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Impact Of Budgetary And Monetary Policies On Economic Growth In The DRC From 1992 To 2022

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Abstract: This article explores the impact of fiscal and monetary policies on economic growth in the Democratic Republic of Congo (DRC) between 1992 and 2022. The DRC has faced numerous economic crises, exacerbated by conflicts and political instability. Expansionary fiscal policies failed to stimulate national production due to poor resource management, while monetary policy contributed to significant economic improvement between 2002 and 2019 through reforms that attracted mining investments.
The analysis reveals uncertainty about the real impact of these policies on growth, influenced by external shocks and a lack of clear relationships between economic variables. The findings highlight the importance of coordination between fiscal and monetary policies to maximize their effectiveness and achieve sustainable growth objectives. In conclusion, it is essential to integrate long-term strategies while addressing immediate economic stabilization needs.

Keywords: Fiscal policy, monetary policy and economic growth.

I. INTRODUCTION

The fundamental objective of any country is to improve the well-being of its population, conditioned by the implementation of an economic policy integrating both structural and cyclical measures. Structural policies focus on long-term objectives that affect aggregate supply (redistribution, allocation of resources, social dimensions, economic and environmental policies, etc.). On the other hand, cyclical policies aim to regulate aggregate demand in the short term by acting on its various components and are often inspired by Keynesianism, due to their time horizon and their analytical justification for their effectiveness (Kabamba, et al. 2021) . This is cyclical regulation policies, which include a set of decisions and measures taken by public authorities to mitigate fluctuations in economic activity.

Sometimes, economic policy boils down to the combined use of two cyclical instruments: monetary policy and fiscal policy. These policies, which are countercyclical in nature, aim to ensure macroeconomic stability in order to promote sustained and sustainable economic growth. For many years, they have given rise to intense debates regarding their effectiveness as tools for regulating economic activity, both theoretically and empirically. However, there is no consensus, either from a theoretical or empirical point of view. The theoretical controversy over the impact of fiscal and monetary policies on economic growth constitutes a major subject of opposition between two major schools of thought: Keynesians and monetarists (Chalal, 2022).

In many contemporary countries, cyclical policies play a key role as major levers of cyclical economic policy, using various instruments to drive overall economic activity. Fiscal policy represents the state's action on the economy, involving the use of economic budgeting methods to establish short-term forecasts, an approach that is increasingly widespread worldwide. (Hugon, 2007). Monetary policy encompasses the various measures taken by monetary authorities to control economic liquidity and achieve

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economic policy objectives. Its essential role is to guarantee the stability of a monetary unit essential to all economic actors for their calculations and decisions, by adjusting the quantity of means of payment necessary, neither more nor less (Katuala, 2020).

The interaction between fiscal policy and monetary policy occurs when the government and the central bank pursue common objectives and use similar instruments to influence the economy through the same channels. According to Keynes, the distortions and rigidities present in the economy, as well as the imperfections observed in the financial markets, contribute significantly to the behavior of economic agents. In this context, fiscal policy strengthens its effectiveness in stimulating demand by using the multiplier mechanism through increased spending or adjustment of revenues. At the same time, with the increasing independence of the Central Bank and the complexity of financial products, changes in the reference interest rate can impact the financial conditions of economic entities, act on medium-term expectations and influence the value of the local currency in a flexible exchange rate regime. (Kosarade et al., 2022).

The impact of these policies on economic growth in the DRC has been a topic of analysis. The policies implemented have shown mixed effects on economic growth. The expansionary Keynesian fiscal policy implemented by the Congolese government from 1974 to 2001 failed to increase national output due to limited productive capacity and an underdeveloped industrial sector. Consequently, funds intended for economic growth were diverted to infrastructure and imports rather than wealth creation. In contrast, monetary policy focused on inflation stability through quantity and price measures such as increasing reserve requirements. From 2002 to 2019, the DRC's economic situation improved significantly thanks to orthodox economic policies and reforms that attracted significant investments in the mining sector, leading to remarkable economic growth rates, reaching a peak of 9.5% in 2014 (RevueFreg, 2022).

