



Munich Personal RePEc Archive

**Monetary policy in DR. Congo :
Learning about communication and
expectations**

Pinshi, Christian P.

University of Kinshasa

May 2020

Online at <https://mpra.ub.uni-muenchen.de/100262/>
MPRA Paper No. 100262, posted 10 May 2020 15:32 UTC

Monetary policy in DR. Congo : Learning about communication and expectations

Christian P. Pinshi¹

Abstract

This article aims to consolidate strategic importance of communication in managing expectations and stabilizing the congolese economy. We propose a reinforcement in terms of communication, on the one hand by using not only french as a language, but also the national languages, such as Lingala, and on the other hand by using a maximum of television broadcasts on dedication from the congolese central bank to stabilize the economy. These instruments could restore confidence and allow the bank central of the Congo to better manage exchange rate and inflation expectations. In addition, there are reportedly no studies in the Democratic Republic of the Congo related to the influence of central bank communication on expectations. Thus, this analysis contributes to the Central bank theoretical literature. In prospect a development of a new communication index of the Bank central of the Congo is desirable in order to reinforce the effectiveness of the monetary policy.

Keywords : Monetary policy, communication, expectation

Jel code : E52, E58

¹ University of Kinshasa. Christian.pinshi@unikin.ac.cd

1. Introduction

In recent years, central banks have turned to communication as the main political tool for influencing economic activity and managing the expectations of economic agents regarding their future decisions. The aim of more intensive communication from a central bank is to ensure greater transparency. This allows central banks to be more accountable to the public, explaining their monetary policy and decisions in an understandable way. This strengthens public confidence in its ability to fulfill its mission of ensuring price stability. This trust is the most valuable asset of a central bank. Communication has become an increasingly important aspect (Blinder and al. 2008) in the design and conduct of monetary policy.

This temporal evolution of communication has given rise to a huge new scientific literature on central bank communication. Bernanke and al. (1999) stressed the importance of communication for an effective central bank strategy. Central bank communications have undergone a major revolution, Davis and Wynne (2016) analyzed the impact of communications for central banks via the post-meeting statement of the Fed's monetary policy committee. Their results showed that statements by the Fed following a decision are of direct importance in mitigating shocks. Ehrmann and Fratzscher (2007) sought to quantify how central banks communicate. They examined the communications through speeches by members of the Monetary Policy Committee and post-meeting press conferences and documented how certain characteristics of these communications, such as the extent to which the members of the committee agreed on the economic perspectives in their speeches or provide similar perspectives for monetary policy. Several researchers have analyzed the importance of communication in the management of expectations and the strategic efficiency of central banks (Issing, 2005; Başkaya and al. 2008; Yellen, 2011 etc.).

Experience shows that clear, quality communication is a very powerful instrument for central banks because it influences expectations and stabilizes prices (Bulíř and al. 2013). However, worryingly, the dynamics of the Congolese economy are associated with unclear and less effective communication from the Central Bank of Congo (BCC). Some highlights of the BCC's communication failure are illustrated in the following section. According to analytical perceptions, this situation does not promote the effectiveness of monetary policy and does not ensure the confidence of the economy vis-à-vis the BCC.

Given this strategic ineffectiveness of communication, this paper aims to analyze the importance of communication for the BCC in the definition of its monetary policy, it also aims to propose a new instrument to better manage the crisis linked to the COVID-19 uncertainty and soften the expectations of inflation and the exchange rate which hit the Congolese economy on the one hand, macroeconomic and monetary instability and on the other hand, a crisis of confidence.

2. Failure of a strategic communication from the BCC

The communication from the BCC has undergone several developments, notably with the distribution on internet of the annual report, the publication of the report on monetary policy, the conjuncture notes, the publication on the post-meeting statements of the monetary policy committee (CPM), press conferences, etc. However, most of these instruments are less effective and have never been evaluated as to the objective of reaching the population and ensuring lasting confidence.

