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September 2026

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SELECTED ISSUES

June 12, 2026

Approved By
African Department

Prepared by Laila Drissi Bourhanbour, Rafael Barbosa. Helpful support provided by Bowei Wang and Joseph Senzele

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DRIVERS OF INFLATION IN THE DRC[1]

A. Executive Summary

Structurally, inflation in the DRC is highly volatile with distinct high-inflation episodes separated by periods of relative stability. Understanding the drivers of inflation in the DRC is important to improve the response of monetary policy. This paper provides the historical and institutional context of the evolution of prices in the DRC, examines the long-run and short-run drivers of inflation and discusses their implications for Monetary Policy. The exchange rate emerges as the most important determinant of the evolution of prices, both in the long and short term, with monetary aggregates playing a secondary role. Fiscal pressure can also lead to upward pressure on prices. Inflation in the DRC is shown to be highly persistent, likely due to the weak transmission of *monetary policy, reinforcing the importance of prompt policy actions to safeguard credibility.*

B. Motivation

1. Inflation in the DRC has, historically, been highly volatile and higher than the average of sub-Saharan countries. Dollarization of the DRC economy can be traced back to the hyperinflation crises of the late 1980s and 1990s. By 1994, inflation had reached as high as 9,769 percent, decimating confidence in the national currency and prompting widespread adoption of the US dollar for transactions and savings. Hyperinflation led to the replacement of the Zaire with the Congolese Franc (CDF) in 1997. Since then, the country has faced episodes of high inflation, though not as pronounced as during the 1990s. Average CPI inflation over the 2002-2025 period was 13.2 percent, with long stretches of inflation above or near the top of the interquartile range of SSA countries (Figure 1).

a. **2005-2010:** Persistent double-digit inflation in this period largely stemmed from fiscal dominance, with the central bank financing government deficits linked in large part to security spending. There is also a tight link between excessive money creation, exchange-rate depreciation, and inflation surges (IMF 2005).

b. **2017-2018:** Inflation accelerated in 2016 following a sharp fall in commodity prices in 2015, which led to a depreciation of the Congolese franc due to dollar shortages and low reserves. This currency weakening transmitted into higher consumer prices.

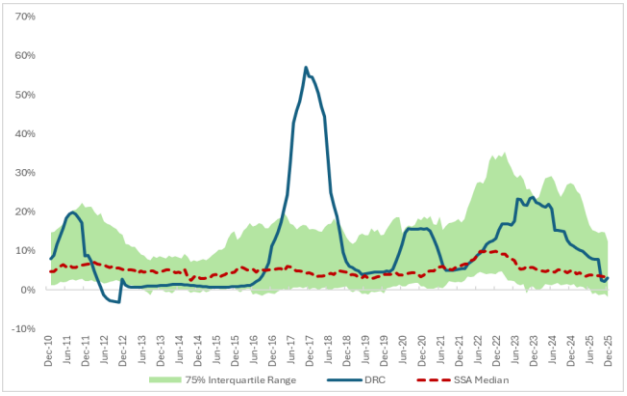
c. **2020:** A modest inflation uptick to around 11.4 percent occurred amid the global COVID-19 shock. Supply-chain disruptions and higher global food and fuel prices drove inflation.

d. **2023-2024**: Inflation surged to almost 24 percent in 2023–2024, driven by a 22 percent depreciation of the franc, fiscal-funding pressures, and higher food and energy prices triggered by the war in Ukraine.

[1] Prepared by Laila Drissi Bourhanbour and Rafael Barbosa. Helpful support provided by Bowei Wang and Joseph Senzele. All errors are our own.

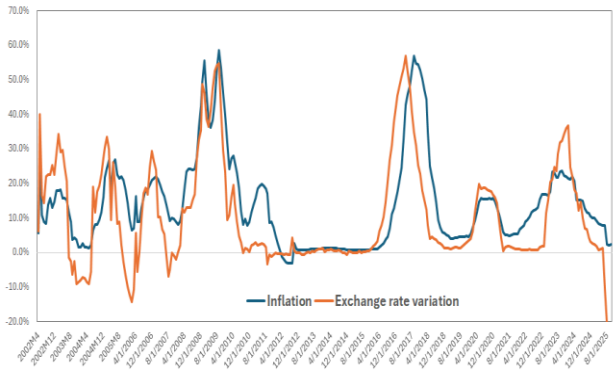
Figure 1. Inflation and Exchange Rate in DRC

Inflation: DRC vs SSA
(Percent)



Source: BCC and IMF staff calculations.

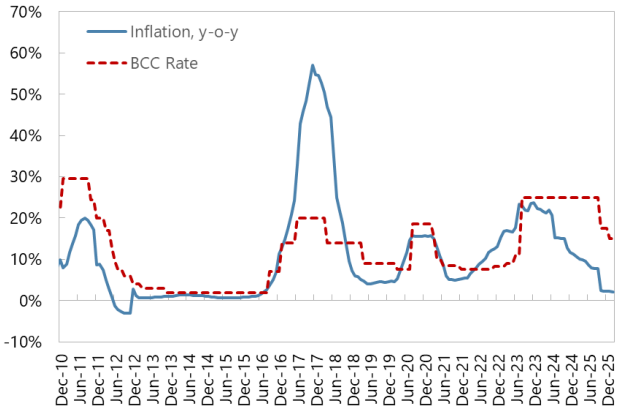
Inflation and Exchange Rate
(Percent)



Source: BCC and IMF staff calculations.

2. Previous studies on the drivers of inflation in the DRC point to the high exchange rate pass-through and relatively muted effect of monetary policy on inflation. Depreciation of the Congolese franc tends to transmit rapidly and almost fully to domestic prices, making exchange rate shocks a dominant source of inflation volatility (Figure 1). In contrast, the effectiveness of conventional monetary policy instruments, such as changes in the policy rate or reserve requirements, is relatively limited, necessitating sharp hikes in the policy rate to influence prices (Figure 2). Structural factors, including shallow financial markets, weak transmission channels, and fiscal dominance, constrain the ability of monetary policy to anchor expectations and influence price dynamics. Box 1 provides summary of relevant papers studying inflation dynamics in the DRC.

Figure 2. Inflation and the Policy Interest Rate



Source: BCC and IMF Staff calculations.

3. This paper investigates the long and short-term drivers of inflation in the DRC. Long run inflation drivers determine what anchors the price level over time and, therefore, which policy instruments can plausibly deliver low and stable inflation on a sustained basis. If inflation is anchored by a stable long run relationship with a particular variable, such as a monetary aggregate or the exchange rate, then the central bank can, in principle, influence inflation in the long run by targeting that determinant. This paper will use break-robust integration testing and cointegration stability diagnostics to study long-run inflation dynamics. In contrast, short run drivers primarily reflect near-term shocks and their propagation mechanisms (e.g., exchange-rate movements, fuel and food price changes, supply disruptions, or demand pressures). These short run influences provide signals about emerging inflation

pressures and guide the timing and intensity of policy responses. Short-run inflation dynamics are explored through a Structural Vector Autoregression (SVAR) model, its impulse response functions and forecast error variance decomposition. These tools facilitate the understanding of the magnitude of the effects of potential drivers of inflation, their evolution over time, and their relative contribution to total inflation volatility.

Box 1. Summary of Selected Studies of Drivers of Inflation in the DRC and SSA

- **Nachega (2005)** employed multivariate cointegration and VECM with annual data (1981–2003). Found that inflation in the DRC is primarily driven by fiscal dominance: government deficits are monetized, leading to high money growth and inflation. Over 80 percent of deficits were financed by seigniorage. Exchange rate was not significant after controlling for money growth. Fiscal discipline and central bank independence are crucial for price stability.
- **Fischer et al (2012)** used Johansen cointegration, VECM, and policy response regressions with monthly data (2002–2012). Found that exchange rate and base money are the main long-run drivers of inflation (elasticities: 0.80 and 0.31). The policy rate has a weak and delayed effect on inflation, with transmission hampered by high dollarization and shallow financial markets. Food prices were not significant.
- **Muganza (2015)** applied a VECM (annual data, 1976–2011) and variance decomposition. Found that the exchange rate and money supply are the most relevant leading indicators of inflation (explaining 47 percent and 30 percent of variance, respectively), with the fiscal deficit also important in the long run.
- **Momeka et al. (2022)** estimated a VECM (monthly data, 2002–2018) and analyzed constraints. Found that monetary policy effectiveness is weak: the policy rate has little impact on inflation. Exchange rate pass-through is strong; dollarization (86 percent of deposits), fiscal dominance, shallow financial markets, and external debt are major constraints.
- **Kemoe et al. (2024)** used local projection panel regressions for SSA (monthly data, 2013–2022). Found that for DRC and SSA, ERPT is high and persistent: a 1 percent depreciation raises inflation by 0.22–0.31 percentage points after 1–2 years. ERPT is higher in oil exporters, less competitive markets, and during large/persistent depreciations. Monetary policy credibility and competition reduce ERPT.
- **Musa et al. (2024)** developed a semi-structural Quarterly Projection Model (QPM) for the DRC. The model shows high exchange rate pass-through and limited monetary policy effectiveness through the policy rate due to dollarization. Commodity price shocks and fiscal dominance are key inflation drivers. The QPM supports scenario analysis for policy, highlighting the need for dedollarization and fiscal reforms.