However, the real effects of monetary and fiscal policies on economic growth remain uncertain due to unpredictable external shocks and the absence of a co-integration relationship between these policies and economic growth**.** This article aims to analyze the effects of fiscal and monetary policy on economic growth in the DRC from 1992 to 2022, by examining how these policies have influenced economic growth and how they are implemented in the context of economic and political change.

II. LITERATURE REVIEW

II.1. Review of theoretical literature

II.1.1. Neoclassical approach

The new Keynesian models known as the "new neoclassical synthesis" claim to be based on a rigorous conception of the economy. They are part of the macroeconomics movement that has linked the analysis of the economic situation to the theories of long-term growth, and which gave rise to the real cycles movement. All of them extend Lucas's criticism, according to which only the identification of the parameters of the decision problem of the agents leads to the decision rules that are the solution to the problem posed and make it possible to avoid the errors associated with direct readings of econometric regularities.

Only this identification makes it possible to avoid situations of observational equivalence, when the same "empirical fact" can be covered by several theories, calling for totally divergent actions of economic policy (Jean-Pierre Laffargue et al., 2012). The so-called "neo-Keynesian" macroeconomic modeling reigned supreme from the post-war period to the 1970s. It is based on theoretical foundations that can be considered well-understood today. Its representation of the short term of the economy is consistent with the IS-LM model. Its specification of the long term dynamics, with the accumulation of capital, takes up the Solow growth model.

In the medium term, this modeling records mismatches between the quantities and prices observed and their desired values, caused by the presence of various rigidities, and which gradually resolve themselves. It is impressive that this modeling trend is still in common practice more than sixty years after the founding work of Klein and Goldberger (1950). But this path of quantitative macroeconomics has gradually revealed many limitations that have given rise to major criticism. An alternative approach has gradually emerged from the second half of the 1970s, leading to a refoundation of macroeconomics, first in a resolutely neoclassical spirit, under the initial impetus of Lucas (1975), then with the reintegration of Keynesian elements. The neoclassical global equilibrium scheme is based on two fundamental pillars, namely JB Say's law of outlets and the quantity theory of money.

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II.1.2. JB Say's law of outlets

The law of outlets by JB Say, a 19th century French economist, is a fundamental principle of classical economics. In his "Treatise on Political Economy" published in 1803, Say stated that it is impossible for supply to exceed demand in general, or in other words for products to be overabundant in relation to outlets" (Say, 1803). According to this author, all production creates an outlet by itself, because the act of production generates income to absorb the product created (Mankiw, 2011). This "law of outlets" therefore assumes the permanent equilibrium of the market due to the interdependence of production-income-demand.

However, authors such as Malthus as early as 1820 highlighted certain limitations of this approach by showing that an excess of productive capacities could not find outlets (Malthus, 1820). Subsequently, Keynes demonstrated during the crisis of the 1930s that the insufficiency of effective demand could lead to lasting involuntary unemployment (Keynes, 1936). This work founded the Keynesian current, which called into question the postulate of full employment of classical general equilibrium. More recently, neo-Keynesians such as Stiglitz confirmed the possibility of aggregate demand lower than productive supply in a situation of information asymmetries on the labor market (Stiglitz, 2000). Although relevant in many situations, Say's law therefore proves to be too mechanistic to account for macroeconomic dysfunctions, justifying the use of Keynesian tools of public intervention.

II.1.3. Quantity theory of money

A term that first appeared in 1968 in an article by Karl Brunner on monetarist policy, monetarism refers to an old idea. Perhaps even the oldest ever formulated: any increase in the quantity of money in circulation results in an increase in the general price level, that is, in inflation. In other words, money is an instrument of exchange that plays no role in the dynamics of wealth creation, which economists summarize by the notion of the neutrality of money.

The quantity theory of money dominated economic thinking in monetary matters until the 20th century. It expresses the idea that a change in the quantity of money leads to a proportional change in price. It applies the law of scarcity value to money. If the quantity of money increases, it becomes less scarce and therefore the value of money decreases. If the supply of money increases without changing the demand for money, there appears a general tendency for the price of money to fall and therefore for prices to increase (Jacques Fontanel, 2020).