We illustrate some highlights of the BCC's communication failure :

- **Monetary Policy Report (RPM) Failed:** Introduced in 2010, the RPM was one of the BCC's biggest innovations. However, it has never been powerful for better communication and better management of regulation or anticipation. Despite all the dynamism on monetary policy in the world, the BCC's RPM has almost never undergone modifications, which suggests negligence, a lack of innovation and dynamism of new strategies and theories of the Monetary Policy ;
- **Failure and delay accumulated over time of annual reports :** The BCC report is a good framework for an economic perspective of the Democratic Republic of Congo (DRC), but the biggest problem with this report is that it is extremely monotonous and to freeze on the same writings and style of idea, the changes appear only on the figures and not on the analytical devices. Other problems lie in the delays accumulated over the years of the publication of the annual report. Central banks generally act in the very short term and its action is followed day by day, an annual report which is always published with a delay of at least one year mowing analyzes and perceptions in terms of responsibility and commitment ;
- **Lack of publication series :** The BCC has a publication deficit (working paper, bulletin, review of monetary policy and financial stability, etc.), it suffers from a lack of scientific review, although 'in sight for a first launch. This illustrates the lack of rigor in scientific research and analysis of monetary policy ;
- **Website not adapted to that of other central banks, such as the Fed, the Bank of France, the Bank of Canada and / or the Bank of England etc.** This site also suffers from a lack of long-series databases and / or downloadable in excel format ;
- **Failure to deliver the report to the Monetary Policy Committee.** Admittedly, we should admire the prowess in terms of dissemination of the minutes and press conference. However, it should be noted that there is no historical database containing all of these accounts and statements, which makes the analysis of the relevance of the communication ambiguous. In addition, these reports should not be made not only in French but also in the national languages, namely Lingala, Kikongo, Swahili and Tshiluba. With that, the Governor's speeches about monetary policy decisions would capture a large part of the population. This is what the Fed

does by always transmitting these statements in English and Spanish. Especially since operators and economic players have a good command of these languages and especially Lingala, it would make it easier for the central bank to manage expectations. In addition, consideration should be given to a contract with a television channel to broadcast decisions and statements related to monetary policy aimed at stabilizing the economy.

Other elements to take into account is the inaction of monetary policy after achieving or not achieving the targeted objectives, the unclear clarity of the BCC's monetary policy strategy.

Following these salient points, we would like a new communication methodology to strengthen the strategic and operational systems for the conduct of monetary policy. In addition, faced with the uncertainty of COVID-19, conventional monetary policy instruments find it difficult to curb monetary and macroeconomic instability. Communication would be a valuable instrument for restoring and ensuring confidence and managing expectations of the exchange rate and inflation, which are exacerbated by the uncertainty and fear of COVID-19. Although most Congolese households do not believe in the virility of this virus, nonetheless, they are uncertain about the policy responses to instability. Hence, communication as an indicator would serve to appease and crisis management to better combat the pandemic.

3. Managing expectations

The essence of a useful monetary policy is to manage expectations effectively. This applies to both the objectives and the instruments. The main long-term objective of monetary policy is to create a sustainable environment of low inflation. As the American economist Michael Woodford (2005) said: "Because the main decision-makers of an economy are looking to the future, central banks affect the economy as much by their influence on expectations as by their effects. indirect mechanism of transmission of central banks in the day-to-day money market ". In this context, the impact of monetary policy rests less on the interbank rate and much more on expectations regarding the future evolution of key rates. Hence, the effectiveness of the transmission mechanism of monetary policy depends on the proper management of expectations.