Box 2. Monetary Policy Framework in DRC

The BCC operates under a monetary-targeting framework, with an inflation objective of 7 percent over the medium term. Within this approach, the monetary program is designed so that money growth remains broadly compatible with the projected nominal GDP growth, consistent with the inflation objective. In practice, policy implementation combines quantitative liquidity management, relying primarily on reserve requirements and, to a lesser extent, central bank paper and open market operations, with a growing role for the policy rate and episodic foreign exchange interventions.

Dollarization is a major impediment to the effectiveness of monetary-aggregate targeting. Pervasive use of foreign currency disturbs money demand and induces rapid portfolio shifts between CDF and USD in response to exchange-rate expectations, reducing the information content and controllability of monetary aggregates. Dollarization also contributes to a thin CDF liquidity market; the domestic interbank market remains underdeveloped, CDF-denominated instruments are limited, and most of financial contracts are effectively dollar-based, weakening the bank-lending and interest-rate channels. Achieving meaningful policy traction with the policy rate has often required very large adjustments of the interest rate. Moreover, the lack of hedging instruments and shallow capital markets amplify exchange rate volatility, which quickly passes through to consumer prices given the economy's reliance on imported goods.

The effectiveness of the BCC's monetary-targeting framework is further constrained by large and volatile liquidity shocks, most notably those arising from fiscal operations. In this context, weak government cash management, often more than chronic fiscal deficits or high public debt, can be a key driver of inflation spikes. When public spending is executed in a lumpy manner and often through emergency procedures, Treasury payments inject CDF liquidity into the economy in bursts while private demand for local currency is weak. n a highly dollarized environment, these liquidity surges are quickly converted into demand for foreign currency, putting immediate pressure on the exchange rate and prices. Such volatility makes it difficult to fine-tune liquidity conditions and keep reserve money on its programmed path, resulting in frequent intra-annual slippages relative to the monetary program.

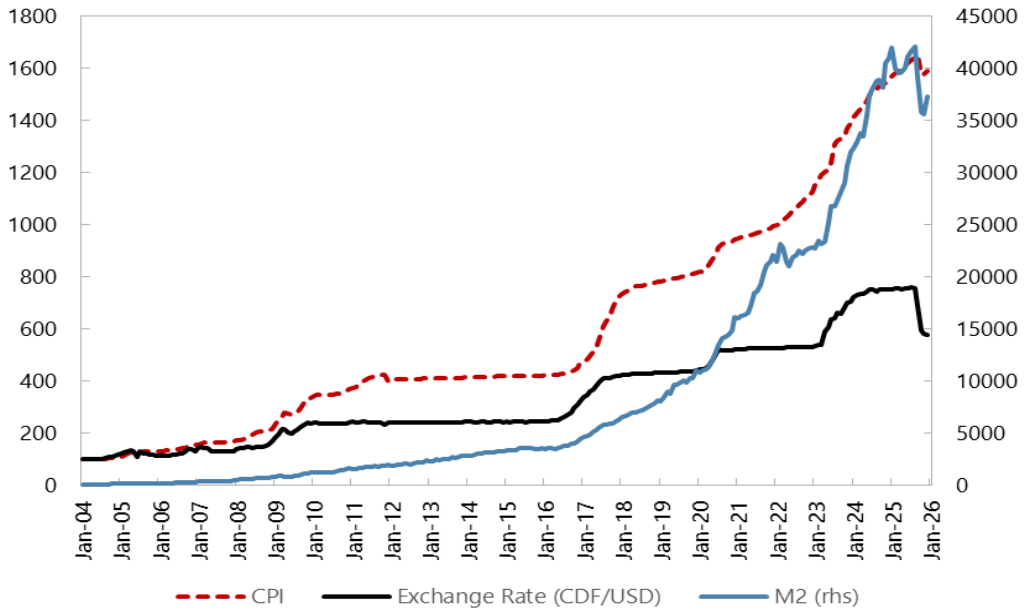
C. Long-Run Drivers

4. The DRC operates a monetary-aggregate targeting regime, but its effectiveness is challenged by very high dollarization (see box 2). In such environment, long-run inflation dynamics typically reflect features common to dollarized economies, strong exchange-rate pass-through and weak traditional monetary transmission mechanism, which reduces the reliability monetary aggregates as nominal anchors (Baliño et al., 1999). As a result, monetary targeting becomes more difficult to operate and broad money can fluctuate because of exchange-rate valuation effects and portfolio reallocations between CDF and USD assets, while exchange-rate movements can rapidly feed into prices and expectations. Against this backdrop, this paper assesses whether, once structural breaks and regime shifts are taken into account, inflation in the DRC is more tightly anchored in the long run by monetary aggregates or by the exchange rate.

5. The empirical strategy is to compare (i) the money–price relationship, and (ii) the exchange rate–price relationship (figure 3), focusing on whether these relationships are statistically

significant and stable over time. The analysis explicitly allows for structural breaks in these relationships, to account for the DRC's history of high macroeconomic volatility. For the DRC, extreme care is needed when testing for stationarity because the data-generating process is plausibly characterized by large, discrete regime shifts rather than smooth evolution. Dollarization and the historically important role of parallel-market activity further amplify the risk of structural change in exchange-rate/inflation transmission: when currency substitution intensifies or the relevant market rate switches from official to parallel (or vice versa), standard unit-root tests can misclassify a break-stationary series as having a unit root (or the opposite). Finally, measurement issues linked to statistical capacity constraints and periodic improvements (including CPI rebasing) can introduce artificial level shifts that look like non-stationarity if not modeled. Against this background, the first step is to establish the integration properties of prices and other potential nominal anchors using tests that explicitly accommodate structural breaks. This provides the appropriate foundation for the subsequent levels-based (cointegration) and stability analysis. The dataset used in this analysis is monthly (approximately 2004M01–2025M12; T≈264).

Figure 3. CPI, Inflation, Monetary Aggregates and Exchange Rate



Source: BCC and IMF staff calculations. Index (Jan 2004 = 100)

6. Shocks to the price level, broad money, and the exchange rate appear highly persistent in the DRC, even after allowing for major regime shifts. The Carrion-i-Silvestre–Kim–Perron (2009) unit-root tests, determine break date endogenously; table 1 reports the results under use the most flexible specification[2] allowing for up to two breaks. The test identifies one dominant break date for each series. The unit-root null cannot be rejected for the price index, broad money and exchange rate implying $I(1)$-type behavior. Accordingly, the next steps combine break-robust cointegration analysis and stability to assess whether the money–price or exchange rate–price relationship is more stable and informative for policy in the DRC. The break in the CPI in 2011 likely reflects a methodological change (Box 3 contains

[2] See detailed results in Annex 1

the technical details of the CPI in the DRC), while the break in the exchange rate in 2008M10 is consistent with the sharp deterioration in the terms of trade associated with the global financial crisis. The break in broad money in 2023M9 likely reflects the renewed intensification of financial dollarization during the most recent inflation episode.

Table 1. DRC: CKP (2009) Compact Results* (at 5 percent)

Series	Reported break date	Unit-root null rejected?	Implication
Consumer price index	2011M11	**No**	I(1)-type (nonstationary in levels, even with breaks)
Broad Money (M2)	2023M9	**No**	I(1)-type (nonstationary in levels, even with breaks)
Exchange rate	2008M10	**No**	I(1)-type (nonstationary in levels, even with breaks)

(*) The null hypothesis is that a series has a unit root, while the alternative is that it is stationary once we allow for level/trend breaks (break-stationary).

7. CPI co-moves with broad money (M2) and the exchange rate (APER) in the long run, with the tightest linkage to the exchange rate. Because M2 in the DRC is largely USD-denominated, exchange-rate movements mechanically revalue M2 in CDF terms and may therefore overstate money–price co-movement; to address this valuation channel, we also adjust M2 for exchange rate valuation (M2adj). Long-run relationships are assessed using the Pesaran–Shin–Smith (2001) ARDL bounds test. As reported in Table 2, the null of no level relationship is rejected at the 5 percent level for CPI–M2, CPI–M2adj, and, most strongly, CPI–APER. Tri-variate specifications are also estimated to assess whether prices are anchored by a combination of money and the exchange rate, but the bounds test is inconclusive. The next section therefore focuses on ECM estimates, with lags selected by information criteria and structural breaks controlled for, to compare stability, adjustment speed, and short-run pass-through across alternative anchoring specifications.

Table 2. DRC: Cointegration Conclusion at 5 % (ARDL bounds test)

Specification (logs)	Bounds F	Bounds t	Decision at 5%	Cointegration at 5%
Consumer price index ~ Broad money	7.033	-3.746	Rejection	**Yes**
Consumer price index ~ Valuation-adjusted broad money 1/	9.865	-4.274	Rejection	**Yes**
Consumer price index ~ Average period exchange rate	12.713	-4.999	Rejection	**Yes**
Consumer price index ~ Average period exchange rate + Broad money	3.341	-2.928	No rejection	**No**
Consumer price index ~ Average period exchange rate + Valuation-adjusted broad money	4.083	-3.249	Inconclusive	**Inconclusive**

1/ Broad money is adjusted for exchange rate valuation effect

Box 3. The CPI in the DRC

Statistical production in the DRC is governed by *Decree No. 10/05 of February 11, 2010* on the National Statistical System, which complements *Decree No. 09/45 of December 3, 2009*, establishing the National Institute of Statistics (INS) as a public institution. The INS is fully responsible for compiling and disseminating the CPI.

