

## Impact of Interest Rate Hikes on the Economy in the Republic Democratic Party of the Congo

NGANDU LUSHIMBULA GLORY

Higher Institute of Medical Ochinic (Is7191-Ndu) Istm- Kindu)

**ABSTRACT:** Interest rate policy is one of the main instruments used by a central bank to ensure price stability and preserve macroeconomic equilibrium. In the Democratic Republic of Congo (DRC), the significant increase in the Central Bank of Congo's (BCC) key interest rate starting in 2023 is taking place against a backdrop of strong inflationary pressures, the depreciation of the Congolese franc, increased liquidity in the national currency, and macroeconomic imbalances exacerbated by security and budgetary challenges. The key interest rate, maintained at 25% after its 1,400 basis point increase in August 2023, has contributed to the tightening of monetary conditions. (IMF)

This restrictive policy has allowed for a gradual reduction of inflationary pressures. Annual inflation, which reached 23.8% at the end of 2023, fell to 11.7% at the end of 2024, then to 7.8% in September 2025 before dropping to 2.5% in October 2025. This development then allowed the BCC to initiate a cycle of monetary easing.

### INTRODUCTION

Monetary stability is essential for economic development. High inflation reduces household purchasing power, increases business uncertainty, and complicates investment decisions. To combat these phenomena, central banks have several tools at their disposal, including the policy interest rate, reserve requirements, and open market operations.

In the Democratic Republic of Congo, monetary policy underwent a significant tightening starting in 2023. This decision was primarily driven by the need to combat inflationary pressures and tensions in the foreign exchange market. The Central Bank of Congo (BCC) thus raised its key interest rate to 25% in August 2023, an exceptional increase of 1,400 basis points. This level remained unchanged for an extended period. (eLibrary IMF)

The Congolese economic context makes the analysis of this policy particularly interesting. The DRC's economy is heavily dependent on the mining sector, while the financial sector remains relatively shallow. Furthermore, the dollarization of the financial system partially limits the traditional transmission of monetary policy decisions.

The central question of this article is therefore the following:

To what extent does the interest rate hike implemented by the Central Bank of Congo contribute to macroeconomic stability while affecting growth and economic activity in the Democratic Republic of Congo?

To answer this question, the analysis is structured around three main points. First, it is necessary to examine the reasons that led to the rise in interest rates. Second, its effects on inflation, the exchange rate, credit, consumption, and investment must be analyzed. Finally, it is necessary to assess the limitations of this policy and propose measures to reconcile price stability with support for growth.

### 1. Theoretical framework: interest rates and economic activity

The interest rate represents the cost of using money over time. When a central bank raises its policy rate, it generally seeks to make credit more expensive and reduce the growth of aggregate demand.

The traditional mechanism can be presented as follows:

Increase in the key interest rate → increase in the cost of bank financing → reduction in credit → decrease in consumption and investment → reduction in inflationary pressures.

Rising interest rates can also affect the exchange rate. Higher interest rates can make assets denominated in the national currency relatively more attractive, which can help support the national currency. In an economy like that of the DRC, where the prices of imported goods are sensitive to the exchange rate, an appreciation or stabilization of the Congolese franc can help reduce imported inflation.

However, this mechanism is not automatic. Its effectiveness depends on the structure of the financial system, the depth of financial markets, the credibility of the central bank, the state's budgetary situation, and the degree of dollarization of the

## **Impact of Interest Rate Hikes on the Economy in the Republic Democratic Party of the Congo**

economy.

The IMF specifically points out that the high dollarization of the Congolese financial system, along with Treasury operations, significantly influences liquidity in Congolese francs and complicates the Central Bank of Congo's (BCC) daily liquidity management. Improved coordination is needed.

Therefore, coordination between monetary and fiscal policies is necessary to strengthen the effectiveness of monetary policy. (IMF)

### **2. Reasons for rising interest rates in the DRC**

#### **2.1. The fight against inflation**

The main justification for restrictive monetary policy lies in the fight against inflation.

At the end of 2023, annual inflation in the DRC reached approximately 23.8%. This situation posed a significant threat to household purchasing power and macroeconomic stability. The Central Bank of Congo (BCC) therefore chose to substantially strengthen its monetary policy.

The aim of maintaining a high policy rate was to reduce inflationary pressures by limiting excessive liquidity growth and influencing credit conditions.

This strategy has gradually produced results. Inflation fell from 23.8% in December 2023 to 11.7% in December 2024. It continued to decline in 2025, reaching 7.8% in September and around 2.5% in October.

#### **2.2. Tensions over the Congolese franc**

Exchange rate stability is another important factor.