Managing expectations is an important task of a central bank. In this sense, central bank communication has grown in importance and has become an instrument of great influence. Analyzing the effects of communication on expectations is crucial, since the uncertainties affecting the economy are greater and, therefore, it is more difficult to guide these expectations (Montes and Nicolay, 2014). In the DRC, many difficulties arise to analyze expectations, in particular, there would not exist until today, papers or studies relating to the communication of the central bank; there are not too many studies on the influence of the central banks' outlook on the state of the economy and on inflation expectations; To date, there have been no studies on the influence of communication through post-meeting

statements and press conference meetings of the Monetary Policy Committee on inflation and exchange rate expectations.

In the DRC, inflation is much more influenced by expectations linked to exchange rate fluctuations and inflation. This is due to the agents' lack of confidence in the monetary authority's responses to stabilization. It is important for the public to understand the actions of the central bank to promote the effectiveness of monetary policy. Not only are policy expectations important, but also good communication would provide the public with information on current and future monetary policy, economic prospects and the objectives of the central bank. This would help shape agents' expectations for future monetary policy and inflation in the coming periods. In this sense, communication acts in a useful way, guiding the anticipations of agents and playing an important role in decision-making. Thus, monetary policy becomes more predictable and, therefore, communication becomes an important operational and strategic framework for the central bank.

With confidence restored, agents will no longer have to anticipate a monetary depreciation, which in turn would allow inflation to be brought under control. In addition, through this instrument, the bank could affect the economy. However, this communication action requires real independence from the BCC to anchor credibility in a lasting manner.

4. Communication and effectiveness of monetary policy

The effectiveness of monetary policy could be strengthened through a good communication strategy. With a good strategy, monetary policy becomes more predictable and inspires more confidence. For this reason, the more the central bank can use effective communication by providing maximum information related to the measures, the more effective the impact on the economy.

Post-meeting statements, press conferences, notes on projections, reports and other communications are one of the primary means by which the central bank communicates its actions, its assessment of the economy, and its thinking on future policy. Central bank can use these techniques to reach and analyze a range of data sources. This helps to assess monetary stability and could help the central bank to do its job more efficiently.

Central bank could communicate under several different aspects of monetary policy: its objective and strategy, the rationale for a particular policy decision, the economic outlook and the future of monetary policy. The quantitative objective helps to anchor the expectations of economic agents and strengthen accountability. Even if, as in the case of the BCC, which has not defined its target numerically, low (no more than 3.5%), stable and predictable inflation is desired. Well-anchored expectations would help stabilize the currency and inflation. It should be noted that a quick and clear announcement of monetary policy decisions would also reduce disruption by eliminating any misguided anticipation on the part of the public. This type of communication leads to improving the effectiveness of monetary policy (Eusepi and Preston, 2007).

The BCC not only issues a press release with the political decision, but also holds a press conference on the day of the Monetary Policy Committee (CPM) meetings, including a question and answer session a few times. The press conference avoids the considerable delay in drafting the report and could be televised live or rebroadcast in several languages, ie, French and Lingala, which gives the central bank the opportunity to reach the general public. Another communication possibility is inherent in its legal requirements for annual reports in real time. Among the instruments which should convey the most important reporting information are regular publications such as the report on monetary policy, which contains both the assessment of economic developments, information on the analytical framework used and in annexes we include some follow-up to the meetings of the CPM. The dynamism of these communications tools can improve the effectiveness of monetary policy and restore the confidence and credibility of the BCC.

5. Impact of communication during the crisis

Communication has become an essential part of a central bank's toolbox for managing expectations. The more open and credible a central bank is to disclosing information, the more significant its dialogue with the public can have an impact on the achievement of its objectives. In terms of accountability, communication is a key factor in clarifying what the central bank would intend to do and providing an assessment framework for the public. It is recognized that the ability of a central bank to affect the economy depends essentially on its ability to influence agents' expectations.

The Congolese economy is increasingly sinking following the coronavirus shock. The BCC has undertaken some accommodative measures, but it does not seem easy to stabilize the economy. In addition, the exchange rate depreciates further, correlating with higher prices. This instability is exacerbated by the uncertainty of COVID-19, which affects expectations of the exchange rate and inflation. As we have mentioned, inflation is a function of exchange rate and inflation expectations.