The CPI is compiled using a Laspeyres index formula with fixed weights. The CPI covers Kinshasa and 11 provinces, and national inflation is calculated as a weighted aggregation of regional indices. Prices quoted in U.S. dollars are converted into Congolese francs at the exchange rate prevailing on the date of collection. The current consumption basket is based on 2005 expenditure weights (see table), which are now outdated. Work in this area is ongoing following the recent publication of a Household Living Conditions Survey (ECVM), which can provide updated consumption weights (data).

Weights of CPI Components

Component	Weight
Food and non-alcoholic beverage	54.0%
Housing, water ,gas, electricity	11.8%
Transport	7.8%
Clothing	6.1%
Education	4.9%
Health	3.5%
Miscellaneous	2.9%
Restaurants and hotels	2.7%
Furniture, household items and maintenance	2.7%
Alchoholic beverages and tabacco	1.4%
Leisure and culture	1.3%
Communication	1.0%

Source: INS, and IMF.

8. Overall, the exchange rate provides the tightest and fastest-adjusting long-run anchor for price. Table 3 compares the long-term relationship of broad money (M2), valuation-adjusted broad money (M2adj), and the exchange rate (APER) with price in the DRC, using evidence from ARDL-ECM estimation with structural-break dummies. All three bivariate specifications exhibit a statistically significant, level relationship, with prices at the 5 percent level according to the ARDL bounds test, but the strength of evidence differs: the CPI–APER relationship is the strongest, followed by CPI–M2adj, while CPI–M2 is weaker. The estimated error-correction terms are negative and highly significant in all cases, implying mean reversion toward the long-run equilibrium; adjustment is fastest for APER relative to M2adj and M2. In terms of in-sample fit, CPI–APER also performs best, compared with CPI–M2 and CPI–M2adj. Finally, Diagnostic tests, CUSUM stability and residual autocorrelation tests, do not indicate material specification problems.

9. Finally, these results are consistent with the broader literature on highly dollarized economies: pervasive dollarization weakens the informational content and controllability of monetary aggregates as policy guides, while strengthening the exchange-rate channel and often elevating the exchange rate as a de facto nominal anchor (Baliño et al., 1999 and Berg and Borensztein, 2000). At the same time, the appropriate choice of anchor depends on country circumstances. In the DRC, the

authorities' preference for a flexible exchange rate, to help absorb frequent terms-of-trade shocks, limits the feasibility of an explicit exchange rate anchor. This argues for refining the operational framework: the monetary program should explicitly integrate exchange-rate dynamics into both its definition and implementation, including by monitoring FX-market pressures as leading indicators of inflation risks (see conclusion).

Table 3. DRC: Comparing Long-Run Nominal Anchors for Inflation: Evidence from ARDL-ECM Cointegration Tests

Criterion	CPI ~ M2adj	CPI ~ APER	CPI ~ M2	Implications
Cointegration evidence (ARDL bounds test, 5%)	Reject (H0) (F=**9.865**, t=**−4.274**)	Reject (H0) (F=**12.713**, t=**−4.999**)	Reject (H0) (F=**7.033**, t=**−3.746**)	**APER** (strongest)
Parameter stability (CUSUM on ECM)	Pass	Pass	Pass	Tie
Adjustment strength (ECT, ADJ: L1.lcpi)	α=-0.038 (p<0.001)	α=-0.045 (p<0.001)	α=-0.039 (p<0.001)	**APER** (largest)
Speed of convergence (half-life, months)	**~17.7**	**~15.0**	**~17.3**	**APER** (fastest)
Explanatory power (R^2; RMSE)	R^2=**0.484**; RMSE=0.0120 *(N=211)*	R^2=**0.614**; RMSE=0.0108 *(N=252)*	R^2=**0.398**; RMSE=0.0137 *(N=252)*	**APER** (best fit)
Residual autocorrelation (BG p-value)	p(1)=0.041; p(12)=0.275	p(1)=0.441; p(12)=0.705	p(1)=0.703; p(12)=0.658	Tie

D. Short-Run Drivers

10. Models of short-run inflation dynamics, such as the Phillips curve or standard mark-up frameworks, are difficult to estimate in the DRC due to significant data limitations. Key real-sector indicators, including unemployment, capacity utilization, and high-frequency measures of the output gap, are either unavailable or too unreliable to support structural estimation. In the DRC, by contrast, short-term inflation analysis must rely primarily on nominal variables for which data are available, such as the CPI, monetary aggregates, the nominal exchange rate, and external price indicators including the terms of trade. Like many commodity exporting economies, the DRC has struggled to develop a competitive non-commodity sector, resulting in copper and cobalt accounting for over 80 percent of exports. At the same time, poor transport links prevent farmers from moving surplus production to major markets, reinforcing dependence on imported staples. Imports account for almost 50 percent of GDP and over 40 percent of the CPI basket, making inflation highly exposed to global price movements and exchange rate fluctuations (Figure 4, panel 2). As a result, local and imported inflation tends to strongly comove and exhibit a strong correlation of 69.3 percent over the period 2013-25 (Figure 4, panel 1). Given the high degree of dollarization and the dominant role of imported goods in consumption, movements in the exchange rate and changes in liquidity conditions can provide more reliable signals of short-term inflation pressures than domestic real-sector measures. This is consistent

with past studies on inflation dynamics in highly dollarized economies, such as Acosta-Ormaechea and Coble (2011).

11. A Structural VAR (SVAR) is employed to more fully characterize the dynamic transmission of shocks to inflation in the DRC. A SVAR allows the estimation of economically meaningful relationships—such as exchange-rate, monetary, and external-price shocks—by imposing theory-consistent structural contemporaneous restrictions on the system (Blanchard and Quah, 1989). This is essential in the DRC, where high dollarization, shallow foreign-exchange markets, and volatile external conditions shape inflation dynamics in ways that simple reduced-form correlations cannot disentangle. Unlike reduced-form VARs, where residuals are treated as statistical noise, the SVAR interprets them as structural shocks. This structural interpretation allows us to recover impulse-response functions that trace out the full-time path of inflation following an identified shock and to quantify the relative contribution of each driver. In an environment where nominal variables—particularly the exchange rate—play a dominant role in shaping short-run inflation pressures, the SVAR provides a coherent, theory-consistent framework for isolating these channels and understanding their propagation mechanisms. The variables included in the SVAR are: broad money (M2); movements in the nominal exchange rate against the dollar (ER)[3]; shifts in the terms of trade (TOT)[4]; policy rate adjustments by the central bank (IR); and government expenditures (EXP). The estimation uses monthly data from April 2009 to September 2025. A lag structure of four lags was chosen using the Akaike information criteria (AIC). The model is stable with all roots of the characteristic AR polynomials inside the unit circle.

12. Short-run restrictions are imposed to identify the structural VAR.[5] First, domestic prices are allowed to respond contemporaneously to shocks to the exchange rate, to the terms of trade and to government expenditures, reflecting the high degree of dollarization and import dependence of the Congolese economy, which imply rapid pass-through from exchange-rate movements and external price conditions to domestic inflation. At the same time, prices are restricted from responding contemporaneously to monetary policy and money supply shocks, consistent with delays in the transmission of monetary policy to prices. Second, the terms of trade are assumed to be contemporaneously exogenous, responding only to their own shock, as developments in external prices are largely outside the control of a small open economy such as the DRC. Third, the exchange rate is allowed to respond contemporaneously only to terms-of-trade shocks, reflecting the dominance of external and market-specific factors in short-run exchange-rate determination. Fourth, the policy interest rate is allowed to respond contemporaneously to shocks to the CPI, the exchange rate, and the terms of trade, capturing the central bank's short-run reaction to inflationary and external pressures. Government expenditures are assumed to respond contemporaneously only to terms of trade and exchange rate

[3] An alternative specification where the exchange rate against the dollar was controlled to purge the effect of general dollar strength.

[4] Alternative specifications with an index of global Food prices and an index of oil prices were tested. Results did not change meaningfully.

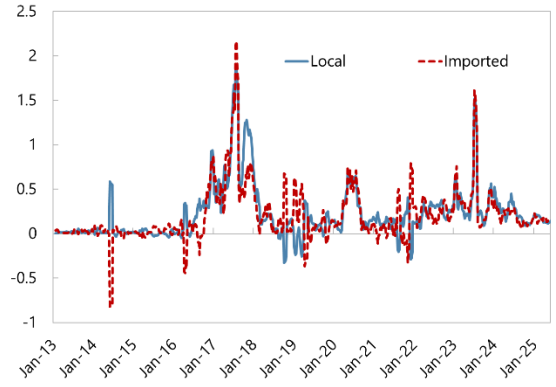
[5] Alternative short-run restrictions were tested, for robustness. The main results do not change meaningfully under different assumptions.

shocks. Finally, broad money is allowed to respond contemporaneously to exchange-rate, interest-rate, and terms-of-trade shocks, reflecting endogenous liquidity management and monetary accommodation.