However, money is not a commodity like any other, because its utility is not direct; the change in its value will modify other prices. There is an inverse relationship between the value of money and the price of other commodities. If the quantity of money varies, all things remaining equal, real prices do not change but nominal prices are proportionally modified. Thus, a tripling of the money supply corresponds to a tripling of the general price level and of each price. The ceteris paribus condition is necessary. Neglecting it when drawing conclusions leads to erroneous interpretations. It is therefore appropriate to first present the best-known formulation of the quantitative theory of money before recalling the many criticisms that have been raised against this theory, mainly with the advent of Keynesian theory. Finally, some economists today tend to rehabilitate the quantitative theory of money.

Say's monetary theory stems from his theory of value. Ricardo and his school believed that the production costs of precious metals explain the value of bullion. Say argues, against them, that supply and demand determine the price of gold and silver as well as the value of currencies. He will gradually deepen this idea to construct an analysis that is closer than Ricardo's to the interpretations given today of the quantity theory of money (Alain Béraud, 2005). The quantity theory of money (QTM) was first formulated by classical economists of the 19th century such as David Ricardo who considered money as a veil over the real economy (Ricardo, 1810). However, it was the American econometrician Irving Fisher who gave its most complete mathematical expression in his major work of 1911 (Fisher, 1911). According to this approach, at a constant speed of circulation, any increase in the money supply would have a mechanical impact on the general price level.

$$\boldsymbol{MV = PT}$$

This equation expresses the idea that the monetary mass M in circulation in the economy must correspond to the total volume of monetary exchanges PT.

- M represents the money supply, that is, the notes and coins in circulation.

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- V refers to the number of times each currency unit is used on average for payments during a given period.
- PT measures the demand for money, which is the total amount spent on transactions.

This formulation expresses the key idea that at constant speed V, any increase in the money supply M will mechanically and proportionally lead to an increase in the general price level P. Fisher thus laid the foundations for a monetarist approach to price determination. Several points are worth emphasizing here. First, TQM is based on the strong assumption that V is stable regardless of the quantity of money. However, in practice, V can vary according to payment habits and financial innovation. In addition, the inflationary impact depends on the speed at which M actually enters the real sphere, this non-instantaneous transition attenuating the theoretical effect. For Fisher, monetary policy must aim for the stability of "numeraire", that is, the purchasing power of money.

Conversely, Keynesians such as John Maynard Keynes have qualified this monetary determinism (Keynes, 1936). In his "General Theory of Employment, Interest and Money", Keynes emphasized effective demand as the main driver of short-term economic activity. In a situation of underemployment, the price elasticity of money demand would be high, limiting the inflationary effect of monetary stimulation. Thus, while the classics postulated a direct and mechanical relationship between money supply and prices according to the TQM, the Keynesians introduced more nuances on the determinants of prices and the counter-cyclical role of monetary policy (Hicks, 1937).

II.1.4. New Keynesian economics

In 1918, three elements had changed compared to the Belle Époque. First, the monetary framework had exploded. As early as August 1914, the major countries suspended the gold convertibility of their currencies. They thought they would have to do so for a short period of time. In January 1915, the benchmark monetary and financial power, Great Britain, established its long-term break with the gold standard and introduced exchange controls. The principle of free movement of capital and fixed exchange rates had been shattered so much that in 1918, a monetary system had to be rebuilt. Then, countries had reached astronomical levels of debt. States were mainly indebted to their central banks, which had the effect of converting public debt into means of payment: inflation was general. While it reduced the weight of public debt expressed in national currency, it did not reduce that of all loans contracted in foreign currencies.

II.2. Review of empirical literature

The impact of monetary policy on economic growth has been widely debated, with varying results depending on the economic context. In the CEMAC zone, Ekobena (2012) found that monetary policies focused on nominal money and credit aggregates do not significantly influence economic growth, while inflation has a negative effect. Similarly, Yaoudey (2021) found that although inflation can stimulate economic activity, it compromises macroeconomic stability, indicating the complexity of monetary management in this region.

In the Democratic Republic of Congo, Kosarade (2020) used vector autoregressive (VAR) modeling to assess the effects of the monetary policy of the Central Bank of Congo. The results show that monetary variables such as the policy rate, the nominal exchange rate, and the money supply growth rate are not significant and do not cause real GDP growth. This study suggests that the Congolese economy is little influenced by these monetary variables (Kosarade, 2020). In Morocco, El Hassani and Ouali (2023) analyzed the dynamics between economic growth and monetary policy from 1990 to 2021, concluding that Moroccan monetary policy is ineffective in terms of variation in real output and instead generates inflationary dynamics.