A good communications policy to manage these expectations would be important to stabilize the economy. The adoption of a new communication instrument, coordinating policy actions and aimed at reaching the whole country in terms of the dedication of monetary policy makers to stabilize the economy, in particular, money and prices. The development of this instrument would make it possible to compensate for the non-performance of the BCC's operational framework. What can the BCC do during this time of uncertainty for the coronavirus ? It should deploy written and televised speeches and statements to explain to the public its dedication and its ability to smooth down depreciation and curb inflation. This serial frequency of communications would influence agents' expectations and could restore confidence. The latter in turn would provide stability. It is a strategic tool in this time of crisis and uncertainty. Its purpose is to germinate the confidence of agents in political decisions in stabilization. However, as mentioned above, in order for this to work and ensure accountability, the independence of the central bank would have to be respected.

6. Conclusion

Communication has significantly strengthened the role of central banks in managing expectations. This article aims to consolidate and strengthen the place of communication in the conduct of monetary policy. We have listed some difficulties for the BCC to boost its communication, on this, we propose a creation of a communication service composed of economists and communication specialists aiming on the one hand, to analyze the actions and words of the monetary authority and on the other hand, to build indicators and databases of communication instruments to allow in-depth studies to evaluate the communication of the BCC. In addition, transmission in easy Lingala and / or other languages would be beneficial for more effective communication reaching the public.

In perspective, we should cover all the delays linked to the publication of annual reports and monetary policy, strengthen scientific publications and articles, make available various statistical databases on the site and, in addition, revitalize this site.

The Central Bank of Congo has not yet implemented the adoption of new communication practices, however during this health and economic crisis, and especially since the conventional tactics of its monetary policy have had no effect on stability, a new monetary policy communication strategy should take on additional importance to mitigate other adverse effects on macroeconomic and monetary stability. These measures will disseminate speeches as much as possible on actions taken to respond and stabilize the economy. This would allow for more effective management of expectations and ensure public confidence in the central bank.

Référence

- Başkaya, S., Kara, H., and Mutluer, D. 2008. Expectations, Communication and Monetary Policy in Turkey. March.
- Bernanke, B., Laubach, T., Mishkin, F., and Posen, A. 1999. *Inflation Targeting : Lessons from the International Experience*. Princeton University Press. New Jersey.
- Blinder, A., Ehrmann, M., Fratzscher, M., De Haan, J., and Jansen, D. 2008. What we know and what we would like to know about central bank communication. VoxEU.org, may.
- Bulř, A., Cihák, M., and Jansen, D. 2013. Measuring the clarity of central-bank communication. VoxEU.org, april.
- Davis, J., and Wynne, M. 2016. Central Bank Communications : A Case Study. Federal Reserve Bank of Dallas, *working paper* no. 283, september.
- Ehrmann, M., and Fratzscher, M. 2007. Communication by Central Bank Committee Members : Different Strategies, Same Effectiveness ? *Journal of money credit and banking* 39(2-3) : 509-541, february.
- Eusepi, S., and Preston, B. 2007. Central bank communication and expectations stabilization. National bureau of economic research *Working Paper* 13259, july.
- Issing, O. 2005. Communication, Transparency, Accountability : Monetary Policy in the Twenty-First Century. *Federal Reserve Bank of St. Louis Review*, april.
- Montes, G., and Nicolay, R. 2014. Central bank communication and inflation expectations in Brazil. *Researchgate*, <https://www.researchgate.net/publication/324363526> , may.
- Woodford, M. 2005. Central-bank communication and policy effectiveness. Presentation at the Federal Reserve Bank of Kansas City, *Jackson Hole Symposium*, august.
- Yellen, J. 2011. Unconventional Monetary Policy and Central Bank Communications Board of Governors of the Federal Reserve System, at thenThe U.S. Monetary Policy Forum New York, february.