13. The results are interpreted using impulse response functions (IRFs) and a forecast-error variance decomposition (FEVDs). IRFs trace the dynamic response of inflation—and other variables in the system—to a one-standard-deviation structural shock, as identified by the SVAR. Figure 5 presents the responses of monthly inflation to shocks to the exchange rate, the policy interest rate, broad money, the terms of trade, and government expenditures. The solid line shows the point estimate of the response, while the dashed lines indicate 95-percent confidence intervals. Since the variables are expressed in log-differences (or first differences in the case of the policy rate), the responses can be interpreted as deviations from baseline in monthly percentage terms. The FEVD complements the IRF

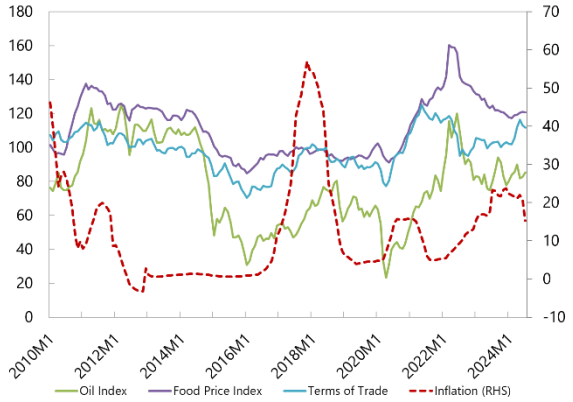
Figure 4. Inflation and External Prices

Local and Imported monthly Inflation
(Percent, 4-week moving average)



Source: BCC and IMF Staff calculations.

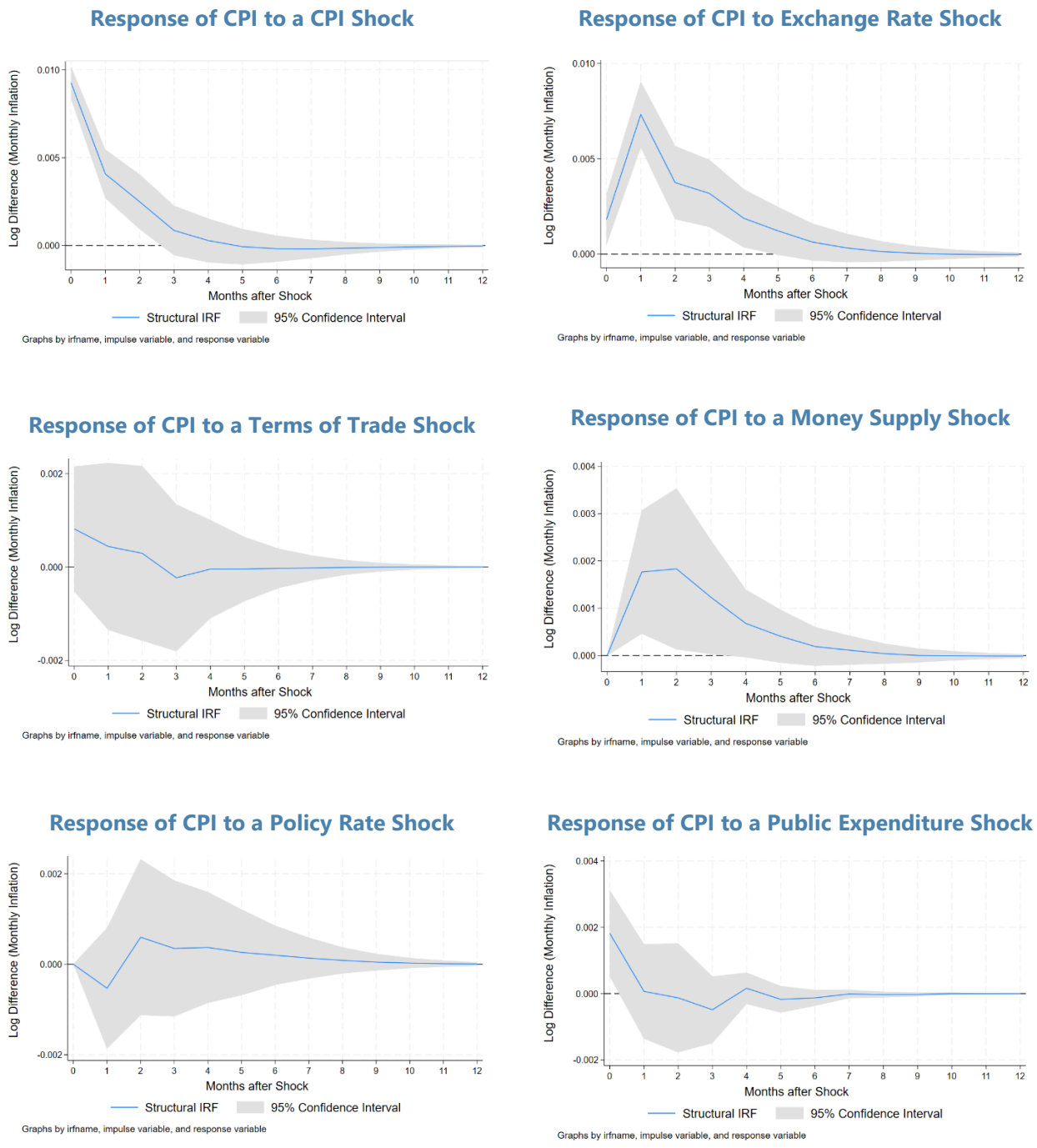
Inflation, Terms of Trade and Commodity Prices (Index and Percent, rhs)



Source: WEO, BCC and IMF Staff calculations.

analysis by quantifying the relative contribution of each structural shock to the forecast-error variance of inflation at different horizons, thereby indicating the extent to which short-run inflation dynamics are driven by inflation's own innovations, or unforeseen shocks to other variables in the system.

Figure 5. Impulse Responses of CPI to Individual Structural Shocks from SVAR



Notes: Impulse responses of CPI to normalized shocks from an SVAR model. Average inflation responses (in blue); +/-standard errors (in grey) at 95 percent confidence intervals.

14. The IRFs show that exchange rate shocks are the strongest driver of inflation in the DRC. A one standard deviation shock to exchange rate in time zero (roughly a depreciation of 1.6 percent in period zero which decays to zero over 3 to 4 months) results in a cumulative increase in inflation of almost 1 percent in the first two periods. The relatively fast decay of the exchange-rate effect suggests that pass-through is front-loaded and largely completed within a few months, rather than generating

persistent inflationary spirals. Money supply shocks and public expenditure shocks both have significant, but small positive effects on inflation. A one standard deviation increase in M2 increases inflation by 0.5 percent over 3 months, while a one standard deviation increase in public expenditure increases inflation by 0.2 percent on impact, having no significant impact in the following months. After 6 months, a cumulative depreciation of roughly 2.8 percent increases CPI by almost 2 percent. Despite the DRC's dependency on trade, terms of trade shocks do not have a significant impact on inflation. The same holds for increase in policy rates. These results are in line with those of short-term dynamics of ARDL models with error correction, including the same variables. The comparatively small effects of money supply and public expenditure shocks reflect weak short-run monetary transmission and limited immediate demand-side pressures, while the absence of a significant policy-rate effect underscores the limited role of interest-rate as a short-term stabilization tool in a highly dollarized environment.

Table 4. DRC: Variance Decomposition of CPI Inflation Using Structural VAR Factors
(Percentage points)

Horizon	TOT shock	CPI (own)	ER shock	IR shock	M2 shock	EXP shock
1 month	0.7	92.2	3.50	0.0	0.0	3.6
3 months	0.5	56.8	37.2	0.3	3.4	1.7
6 months	0.5	52.1	41.1	0.5	0.4	1.7
12 months	0.5	52.0	41.2	0.5	0.4	1.7

Notes: This table reports the forecast-error variance decomposition (FEVD) of monthly CPI inflation based on the structural VAR. Entries show the percentage contribution of each structural shock—terms of trade (TOT), own CPI, exchange rate (ER), policy interest rate (IR), broad money (M2), and external price (EXP) shocks—to the forecast-error variance of inflation at different horizons.

15. The variance decomposition shows that shocks to exchange rate and price account for more than 90 percent of forecast errors of inflation in the DRC (Table 4). Exchange-rate shocks play a non-negligible role even in the immediate term, explaining about 3.5 percentage points of inflation's unforecastable variability, while the contributions of monetary policy and money supply shocks are essentially zero on impact. As the horizon lengthens, the importance of price shocks declines markedly, falling to around 52 percent after three to six months. Over the same horizons, exchange-rate shocks become the dominant external driver of inflation, accounting for roughly 37 percent of the variance after three months and about 41–42 percent after six to twelve months. Monetary policy and money supply shocks contribute modestly but persistently to inflation variability at medium horizons, together explaining around 3–4 percent after three months, though their individual contributions remain small. In contrast, terms-of-trade shocks account for less than 1 percent of inflation variance at all horizons, underscoring their limited relevance for short-run inflation dynamics in the DRC. Overall, the FEVD results confirm the central role of exchange-rate shocks in shaping inflation outcomes, with the increasing importance of exchange-rate shocks over time reflects the gradual propagation of currency movements along supply chains and pricing decisions. Monetary policy influences inflation only gradually and to a limited extent, consistent with slow and incomplete transmission to prices.

