general level of prices in the Democratic Republic of the Congo from 1998 to 2009". He had for objective the study of the relationship between the monetary policy of the Central Bank of Congo and the general level of prices which is regarded as the priority of the authorities monetary (Central Bank and Treasury) to achieve our problem of research focused on the following questions:

- What was the impact of the monetary policy of the Central Bank of Congo on the general level of prices?
- The inoperability of monetary policy of BCC on the general level of prices follows – t – he of the bad layout of the direct and indirect instruments of the inelasticity of supply of goods and services or the poor allocation of monetary resources?

Thus, we proposed the assumptions above – after:

- The monetary policy of the Central Bank of Congo is inefficiently on the general level of prices.

The inoperability of monetary policy on the general level of prices in the Democratic Republic of the Congo stems from the poor layout of the direct and indirect instruments (framework credits bad policy, lack of open market policy) to test these hypotheses, we have recourse to the functional and analytical methods. Both methods have been supplemented by the documentary technique; leading divided our work into three major chapters:

- in the first chapter we have reviewed different theoretical considerations on monetary policy and the general level of prices;
- in the second chapter we have made an overview on the monetary policy and the general level of prices in Democratic Republic of Congo, from 1998 to 2009; and
- the third chapter was devoted to the empirical analysis: testing of hypotheses of the bases.

After analysis and interpretation of results, it was observed that our hypotheses have been confirmed. In fact, we left the assumption that the monetary policy of the BCC is inefficiently on the general level of prices; the results of a calculation to Reviews shows that the monetary policy of the Central Bank of Congo has a negative impact on the general level of prices, or 83% of the cover of the general level of prices is explained by the monetary policy wrong of the Central Bank of Congo during the period under study. Therefore the failure of monetary policy in the Democratic Republic of Congo to stabilize prices creates the controversy over the question of his Manager. One can say that the true head of the failure of monetary policy rests with the Monetary Authority which is the Central Bank of Congo under section 1 articles of Central Bank which enshrines his autonomy; others however attributed this failure to the public power in is referring to article two of the statutes of the Central Bank which requires monetary policy to register as part of the Government's economic policy. With regard to the clarification above, it appears that the ineffectiveness of monetary policy in the Democratic Republic of Congo responsibility for both the Government and the Monetary Authority (BCC) given its inability attested to resist pressure from the Government on the grant of advances for the budget deficit which is for the majority of cases, source of the widespread cover prices i.e. inflation. We suggest the Government of the DRC, a budgetary discipline in the management of public finances to avoid any uses the financing of the budget deficit by the advances of the Central Bank of Congo and the monetary authority of this country, which is the Central

Bank of Congo, consistency and rationality in the management of the monetary policy instruments to well to achieve its final objective which is to stabilize prices in the economy.

LITERATURE

- Bakandeja wa Mpungu, L'informel et le droit économique : les incidences des pratiques commerciales sur le fonctionnement de l'économie. Voir Journées des droits de l'homme sur : « La déclaration universelle des droits de l'homme et la construction de l'État de droit », UNIKIN, 19–20 février 2002, p. 2.
- BALLIE R. et McMAHON P., Le marché des changes, Ed. ESKA, Paris, 1997.
- BAYARD J., Le pouvoir de la banque centrale sur l'émission monétaire, BCE, janvier 2006.
- BETOINE A., BASSONI M., Problèmes monétaires internationaux, Ed. Armand Collin, Paris 1997
- CARARE A., STONE M., « Pourquoi cibler l'inflation ? », in Finances et développement, juin 2004.
- CHAIANEAU A., Mécanismes et politiques monétaires, Collection « Quadrige », PUF, 2000.
- CUKIERMAN E. A., Measuring the independence of central bank and its effects on policy outcomes in World Bank Economic Review 6, 1992.
- GRILLI V. E. A., political and monetary institutions and public financial policies in the industrial economies, Economic Policy, Vol. 13, 1991.
- KABUYA KALALA F. et MATATA PONYO M., L'espace monétaire kasaïen : crise de légitimité et de souveraineté monétaire en période d'hyperinflation au Congo (1993–1997), Institut Africain CEDAF et Harmattan, Paris, Août 2000.
- Kalumvueziko Ngimbi, Congo-Zaïre: Le destin tragique d'une nation, L'Harmattan, 2013, p. 181–189
- Kudinga Benoît, Le gouvernement congolais, garant de l'instabilité macroéconomique, Le Potentiel, 7 mars 2006.
- Kuediasala Faustin., « États généraux des mines: une occasion de redéfinir la politique minière de la RDC », Journal Le Potentiel n° 4263, 8 mars 2008
- HERON E. et MOUTOT Philippe, les banques centrales doivent-elles être indépendantes ?, Prométhée, Coll. Pour ou contre ?, Bordeaux, 2008.
- Luwansangu Paul, Bilan économique de la RDC 2001–2005 : est-ce la fin de la malédiction ?, Journal Le Potentiel, n° 3467, 6 juillet 2005

- Malingumu Syosyo, Plaidoyer pour la création d'une bourse des valeurs en RDC, Journal le Potentiel, n° 4224 du 22 janvier 2008
- MANGANNO G., Measuring central bank: a tale of subjectivity and of its consequences in Oxford Economic Papers n° 50, 1998.
- MISHKIN F. E. A., Monnaies, banques et marchés financiers, 7ème éd., Ed. Pearson Education, Paris, 2004.
- Munsala Buakasa, « Des milliards USD chinois à la portée de la RDC », Journal L'Observateur, n° 2804 du 28 janvier 2008
- PATAT J-P., les banques centrales. Fondement de l'économie nationale, Sirey, Paris, 1992.
- Van Reybrouck David, Congo. Een geschiedenis, 2010 (trad. française : Congo. Une histoire, Actes sud, 2012, pp. 711–712)

WPLYW POLITYKI PIENIĘŻNEJ BANKU CENTRALNEGO NA STOPEŃ INFLACJI DEMOKRATYCZNEJ REPUBLIKI KONGA

Streszczenie: Demokratyczna Republika Konga jest krajem, który zajmuje powierzchnię 2 345 410 kilometrów kwadratowych i obecnie zamieszkuje ją ponad 72 mln osób. Od czasu zmiany reżimu politycznego w 1997 r. kongijski system walutowy bez powodzenia był poddawany wielu zmianom i reformom w związku z niestabilnością waluty, dolaryzacja gospodarki, brakiem płynności pieniądza w gospodarce. Rząd Demokratycznej Republiki Konga postanowił od maja 1997 r. powierzyć bankowi centralnemu misję reformy monetarnej, w tym zmiany jednostki walutowej. Analiza empiryczna potwierdza, że Bank Centralny Kongo pomimo szybkiej reakcji na inflacyjne szoki w słabym stopniu ograniczył inflację. Wzmocnienie obecnych ram polityki pieniężnej nadal pozostaje najlepszym rozwiązaniem, bowiem kraj jest narażony na częste wstrząsy podyktowane warunkami handlowymi. Wprowadzenie do obrotu w czerwcu 1998 r. franka kongijskiego stało się symbolem nie tylko obalenia rządów Mobutu, ale przede wszystkim porażki systemu.

Słowa kluczowe: polityka pieniężna; Bank Centralny DRK; stopa inflacji; DRK; makroekonomia.