In Algeria, Mokrani (2017) examined the relationship between money supply, money velocity, and economic growth over the period 1960–2012, concluding that there is no causality between money velocity and economic growth. Hafidi and Daoui (2019) also found that monetary policy shocks, such as monetary tightening or money supply shocks, cause a decline in GDP. These studies show that monetary policy often does not have the expected effect on economic growth and can sometimes cause inflationary dynamics or negative effects on economic stability (Hafidi & Daoui, 2019; Mokrani, 2017).

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III. METHODOLOGY

III.1. Presentation of the VAR model

A vector autoregressive *(VAR) model* is a system of dynamic linear equations in which each variable is written as a linear function of its own lagged values and those of the other variables (Keho, 2017). Consider k variables or stationary processes Y_{1t}, Y_{2t} ... Y_{kt}. In a VAR model, the variables are treated symmetrically so that each of them is explained by its own past values and by the past values of the other variables (Bénassy et al., 2017). As a result, VAR models mobilize large databases. If we denote *p as* the number of lags, the *VAR model* (*p*) describing the dynamics of the k variables in reduced form is written as follows:

$$Y_{1t} = a_1^0 + \sum_{i=1}^{P} a_{1i}^1 Y_{1t-i} + \sum_{i=0}^{P} a_{1i}^2 Y_{2t-i} + \ldots + \sum_{i=0}^{P} a_{1i}^k Y_{kt-i} + v_{1t}$$

$$Y_{2t} = a_2^0 + \sum_{i=0}^{P} a_{2i}^1 Y_{1t-i} + \sum_{i=1}^{P} a_{2i}^2 Y_{2t-i} + \ldots + \sum_{i=0}^{P} a_{2i}^k Y_{kt-i} + v_{2t}$$

: : : (1)

$$Y_{kt} = a_k^0 + \sum_{i=0}^{P} a_{ki}^1 Y_{1t-i} + \sum_{i=0}^{P} a_{ki}^2 Y_{2t-i} + \ldots + \sum_{i=1}^{P} a_{ki}^k Y_{kt-i} + v_{kt}$$

The general expression in matrix form is written as follows:

$$Y_t = \Phi_0 + \Phi_1 Y_{t-1} + \Phi_2 Y_{t-2} + \cdots + \Phi_P Y_{t-p} + V_t \quad (2)$$

$$Avec \quad Y_t = \begin{bmatrix} Y_{1t} \\ : \\ Y_{2t} \end{bmatrix}; \ \Phi_P = \begin{bmatrix} a_{11}^1 & \ldots & a_{1P}^k \\ \ldots & \ldots & \ldots \\ a_{k1}^1 & \ldots & a_{kp}^k \end{bmatrix}; A_0 = \begin{bmatrix} a_1^0 \\ : \\ a_k^0 \end{bmatrix}; \ V_t = \begin{bmatrix} v_{1t} \\ : \\ v_{2t} \end{bmatrix}$$

This representation can be written using the delay operator:

$$(I - \Phi_1 L - \Phi_2 L^2 - \ldots - \Phi_P L^P) Y_t = \Phi_0 + V_t \quad (3)$$

Which can, in turn, be rewritten as follows:

$$(L) Y_t = \Phi_0 + V_t \quad (4)$$

$$Avec \quad \Phi(L) = I - \sum_{i=1}^{p} \Phi_i L^i$$

Where *I is* the identity matrix, *L* is the delay operator and $V_t$satisfies the white noise conditions.

The steps to follow to estimate a p-order VAR model are: the study of stationarity, the determination of the optimal number of lags, the causality test, the stability of the VAR and the dynamic analysis of the VAR model.

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III.2. Data: Nature and Sources

The estimation is based on data from 1992 to 2022, from various reports of the Central Bank of Congo and WDI (World Bank) statistics divided into two categories: variables of interest and control variables. The variables of interest are the variables that constitute the object of the study and are considered key variables, among which we have: economic growth, the key rate and public spending. On the other hand, the control variables are those that can influence the variables of interest, but which are not the main object of the study. The control variables of our study are: the tax pressure rate and the money supply.