E. Conclusions and Policy Recommendation

16. The empirical evidence suggests that in the long run while both broad money and the exchange rate exhibit a long-run relationship with prices, the exchange rate provides the tighter, more stable, and faster-adjusting nominal anchor in the DRC. Prices tend to move closely with the exchange rate over time, and exchange-rate pressures are followed by faster and more pronounced adjustments in inflation than changes in money aggregates even when correcting for exchange rate valuation effects and other structural breaks. At the same time, monetary targeting can still provide a viable path to price stability, provided it is implemented credibly and predictably—by limiting liquidity surprises, aligning money growth with nominal economic conditions, and using liquidity operations to prevent exchange-rate pressures from translating into persistent inflation.

17. The analysis shows that the short-run inflation process in the DRC is primarily driven by exchange-rate shocks of a domestic nature, with monetary policy and liquidity conditions playing supporting roles. A depreciation of the Congolese franc leads to a rapid and statistically significant increase in monthly inflation. Analysis of domestic and imported inflation series shows that even non-tradable CPI items adjust to the new exchange rate almost in tandem with prices of imported items. Monetary policy affects inflation with a lag and with limited strength in the short run. Liquidity conditions play a secondary role, with broad-money shocks contributing modestly to inflation variability beyond the three-month horizon. Fiscal policy has an equally small impact on short-run inflation dynamics, albeit shorter lived than liquidity shocks. Terms-of-trade shocks do not seem to be relevant for short-run inflation dynamics. Despite the limited direct impact, maintaining the credibility of monetary and fiscal policy is important to anchor exchange rate expectations. Maintaining a high adequacy level of reserves is also crucial in preventing episodes of depreciation which can spiral out of control.

18. Embed the exchange rate more explicitly in the monetary policy framework. Given the strong influence of the exchange rate on prices in a highly dollarized economy, the BCC should treat exchange-rate developments as a central input into policy decisions rather than a background indicator. In practice, this means routinely factoring exchange-rate conditions into the assessment of the inflation outlook and the calibration of liquidity management and using signs of sustained FX pressure as early warnings of inflation risks that may warrant a timely policy response. The BCC should also strengthen its monitoring of how exchange-rate movements pass through to key consumer prices, especially fuel, food, and transport, and communicate more clearly how exchange-rate developments are shaping inflation and policy actions. In doing so, the BCC should emphasize that FX operations are aimed at smoothing disorderly market conditions, not defending a fixed exchange rate level and explain how liquidity operations are adjusted when FX developments create deviations from the monetary program.

19. Improving FX market functioning is critical for inflation control in the DRC. Policy should focus on deepening the interbank FX market to strengthen price discovery and liquidity, including by expanding the participation of banks, promoting transparent trading and reporting arrangements, and enforcing prudential rules, particularly net open position limits, to reduce speculative pressures. Reducing the gap between the official and parallel FX markets is also important: easing unnecessary restrictions, making it easier for legitimate demand to access foreign exchange through formal channels,

and ensuring transactions are processed smoothly and consistently can help bring rates closer together and reduce volatility. Finally, strengthening reserve buffers and clearly communicating the objectives and limits of FX intervention, aimed at smoothing disorderly conditions rather than defending a specific level, would enhance confidence and ultimately support more durable price stability. These developments will prevent episodes of unexpected volatility, such as the sharp appreciation of the franc in late 2025 (see Box 4).

20. Address structural dollarization to restore monetary control. The BCC publicly committed to strengthening the role of the Congolese franc in payments, contracts, and financial intermediation. Given this goal, the authorities should pursue a gradual, market-based de-dollarization strategy anchored in macroeconomic stability. Key priorities include strengthening confidence in the domestic currency through consistent fiscal and monetary discipline and developing longer-term CDF funding markets and risk-management tools. The BCC has begun to operationalize this agenda through concrete regulatory measures, such as mandating the use of the franc in electronic payment terminals and reinforcing requirements that prices and official payments be denominated in national currency. These measures would benefit from being consolidated into a comprehensive national de-dollarization strategy, designed with key stakeholders and monitored by the BCC, particularly the Treasury, given its central role in developing the domestic debt market and developing a local-currency yield curve.

Box 4. Appreciation Episode and its Impact on Inflation in September-December 2025

In September and October 2025, following the implementation of corrective prudential measures on reserve requirements on banks' foreign currency deposits the CDF appreciated sharply. This episode presents an opportunity to study what is essentially a positive exogenous shock to the exchange rate and to study its effects on inflation.

In mid-September, the BCC revised the valuation of legacy CDF-denominated reserve requirements on foreign currency deposits, revealing a shortfall of about US$301.5 million (around 80 percent of banks' end-July excess reserves). To meet the revised requirement (in gradual steps between September and November), banks sold USD to buy CDF, prompting the appreciation. Expectations of further appreciation prompted a rebalancing of short-term liquidity toward CDF, while a large corporate income tax (CIT) deadline amplified demand.

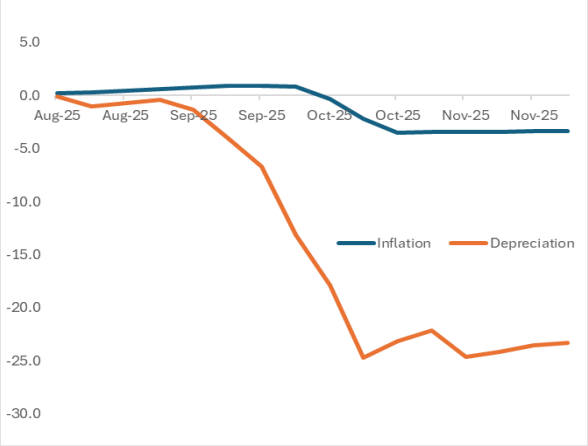
Communication missteps and speculation added volatility of the CDF, with the CDF appreciating 21 percent in the official market and 22 percent in the parallel market between end-August and end-October. There were no FX interventions to address the disorderly FX market conditions. The exchange rate stabilized from end-October until end-November. Year-on-year inflation fell sharply to 2.5 percent in October 2025.

Using weekly data on exchange rates and inflation one can study the magnitude and timing of the transmission of the exchange rate shock to prices. The figures below show the cumulative change in relative to the first week of August.

Box 4. Appreciation Episode and its Impact on Inflation in September-December 2025(Continued)

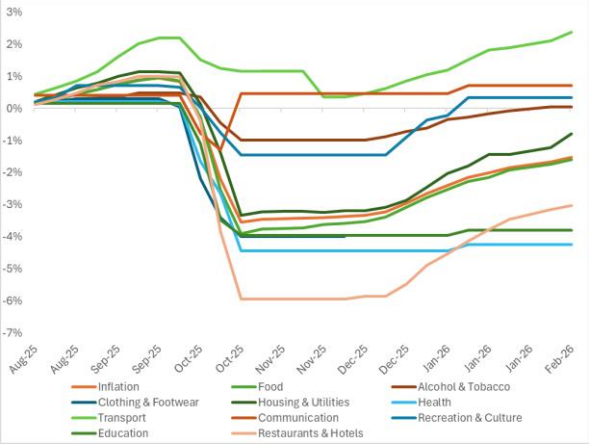
Cumulative Impact of the Appreciation Shock on CPI Inflation

Exchange Rate and Inflation
(Cumulative change, percent)



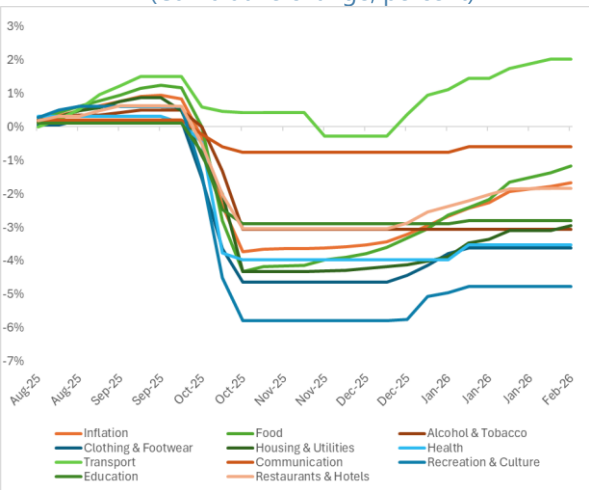
Source: BCC and IMF staff calculations.

Inflation in Selected CPI Components (National)
(Cumulative change, percent)



Source: BCC and IMF staff calculations.

Inflation in Selected CPI Components (Kinshasa)
(Cumulative change, percent)



Source: BCC and IMF staff calculations.