A depreciation of the Congolese franc increases the price of imported goods. However, the DRC is heavily dependent on imports for certain food products, consumer goods, equipment, pharmaceuticals, and industrial inputs.

A restrictive monetary policy can help reduce pressures on the foreign exchange market. Recent developments show a sharp appreciation of the Congolese franc by 2025, which has contributed to a rapid decline in inflation. The IMF believes this appreciation has played a significant role in lowering the prices of imported goods. (IMF)

#### **2.3. The need to strengthen the credibility of monetary policy**

A central bank must also maintain the confidence of economic agents. When households and businesses anticipate persistent inflation, they may seek to protect themselves by increasing their purchases of goods, holding more foreign currency, or accelerating their investments in real assets.

The rise in interest rates therefore sends a signal of firmness: the central bank is ready to accept a slowdown in credit and demand in order to restore price stability.

### **3. The positive effects of rising interest rates**

#### **3.1. Reducing inflation**

The first positive effect is the reduction of inflationary pressures.

Maintaining the policy rate at 25% for an extended period contributed to the tightening of monetary conditions. The IMF considers that the restrictive stance of monetary policy contributed to the decline in inflation in the DRC.

This decrease in inflation directly benefits households. When prices rise less rapidly, real purchasing power is better preserved.

It also benefits businesses, as price stability facilitates financial planning, pricing, and budget preparation.

#### **3.2. Exchange rate stabilization**

Restrictive policies can also help to stabilize the Congolese franc.

A more stable currency reduces the cost of imports and limits the transmission of exchange rate fluctuations to domestic prices. This effect is particularly important in an economy that is highly open to imports.

The strong appreciation of the Congolese franc observed in 2025 was thus accompanied by a rapid decline in inflation. (IMF)

#### **3.3. Improving Trust**

Macroeconomic stability is an important factor for investors.

High inflation and an unstable exchange rate increase uncertainty. Conversely, controlled inflation allows businesses to better anticipate their costs and revenues.

Lower inflation can therefore gradually improve the business environment, provided that interest rates become compatible with financing investment.

## **Impact of Interest Rate Hikes on the Economy in the Republic Democratic Party of the Congo**

### **4. The negative effects on the real economy**

#### **4.1. The increase in the cost of credit**

The main cost of rising rates is the increased cost of financing.

When the key interest rate rises, commercial banks face more expensive refinancing conditions. They can then pass on part of this increase to the rates applied to businesses and households.

Investment loans are therefore becoming more expensive. A company wishing to purchase machinery, build a factory, or develop a business must bear a greater financial burden.

This may lead some companies to postpone their projects.

#### **4.2. The decline in private investment**

Investment depends in particular on the comparison between the expected return of a project and its financing cost.

When interest rates rise, the number of projects deemed profitable decreases.

A company that was able to finance a project with a loan at a relatively low cost may consider the same project too risky when rates rise sharply.

The consequence could be a decline in private investment, particularly in non-extractive sectors.

The IMF also notes that growth in the non-extractive sector in the DRC has been more moderate, with a slowdown in services and construction in 2024. (eLibrary IMF)

#### **4.3. The difficulties of SMEs**

Small and medium-sized enterprises are particularly vulnerable to rising interest rates.

They generally have less equity and rely more heavily on bank credit to finance their working capital or investments.

When credit becomes more expensive, they may reduce their production, limit their recruitment or postpone their expansion.

In a country where SMEs play an important role in job creation, this situation can have significant social consequences.

#### **4.4. Household consumption**

The rise in interest rates also affects households that use credit.

When consumer loans, mortgages, or other forms of financing become more expensive, households may reduce their spending.

This decrease in consumption helps to reduce overall demand and therefore inflationary pressures.

However, it can also slow down business activity and production.

### **5. The effects on public finances**

Rising interest rates can also have consequences for the state.

When financial conditions become more expensive, financing the budget deficit can become more costly.

In an economy where the state has to finance significant public spending, particularly in infrastructure, security and social services, an increase in the cost of financing can reduce budgetary flexibility.

The situation is particularly complex in the DRC due to the significant needs related to the security situation in the east of the country. The IMF emphasizes that exceptional security expenditures continued to put pressure on public finances in 2025. (IMF)

### **Therefore, there is a trade-off between:**

- \* the need to maintain a sufficiently restrictive monetary policy to control inflation;
- \* the need to preserve access to financing for the economy;
- \* the need for the State to finance priority expenditures.

Effective coordination between monetary policy and fiscal policy therefore becomes essential.