IV. PRESENTATION AND ANALYSIS OF RESULTS

IV.1. Stationarity study

Table No. 1 : Stationarity test

Variables	At level			First difference			conclusion
	Dickey Fuller	Mc Kinon	P-value	Dickey Fuller	Mc Kinon	P-value	
GDP	2.166206	-2.963972	0.9999	-3.554715	-2.967767	0.0134	I(1)
TXDIR	-0.462644	-2.998064	0.8818	-7.072151	-2.998064	0.0000	I(1)
MASS_MO	-2.091700	-2.991878	0.2494	-6.632849	-2.967767	0.0000	I(1)
DP	-2.456532	-2.963972	0.1358	-7.787464	-2.967767	0.0000	I(1)
Press_fisc	-1.458715	-1.952910	0.1323	-10.00849	-1.952910	0.0000	I(1)

Source: Authors, using Eviews 10 software.

Stationarity analysis shows that all variables are integrated, meaning that they become stationary after a first-order difference.

IV.2. Estimation of the VAR model

The estimation of the VAR(p) model is done by following the steps mentioned in the first section. Thus we start with the optimal number of lags; then we estimate the VAR and do the causality analysis between the variables, then we analyze the effects of shocks through the impulse response function and the variance decomposition.

IV.3. Determination of the optimal lag

A typical procedure is to estimate all VAR models for orders p ranging from 0 to some arbitrarily fixed order h (maximum number of lags for the sample size considered, or maximum number of lags compatible with an economic theory or intuition). We retain the lag p of the model that minimizes these criteria.

Table No. 2: Determination of the optimal offset

Lag	LogL	LR	FPE	AIC	SC	HQ
0	75.05127	N / A	4.62e-09	-5.003662	-4.765768	-4.930936
1	123.1863	75.64080	9.15e-10	-6.656166	-5.228804*	-6.219807
2	163.1769	48.55996*	3.79e-10*	-7.726920*	-5.110089	-6.926929*

Source : Authors, using Eviews 10 software.

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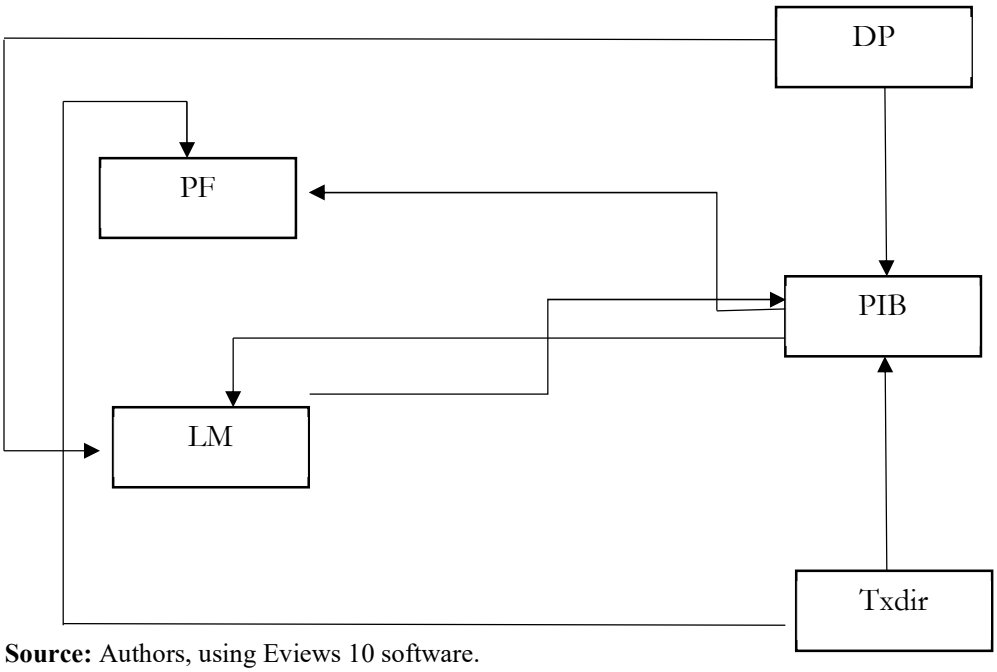
Based on the information criteria, we retain the second lag as the optimal lag of the VAR model, which means that the model is of order 2 (VAR (2)). This implies that the temporal relationships between the variables are well captured with two lags, and that adding additional lags does not significantly improve the model.