Box 4. Appreciation Episode and its Impact on Inflation in September-December 2025 (Concluded)

The Congolese franc appreciated sharply between mid-September and late October 2025, strengthening by approximately 25 percent against the U.S. dollar and stabilizing thereafter. Inflation responded rapidly, declining from a peak of 0.9 percent in late September to −3.5 percent in late October, a cumulative decline of 4.4 percentage points over 4 weeks. Inflation remained stable from November onwards. Disinflation was broad-based across CPI components. The largest declines were observed in Restaurants and Hotels (−6.9 percentage points), Food (−4.9 percentage points), Health (−4.6 percentage points), Clothing and Footwear (−4.3 percentage points), and Housing (−4.4 percentage points). In contrast, Communication and Alcohol and Tobacco experienced smaller declines of around 1.5–1.7 percentage points, suggesting weaker exchange rate pass-through in these more regulated or less import-intensive sectors. In Kinshasa, inflation dynamics were broadly similar but slightly more pronounced, consistent with greater exposure to imported goods and faster price adjustment in more integrated urban markets.

The passthrough of the appreciation to prices during this episode was roughly 15 percent which is below the expected passthrough in highly dollarized economies. However, this is consistent with an asymmetric effect of the exchange rate on prices in dollarized economies.

Annex I. Carrion-i-Silvestre, Kim, and Perron (2009) Stationarity Test

Let y_t denote a macroeconomic level series (e.g., log CPI, log money, log exchange rate). Standard unit-root tests can have severe size and power distortions when the deterministic component of $y_t$exhibits **structural breaks**, because breaks in intercept and/or trend can mimic stochastic non-stationarity. Carrion-i-Silvestre, Kim, and Perron (2009; CKP) develop **GLS-based** unit-root tests that allow for **multiple structural breaks under both the null and the alternative**, addressing the key limitation of break tests that assume breaks occur only under stationarity.

Model and hypotheses

CKP consider the following decomposition

$$y_t = d_t(\boldsymbol{\theta}, \mathbf{T}_b) + u_t,$$

where $d_t(\cdot)$is a deterministic component that may include a constant, a linear trend, and break regressors—typically level-shift indicators $DU_t(T_{b,j})$and trend-shift terms $DT_t^*(T_{b,j})$—at unknown break dates $\mathbf{T}_b = \{T_{b,1}, \dots, T_{b,m}\}$. The stochastic component $u_t$follows either a unit-root process under the null,

$$H_0: u_t = u_{t-1} + \varepsilon_t,$$

or a stationary process under the alternative,

$$H_1: u_t = \rho u_{t-1} + \varepsilon_t, |\ \rho\ | < 1,$$

with breaks permitted in $d_t(\cdot)$in both cases. Break dates are selected endogenously by minimizing a GLS objective function subject to a trimming constraint (minimum regime length), and CKP provide **response-surface critical values** appropriate for the resulting data-dependent break selection.

Endogenous break selection and critical values

Break dates are selected endogenously by minimizing a GLS objective function, subject to a trimming constraint that ensures a minimum regime length (i.e., avoids breaks too close to the sample boundaries or too close together). Because the break dates are data-dependent, CKP provide response-surface critical values that are valid under endogenous break selection and depend on the sample size, number of breaks, and deterministic specification.

Test statistics reported by CKP

The CKP implementation reports several complementary statistics (Appendix Table A1 includes the results of all these tests). These include **PT/MPT** (point-optimal-type statistics based on GLS detrending) and the **Ng–Perron "M-class" statistics** (MZ_α, MSB, MZ_t), computed on the GLS-detrended series and using lag selection rules designed to control serial correlation. Inference is conducted by comparing the computed statistics to the CKP break-adjusted critical values. In this paper, we employ the most flexible deterministic specification (allowing both level and slope shifts) and allow for up to $m$breaks; in practice,

the procedure often selects a small number of dominant break dates. The resulting classification of each variable as $I(1)$(fail to reject the unit root) versus break-stationary $I(0)$(reject the unit root once breaks are allowed) determines the appropriate long-run framework used subsequently: cointegration/error-correction methods when the key variables are $I(1)$, and specifications that explicitly accommodate deterministic breaks (and potentially mixed persistence) when some series are break-stationary.

Implementation in this paper and interpretation

In this paper, we employ the CKP GLS-based unit-root tests using the **most flexible deterministic specification** (allowing for both intercept and slope shifts) and allow for up to 2 breaks. In practice, the procedure typically selects a small number of dominant break dates for each series. Based on the 5 percent break-adjusted critical values, each variable is classified as:

- $I(1)$**-type**: fail to reject the unit-root null even after allowing for breaks (non-stationary in levels), or
- **Break-stationary** $I(0)$: reject the unit-root null once structural breaks in the deterministic component are permitted (stationary around a broken deterministic path).

Annex I. Table 1. DRC: Full set of CKP Statistics you Reported

Series	T	Break date	PT	PT cv (5%)	MPT	MPT cv (5%)	ADF	ADF cv (5%)	ZA	ZA cv (5%)	MZA	MZA cv (5%)	MSB	MSB cv (5%)	MZT	MZT cv (5%)
ln(CPI)	264	2011M11	23.248	7.014	22.653	7.014	-1.917	-3.45	-7.367	-24.044	-7.351	-24.044	0.261	0.142	-1.917	-3.45
ln(M2)	263	2023M9	7.118	5.866	6.907	5.866	-2.961	-3.091	-18.129	-19.096	-17.487	-19.096	0.163	0.161	-2.856	-3.091
ln(APER)	264	2008M10	9.124	5.027	9.058	5.027	-2.466	-3.289	-13.455	-22.558	-13.404	-22.558	0.184	0.154	-2.473	-3.289
ln(EPER)	264	2011M1	12.132	4.858	11.798	4.858	-2.088	-3.331	-10.069	-23.129	-10.004	-23.129	0.211	0.153	-2.114	-3.331
ln(NEER)	248	2011M8	16.137	7.013	15.713	7.013	-2.277	-3.449	-10.719	-24.031	-10.671	-24.031	0.213	0.143	-2.272	-3.449
ln(M1)	262	2006M12	6.765	5.595	6.798	5.595	-3.021	-3.242	-18.896	-21.685	-17.372	-21.685	0.17	0.154	-2.946	-3.242

Notes: The table reports Carrion-i-Silvestre–Kim–Perron (2009) GLS-based unit root tests allowing for endogenous breaks in the deterministic component (model type = 3). Up to two breaks are permitted; the procedure selects one dominant break date per series (reported). The null hypothesis is a unit root. For PT, smaller values indicate evidence against a unit root; for MZT, more negative values indicate evidence against a unit root. Critical values are the 5% break-adjusted critical values reported by the CKP response-surface method. Values are rounded to three decimals.

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LABOR MARKET AND FEMALE LABOR FORCE PARTICIPATION IN DR CONGO[1]

This paper describes the labor market and female labor force participation (FLFP) in the Democratic Republic of the Congo (DRC), a country experiencing rapid population growth. The working-age population is estimated at 56 million (about 52 percent of the total population), of which 51 percent are women. The labor force participation rate stands at 65 percent (67.1 percent for men and 62.4 percent for women), while the official unemployment rate remains moderate at 4.4 percent. However, this masks the concentration of jobs in low productivity sectors, particularly for women: 68 percent of women work in agriculture, 88 percent are in vulnerable employment, and only 9 percent hold wage jobs. Despite GDP growth averaging 5.1 percent over 2000–2024 (largely driven by the extractive sector), job creation and overall investment have remained weak. Against this background, fully reaping the demographic dividend requires closing gender gaps and accelerating the diversification of the economy toward more labor-intensive but productive sectors, boosting investment in growth-enhancing social and economic infrastructure, and pursuing reforms that can improve employment quality for women.

A. Literature and Context

1. Female labor force participation (FLFP) supports inclusive growth through formal and productive employment. The literature indicates that women's involvement in the labor market is a key driver of inclusive growth and long-term development (Duflo 2012; Goldin 2021). However, the macroeconomic and social impact of such participation depends to a large extent on the quality of jobs held by women. When women's employment is concentrated in informal, low-productivity activities, its effects on poverty reduction, human capital accumulation, and structural transformation remain limited (Kabeer 2016; ILO 2018). As a result, in highly informal economies, women's labor force participation often reflects a household's coping strategy in response to poverty, rather than a true economic choice influenced by productive opportunities.

