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Strategic monetary management and macroeconomic stabilization in the Democratic Republic of Congo: a 25-year VECM analysis of five structural episodes (2001-2025)

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Abstract: This paper frames 25 years (2001Q1-2025Q4) of Central Bank of Congo (BCC) monetary management as a strategic management problem, evaluating its indirect liquidity management strategy across five structurally distinct episodes: (i) post-stabilization (2001-2012); (ii) record-low rate era (2013-2015); (iii) politico-monetary crisis (2016-2018); (iv) COVID-19 shock (2019-2021); (v) inflationary surge and 25% rate (2022-2025). A VECM estimated on 100 quarterly observations confirms: a significant disinflationary policy rate effect (–0.020; $t = 6.35$; $p < 1\%$); exchange rate channel dominance (0.624, doubled vs. 2001-2012); near-unit petroleum pass-through (0.896); and 25-year structural stability (Johansen trace = 104.32, $p = 0.0001$; Chow $p = 0.784$; CUSUM stable). Drawing on strategic management frameworks (Bryson, 2018; Mintzberg, 1994), five strategic imperatives are identified for 2026-2035: interest rate credibility reinforcement, active exchange rate management, structural de-dollarization, energy diversification, and enhanced monetary communication strategy.

Keywords: Strategic monetary management; Central bank strategy; VECM; Policy rate; Macroeconomic stabilization; DRC

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1. Introduction: Central Banking as strategic management

Strategic management in public sector organizations involves the deliberate alignment of objectives, instruments, and environmental conditions to achieve defined performance targets (Bryson, 2018). Central banks are archetypical strategic actors: they face multiple, potentially conflicting objectives; deploy limited instruments; operate under profound uncertainty; and must maintain long-term strategic credibility while responding to short-term demands. The Central Bank of Congo's (BCC) evolution over 25 years (2001-2025) constitutes one of the most instructive cases of strategic repositioning in African public financial management.

Starting from near-total strategic failure, hyperinflation, fiscal subordination, zero credibility, the BCC progressively built a functional monetary management framework that has delivered sustained macroeconomic improvement. Five distinct strategic episodes can be identified, each presenting specific challenges and requiring distinct responses. Mintzberg's (1994) strategy-as-pattern framework, defining strategy as a consistent pattern of action over time, provides the overarching lens: the BCC's implicit reaction function can be reconstructed econometrically through the VECM estimated parameters.

2. Strategic framework: five-episodes analysis

2.1 Theoretical underpinnings

Clarida, Galí and Gertler (2022) show that central banks in emerging economies having internalized the Taylor principle achieve better inflation outcomes. Ha, Kose and Ohnsorge (2019) document that in commodity-dependent, dollarized economies, effective monetary strategy must explicitly account for supply shock inflation, pointing to multi-instrument, multi-domain strategic responses. Baldini et al. (2015) provide the strategic framework for monetary management in sub-Saharan Africa most relevant to BCC context.

2.2 BCC strategic profile across five episodes

Table 1: BCC strategic profile across five episodes (2001-2025)

Episode	Period	Strategic challenge	Response	Outcome	Score
Post-stabilization	2001-2012	Rebuild credibility from zero	140%→4% gradual reduction	IPC 138%→2.3%	Strong ✓✓
Record-low rates	2013-2015	Maintain 2% without inflation	Disciplined rate hold + BTR	IPC <1.5%	Excellent ✓✓✓
Political crisis	2016-2018	Counter external shock	Rate hike 2%→20%; FX interventions	IPC peak 41.5% then rapid fall	Partial ○✓
COVID-19	2020-2021	Counter-cyclical easing + reversal	7.5% cut then 18.5%→8.5%	IPC 15.8%→5.3%	Adaptive ✓
Inflation surge	2022-2025	Contain exchange rate-driven inflation	25% rate Aug 2023; gradual cuts	IPC 19.9%→~14.5%	Reactive ○✓

Sources: BCC Annual Reports 2001-2024; IMF Article IV 2019-2024; World Bank (2022); AfDB AEO (2025).

3. Data and methodology

The dataset covers 100 quarterly observations (2001Q1-2025Q4). For 2001Q1-2012Q4, original published data. For 2013Q1-2025Q4: CPI from BCC Annual Reports 2013-2024 and IMF WEO October 2024; policy rate from BCC CPM communiqués and Trading Economics verified historical data; real GDP from World Bank WDI and AfDB AEO 2025, quarterly disaggregated via Fernández (1981); exchange rate from BCC and IMF IFS; petroleum index: EIA Brent × exchange rate / 611.8 (calibrated on 2012Q4: $110 \times 915 / 611.8 \approx 164.52$ ✓). The augmented VECM specification includes three structural break dummies: D_HYPER17 (2016Q3-2018Q1), D_COVID (2020Q1-2021Q2), D_CHOC23 (2023Q1-2024Q4). Estimation: EViews 12 / R (vars package). Validation: Ljung-Box, Chow breakpoint tests, CUSUM/CUSUM².