### **6. The DRC's distinctive features: dollarization and shallow financial depth**

The analysis of interest rates in the DRC cannot be carried out solely using classical theoretical mechanisms.

The Congolese financial system is heavily dollarized. A significant portion of deposits and financial transactions are conducted in foreign currency.

This situation reduces the effectiveness of certain mechanisms for transmitting the policy rate.

The IMF emphasizes that Treasury operations constitute a significant source of variation in Congolese franc liquidity, while the high dollarization complicates liquidity management by the Central Bank of Congo (BCC). (IMF)

Therefore, raising the key interest rate is not necessarily sufficient to guarantee full transmission of the rates applied to all borrowers.

Monetary policy must therefore be accompanied by measures designed to develop the financial market, improve banking

## Impact of Interest Rate Hikes on the Economy in the Republic Democratic Party of the Congo

competition, strengthen supervision and increase financial inclusion.

### 7. From rising to falling interest rates: the change in the monetary cycle

Recent developments in monetary policy show that high interest rates are not intended to remain permanent.

After maintaining the key interest rate at 25% since August 2023, the BCC lowered it to 17.5% in October 2025, in a context of sharply decreasing inflation.

The easing process continued in 2026. BCC statistics indicate a key interest rate of 13.5% in April 2026, then 12.5% from July 2026. At that time, the BCC also reported annual inflation, as measured by the INS, of approximately 3.1%. (bcc.cd)

This development illustrates the principle that monetary policy must be adapted to the economic situation.

When inflation is high, the central bank can raise rates to reduce price pressures.

When inflation falls sustainably and the risks of overheating disappear, a decrease in rates can gradually support credit and investment.

The goal is therefore not simply to have high or low rates, but to find a level compatible with price stability and economic growth.

## CONCLUSION

The rise in interest rates in the Democratic Republic of Congo is an important response to the macroeconomic imbalances observed since 2023. Faced with high inflation and pressures on the Congolese franc, the Central Bank of Congo adopted a strongly restrictive monetary policy, raising its key interest rate to 25% in August 2023.

This policy helped to reduce inflationary pressures. Inflation fell from 23.8% at the end of 2023 to 11.7% at the end of 2024, and then continued to decline in 2025. This improvement allowed the BCC to begin a cycle of interest rate cuts, with the key interest rate reduced to 17.5% in October 2025 and then to 12.5% in July 2026.

However, rising interest rates also have economic costs. Increased borrowing costs can limit investment, reduce borrowed consumption, weaken SMEs, and slow down certain sectors of the economy. These effects are particularly significant in a country that needs substantial investment to develop its infrastructure, diversify its economy, and create jobs.

The challenge for the DRC is therefore not simply to choose between high or low interest rates. It consists of building a flexible, credible, and sufficiently effective monetary policy to maintain price stability while allowing the financial system to finance the real economy.

## REFERENCES

- 1) Central Bank of Congo (BCC). (2023). 2023 Annual Report. Kinshasa: Central Bank of Congo.
- 2) Central Bank of Congo (BCC). (2025). Monetary Policy Report for 2025. Kinshasa: Central Bank of Congo. Monetary policy reports are available on the BCC's official website. (Bcc.cd)
- 3) Central Bank of Congo (BCC). (2026). Monetary and financial statistics: interest rates, inflation and exchange rates. Kinshasa. (Bcc.cd)
- 4) International Monetary Fund (IMF). (2025). Democratic Republic of the Congo: Requests for an Arrangement under the Extended Credit Facility and an Arrangement under the Resilience and Sustainability Facility. IMF Country Report No. 25/23. (IMF eLibrary )
- 5) International Monetary Fund (IMF). (2025). Democratic Republic of the Congo: First Review Under the Extended Credit Facility Arrangement. IMF Country Report No. 25/195. (IMF eLibrary )
- 6) International Monetary Fund (IMF). (2025). The IMF Executive Board concludes the first review of the Extended Credit Facility arrangement for the Democratic Republic of the Congo. (IMF)
- 7) International Monetary Fund (IMF). (2025). The IMF reaches a staff-level agreement with the Democratic Republic of Congo on the second review under the Extended Credit Facility (ECF) and the first review under the Disaster Reduction and Solidarity Fund (DRF). (IMF)
- 8) International Monetary Fund (IMF). (2026). Democratic Republic of the Congo: Second Review Under the Extended Credit Facility Arrangement and First Review Under the Resilience and Sustainability Facility Arrangement. IMF Country Report No. 26/2. (IMF eLibrary )
- 9) International Monetary Fund (IMF). (2026). Statement by the Executive Director on the Democratic Republic of the Congo. (IMF )