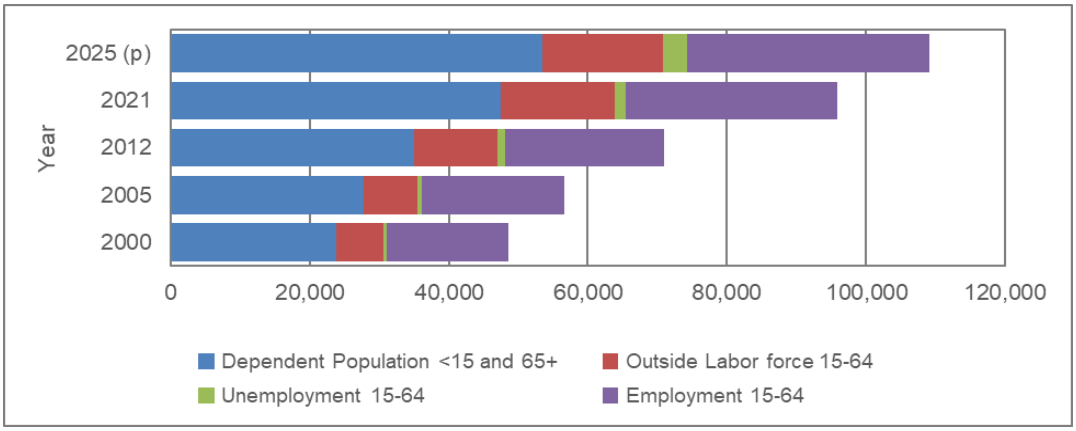
2. In the DRC, labor market dynamics are amplified by several interdependent structural limitations. These structural rigidities include intense demographic pressures (World Bank 2022; UNDP & ILO 2021), a partial demographic transition characterized by persistently high birth rates and declining death rates (Bloom et al. 2023), weak labor intensity of economic growth (IMF 2024), persistent gender norms (Kabeer 2016), and significant institutional and infrastructure gaps (World Bank 2020). In this context, women face a dual constraint: on the one hand, they need to participate in the labor market to boost household income; on the other hand, they get limited access to formal, stable, and productive employment opportunities. This contributes to a "time poverty" among women, where the combination of paid work, domestic work, and family responsibilities constrains investment in human capital and hinders occupational mobility (Fields 2019).

[1] Prepared by Joseph Senzele. Helpful support provided by Bowei Wang.

B. Stylized Facts

3. In the DRC, economic growth and abundant labor have yet to translate into improved living standards. The labor market is the primary channel through which economic growth improves living standards. In low-income countries facing rapid population growth, and especially in fragile states, the challenge lies in generating productive and well-paying employment for all segments of the population. The DRC provides an illustrative case of this. Despite its abundant labor supply and substantial economic potential, the Congolese labor market is characterized by pervasive informality, low productivity and generally poor quality of jobs. There continues to be constant pressure on the labor market to create enough employment opportunities for the growing working-age population (Figure 1): while the population doubled between 2000 and 2025, the number of individuals of working age who are either unemployed or outside the labor force has more than doubled, underscoring the scale of the employment challenge

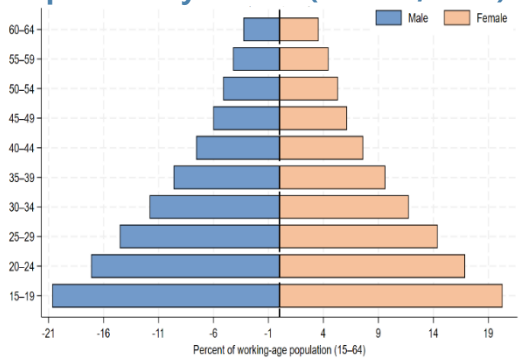
Figure 1. Population and Employment



Source: JobStructure Tool, World Bank

4. Gender-based structural analysis with a focus on FLFP is critical. Existing analyses of the labor market in the DRC, including those based on national employment reports, have documented labor underutilization, low job quality, and structural imbalances in the labor market. (World Bank 2017; UNDP and ILO 2021). Nevertheless, the gender dimension is often treated as a simple statistical disaggregation, rather than as a core analytical component. Yet, overlooking how women are integrated into the labor market omits a fundamental determinant of labor market dynamics and its role in supporting inclusive growth.

Figure 2. Structure of the Working-Age Population by Gender (Percent, 2024)



Sources: World Development Indicators and IMF staff calculations.

5. The workforce in the DRC is characterized by a very young age profile. The population pyramid has a broad base, concentrated in the 15–34 cohorts, while older age groups (55–64) account for a much smaller share (Figure 2). This structure reflects continually high fertility and a still-elevated dependency ratio,

consistent with regional estimations for sub-Saharan Africa (United Nations 2022; World Bank 2022; IMF 2023). The 2024 working-age population is estimated at 56 million, or about 52 percent of the total population, indicating that the DRC remains at an intermediate stage of its demographic transition. This share is in line with the sub-Saharan African average, but below that of emerging market economies that have already captured a substantial demographic dividend (Bloom et al. 2003).

6. Female labor force participation is lower than male, at 62.3 percent, against 67.1 percent for men (Figure 3). This differential indicates a relative underutilization of female human capital, as also documented for Sub-Saharan Africa (Goldin 2021; IMF 2022). In the Congolese context, this reflects the fact that female participation is largely concentrated in low-productivity, highly informal sectors. With women representing 50.6 percent of the working-age population, the potential growth gains from enhanced economic inclusion of women could be substantial.

Figure 3. LFPR: Total, by Gender & Gap

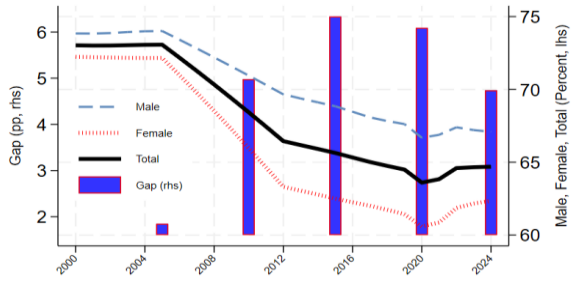


Figure 4. Unemployment: Total, by Gender & Gap

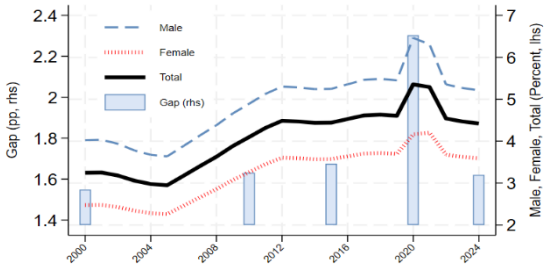


Figure 5. Employment: Total, by Gender & Gap

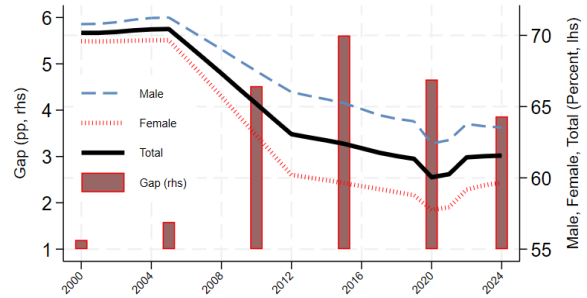
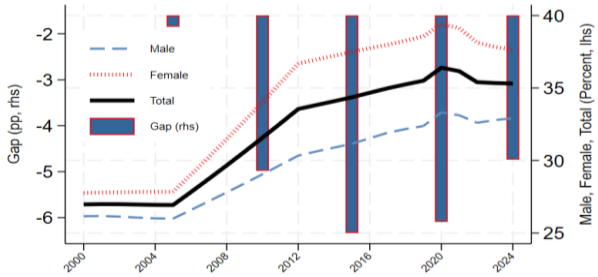


Figure 6. Inactivity: Total, by Gender & Gap



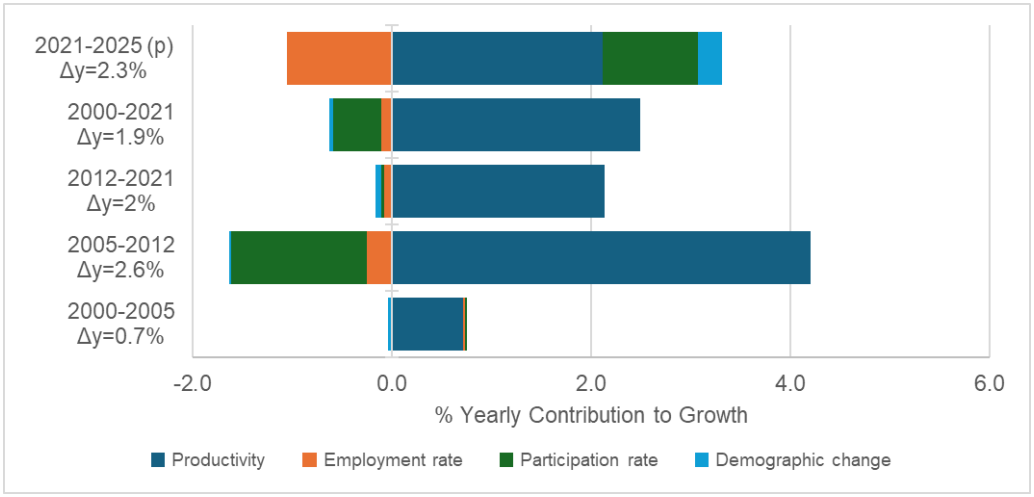
Sources: World Development Indicators and IMF staff calculations.

7. Labor force participation in the DRC remains high, but has declined since the early 2000s, amid rapid population growth and limited structural transformation (Figures 3 & 7).[2] In

[2] Labor force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labor for the production of goods and services during a specified period. (International Labor Organization (ILO)'s Definition).