IV.7. Analysis of causality

To allow a causal relationship between the different variables of the system, we focus in this work on the analysis of causality in the sense of granger. Thus the figure below presents said analysis.

Figure 1: Result of the Granger causality test



Source: Authors, using Eviews 10 software.

There is a one-way causality between government spending and GDP (government spending causes GDP at the 5% threshold), fiscal pressures and economic growth (at the 10% threshold), policy rate and economic growth (at the 5% threshold), government spending and money supply (at the 5% threshold), money supply and fiscal pressures (at the 5% threshold), policy rate and fiscal pressures (at the 5% threshold).

As for bidirectional causality, there is causality between money supply and economic growth. However, money supply causes economic growth at the 10% level, while economic growth causes money supply at the 5% level.

In terms of economic policy, these results suggest that governments and central banks need to coordinate their actions to balance economic stimulus with financial stability. Decisions about government spending, taxes, and interest rates need to be made with consideration of their potential impacts on the economy as a whole.

IV.8. Dynamics of the VAR model

The dynamic analysis of the VAR is done in two stages: an analysis in terms of impulse responses and one relating to the decomposition of the variance.

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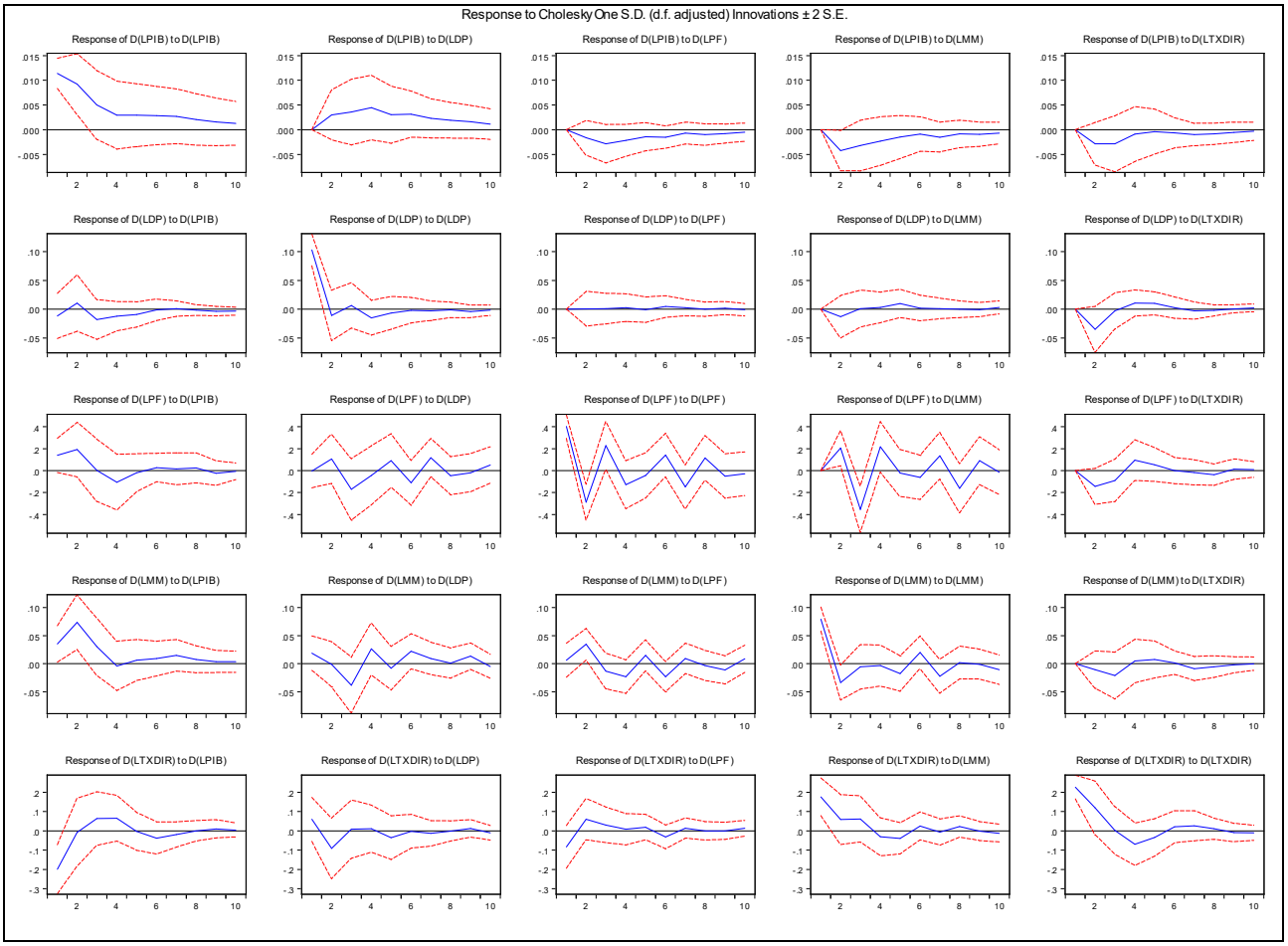
Figure 2 : Impulse response function