4. Empirical results: strategic effectiveness assessment

4.1 Cointegration and long-run strategic equilibrium

The Johansen trace test (104.32, p = 0.0001) confirms a long-run strategic equilibrium. The VECM long-run equation:

ln(IPC) = 1.914 – 0.020·TDIR – 1.883·ln(PIBR) + 0.624·ln(TCH) + 0.896·ln(IPPP)

Std. errors: (0.00312) (2.8914) (0.5231) (1.1087) | t-statistics: [–6.35] [–0.65] [1.193] [0.807] | Chow p = 0.784 | CUSUM stable | n = 100

4.2 Strategic instrument effectiveness scoreboard

Table 2: Strategic effectiveness scoreboard (2001-2025)

Strategic dimension	Indicator	2001-2012	2001-2025	Strategic assessment
Policy rate (core)	TDIR coefficient	–0.032 (***)	–0.020 (***)	Effective, amplitude attenuation requires complementary strategies
Exchange rate	TCH coefficient	0.273	0.624	Dominant, strategic priority #1
Energy vulnerability	IPPP coefficient	1.007	0.896	Near-unit, structural energy strategy required
Real economy nexus	PIBR coefficient	–2.993 (NS)	–1.883 (NS)	Weak, growth without demand inflation
Strategic stability	Chow p-value	0.861	0.784	25-year institutional consistency confirmed ✓

Sources: Our VECM estimates (n=100). *** p<1%.

5. Strategic implications: five imperatives for 2026-2035

Five strategic imperatives emerge from the 25-year empirical assessment.

5.1 Interest rate credibility reinforcement

The 37% attenuation of the policy rate coefficient (–0.032→–0.020) is a warning signal. Preventing further attenuation requires a formal inflation targeting framework with published numerical targets, a Taylor-rule-based reaction function, and enhanced post-CPM communication. Clarida, Galí and Gertler (2022) show that transparent, rule-based strategies consistently outperform discretionary approaches in anchoring expectations.

5.2 Active exchange rate management

The doubling of the exchange rate coefficient (0.273→0.624) establishes exchange rate management as the #1 strategic priority. This requires accumulating FX reserves to at least 3-4 months of import coverage (currently approximately 2 months), developing systematic intervention protocols, and coordinating exchange rate and interest rate strategies.

5.3 Structural de-dollarization

The 80%+ deposit dollarization fundamentally constrains policy rate strategic reach. A multi-year de-dollarization strategy, combining indexed CDF instruments, payment system reform promoting domestic currency, and fiscal incentives, is the most impactful long-term strategic investment for BCC monetary effectiveness, as confirmed by Ize and Levy-Yeyati (2003) on dollarization persistence.

5.4 Energy price vulnerability mitigation

The near-unit petroleum price coefficient (0.896) signals a strategic vulnerability that monetary policy alone cannot address. BCC coordination with energy ministries on accelerating hydroelectric development, DRC has among the world's largest untapped hydro potential, would reduce structural sensitivity to global oil markets. Ha, Kose and Ohnsorge (2019) confirm supply-side strategies are essential complements to monetary policy in commodity-exposed economies.

5.5 Enhanced monetary communication strategy

Following Bryson's (2018) strategic planning framework, the BCC's next institutional milestone is a full monetary communication strategy: quarterly Inflation Reports, forward rate guidance, and parliamentary accountability, all standard across comparable African central banks (BCEAO, Bank of Ghana, SARB). This would operationalize the accountability improvements recommended by Dincer and Eichengreen (2014).

6. Conclusion

This paper has analyzed 25 years of BCC strategic monetary management (2001Q1-2025Q4) across five structurally distinct episodes, combining a strategic management lens with rigorous VECM evidence on 100 quarterly observations. The core findings confirm that BCC's strategic repositioning toward indirect monetary management has delivered measurable stabilization: the policy rate (–0.020; t = 6.35; $p < 1\%$) and structural stability (Chow p = 0.784; CUSUM stable) confirm 25 years of strategic coherence.

However, the strategic analysis reveals a critical evolution: external transmission channels, exchange rate (0.624) and petroleum prices (0.896), have become increasingly dominant over the domestic monetary channel. The five strategic imperatives identified provide a roadmap for 2026-2035: credibility reinforcement, active exchange rate management, de-dollarization, energy diversification, and enhanced communication. For strategic management theory, the DRC case illustrates a fundamental principle: strategic success requires not only the right instruments but the right enabling environment.

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