Source: Authors, using Eviews 10 software.

The results of impulse response analyses show that economic growth responds positively to economic agents' expectations regarding the level of economic activity. This suggests a phenomenon of adaptive anticipation or persistence of expectations, where economic agents adjust their expectations based on past developments in economic activity. Regarding government spending as an instrument of fiscal policy, we note that the effects of its shocks are positive and statistically significant on economic growth. These results are supported by Keynes' multiplier effects, which emphasize that increasing government spending leads to an increase in economic growth.

As for the effects of policy rate shocks on economic growth, they are negative and statistically significant. In other words, an increase in the policy rate leads to a contraction in economic growth after the shock. These results highlight the importance of economic agents' expectations in the dynamics of economic growth. They also suggest that monetary policy decisions, through their impact on the policy rate, can have repercussions on economic activity, even if these effects are not always statistically significant.

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Table 3 : Analysis of variance decomposition

Variance Decomposition of D(LPIB):

Period	SE	D(LPIB)	D(LDP)	D(LPF)	D(LMM)	D(LTXDIR)
1	0.011406	100.0000	0.000000	0.000000	0.000000	0.000000
2	0.015907	85.25162	3.557972	1.046294	6.978077	3.166040
3	0.017810	75.88167	6.882766	3.363767	8.800498	5.071298
4	0.018882	69.96527	11.71114	4.284305	9.313079	4.726207
5	0.019460	68.14376	13.45646	4.572160	9.339474	4.488154
6	0.020009	66.49971	15.22185	4.900088	9.028870	4.349485
7	0.020410	65.65739	15.91254	4.816791	9.212099	4.401180
8	0.020662	65.09021	16.37629	4.930425	9.156136	4.446942
9	0.020828	64.63462	16.72251	4.994540	9.207623	4.440710
10	0.020917	64.45496	16.87420	5.010420	9.236878	4.423545

Source: Authors, using Eviews 10 software.

IV.9. Post-estimative analysis

IV.9.1. Stability analysis

A VAR process is stable when the matrix B is invertible and the roots of the characteristic polynomial lie outside the unit circle. Therefore, the inverses of roots of the characteristic polynomial must be less than unity.

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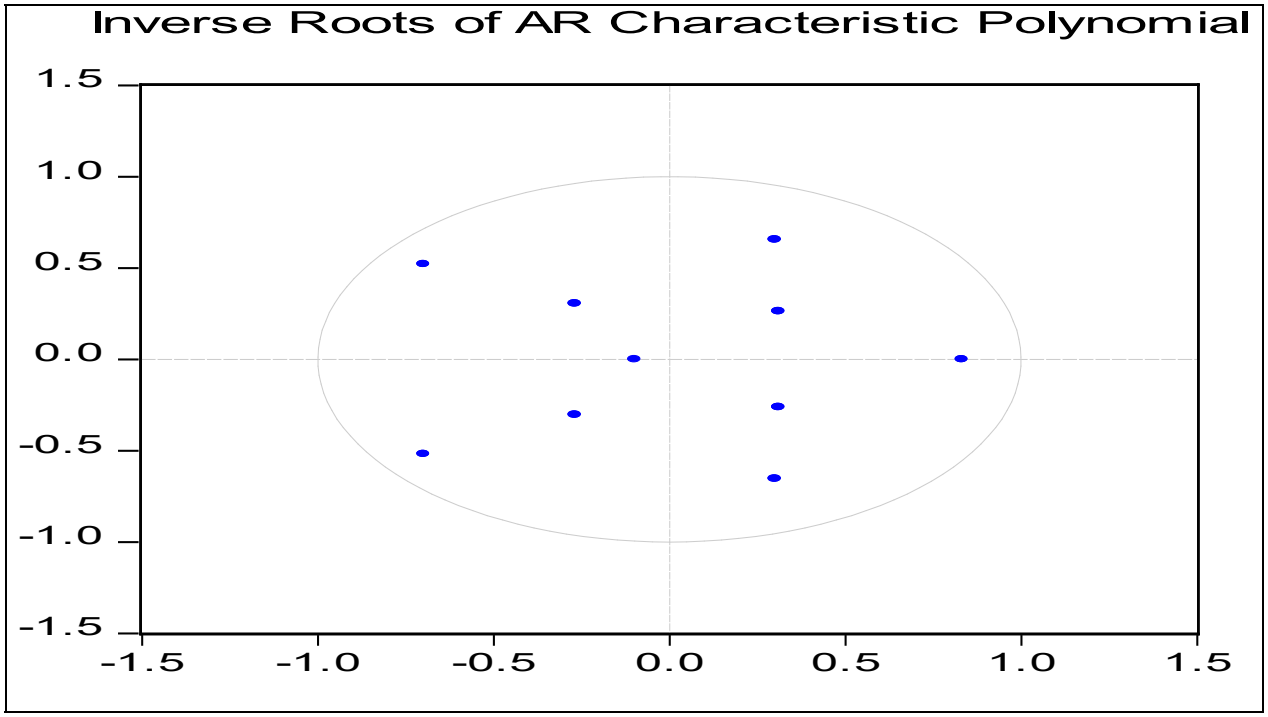
Figure 3 : Inverse roots of the characteristic polynomial AR



Source: Authors, using Eviews 10 software.

It is clear from the above figure that the VAR process satisfies the stability condition i.e. the parameters are stable and there is no problem because all the roots are inside the unit circle. Good predictions can be made using this model.

V. DISCUSSIONS OF RESULTS

The results obtained by various researchers such as ABBES (2015), Favero and Monacelli (2003), Gali and Perotti (2003), and Kirsanova et al. (2006) highlight the effectiveness of cyclical policies, but also underline the need for coordination between these policies. Our study provides additional insights on this topic. Our study confirms the importance of coordination of economic policies to maximize their effectiveness. Public spending and economic agents' expectations are key levers to stimulate growth, while policy rate adjustments must be carefully considered to avoid hampering economic activity. Effective coordination between fiscal and monetary policies is therefore crucial to achieve the desired economic objectives.

VI. CONCLUSION

The analysis of fiscal and monetary policies in the Democratic Republic of Congo (DRC) from 1992 to 2022 reveals a complex interaction between these economic tools and economic growth. Despite considerable challenges, such as recurring economic crises, political instability and inefficient management of public resources, the policies put in place have had varied impacts.

On the one hand, fiscal policies, especially Keynesian expansionism, have not always succeeded in stimulating national production, often due to inefficiency and misallocation of resources. On the other hand, monetary policy, focused on price stability, showed positive results in the period from 2002 to 2019, supported by economic reforms that attracted foreign investment, especially in the mining sector.

However, the effects of these policies on growth remain ambiguous, often influenced by external shocks and the absence of clear relationships between economic variables. The results of this study highlight the importance of effective coordination between fiscal and monetary policies to maximize their effectiveness. Ultimately, to ensure sustainable economic development in the DRC, it is crucial to integrate long-term economic strategies while addressing immediate economic stabilization needs. Thus, policymakers

must pay attention to the interactions between these policies and their impact on economic growth, ensuring that interest rate adjustments and public spending are aligned with development objectives.

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