2000, the overall participation rate stood at 73.0 percent (73.8 percent for men and 72.2 percent for women; gender gap: 1.6 percentage points). This near parity reflects not a balanced formal integration, but high female participation in subsistence agriculture and the informal sector (Figure 14 and 15). Participation subsequently declined to 64.5 percent in 2019, and to 63.6 percent in 2020, due to the pandemic shock, before rebounding to 64.7 percent in 2024. The male rate stands at 67.1 percent, compared with 62.4 percent for women. This widening gap since 2000 mirrors trends observed in several sub-Saharan African countries experiencing rapid urbanization and a relative contraction of agricultural employment (World Bank, 2022).

Figure 7. Annual Contribution to per Capita Value Added Growth (Δy)



Source: Based on JobStructure Tool, World Bank

8. Unemployment[3] remains low, masking structural vulnerabilities. The official unemployment rate is moderately low by international standards (Figure 4). In 2000, the overall unemployment rate stood at 3.2 percent (4 percent for men; 2.5 percent for women). It rose gradually to 4.6 percent in 2019, peaking in 2020 due to COVID-19 (6.5 percent for men; 4.2 percent for women). In 2024, it fell to 4.4 percent (5.2 percent for men; 3.6 percent for women). The gender gap in unemployment, about 1.6 percentage points in 2024, has thus stayed relatively constant over time. However, as highlighted in International Labor Organization (ILO) reports (2018, 2022), low unemployment in sub-Saharan Africa often reflects the absence of unemployment insurance systems and the dominance of informal work.

9. Substantial provincial disparities in unemployment characterize the labor market in the DRC. The 2024 Household Living Conditions Survey (ECVM) conducted by the National Institute of Statistics (INS DRC) highlights the significant provincial disparities (Figures 8a and 8b) in unemployment, with a national unemployment rate at 6.2 percent for women, similar to that of men. Kinshasa has the highest unemployment rate at 16.7 percent, nearly three times the national average, reflecting the concentration of public and private institutions, rapid rural-to-urban migration, and strong population growth, which heighten urban labor market pressures (World Bank, 2022). With

[3] Unemployment refers to the share of the labor force that is without work but available for and seeking employment. (ILO's Definition)

female unemployment rate at 7.3 percent (7.1 percent for men), Haut-Katanga is the province with the second-highest unemployment rate, reflecting its reliance on the capital-intensive mining sector that uses little labor. Conversely, rural provinces like Mai-Ndombe (2.3 percent), Haut-Uele (2.3 percent), and Mongala (2.6 percent) exhibit considerably lower female unemployment rates, a phenomenon mainly attributable to widespread informal and subsistence work rather than more robust labor market conditions (ILO, 2022). These patterns imply that the main labor market issue in DRC's provinces lies not in the high level of unemployment rate, but in the scarcity of productive, formal employment, especially for women, whose employment is predominantly concentrated in low-productivity informal sectors.

10. The employment to population ratio[4] points to an incomplete post-pandemic recovery. The employment to population ratio (Figure 5) confirms trends similar to those observed for labor force participation. Overall employment fell from 70.2 percent in 2000 to 61.3 percent in 2019, then to 60 percent in 2020, before improving to 61.6 percent in 2024. The gender gap, small in 2000 (1.2 percentage points), reached 3.9 percentage points in 2024 (63.5 percent for men and 59.7 percent for women). This widening is consistent with a pattern documented in several resource-rich countries, where extractive-led growth generates limited direct unemployment opportunities for women (IMF 2023; World Bank 2022). The experience of similar countries (Nigeria, Angola and Zambia) shows that limited diversification restrains the absorption of female labor into higher-productivity sectors. Moreover, social and institutional constraints — including limited access to credit, land ownership, and infrastructure — hinder women's transition to more productive employment (Duflo, 2012; Kabeer, 2016).

11. Inactivity[5] rate points to a growing structural challenge (Figure 6). Inactivity rose from 27 percent in 2000 to 35.3 percent in 2024. In 2024, female inactivity reaches 37.6 percent, compared to 32.9 percent for men. In the context of rapid demographic growth, this increase in inactivity suggests that the DRC is not yet transforming its potential demographic dividend into an economic dividend (Bloom and al. 2003). In fact, the literature highlights that without the creation of productive jobs and greater female inclusion, the demographic transition can worsen social pressures, rather than boost growth (World Bank 2022; IMF 2024).

[4] Employment to population ratio is the proportion of a country's population that is employed. (ILO's Definition)

[5] The inactive population consists of all persons of working age who are not employed and not seeking employment. That is, they are not part of the labor force. (ILO)

Figure 8a. Male Unemployment Rate by Province

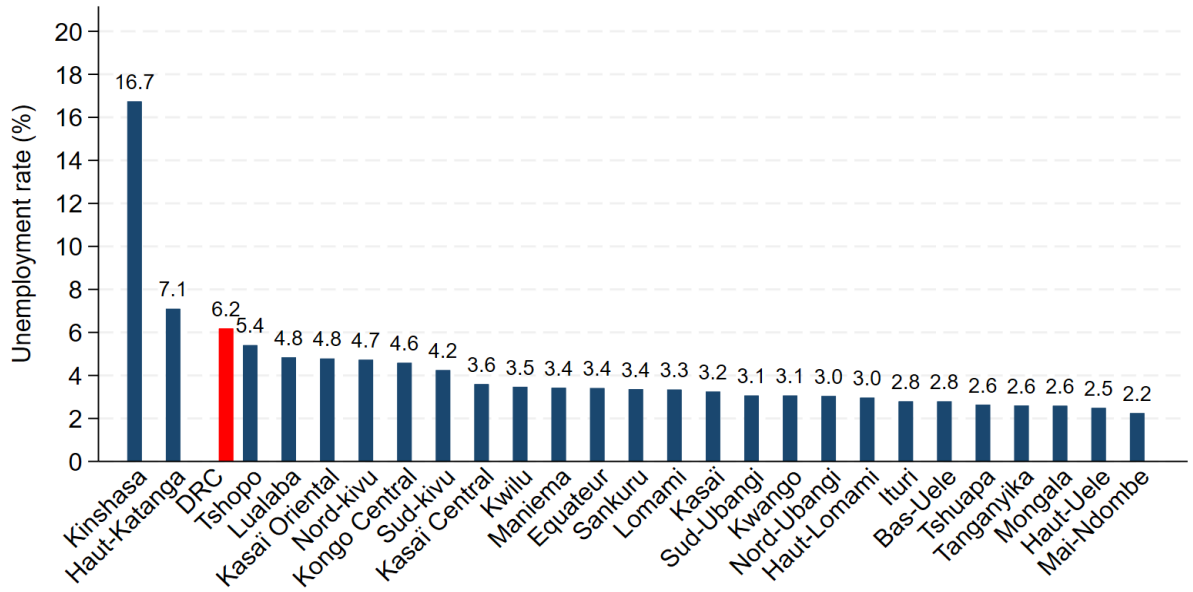
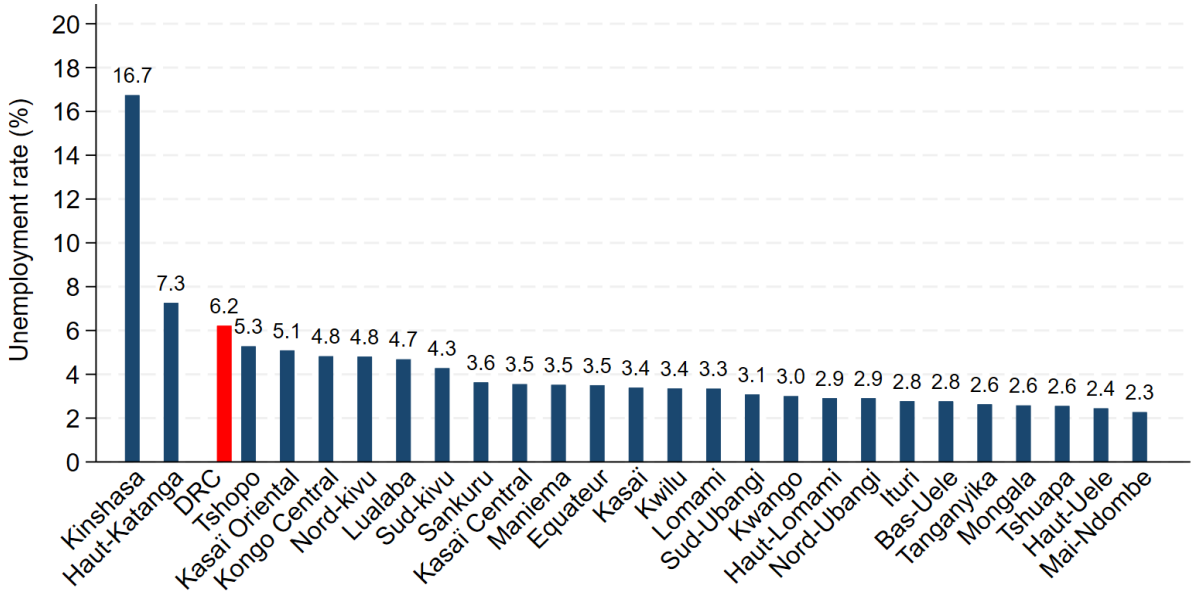


Figure 8b. Female Unemployment Rate by Province

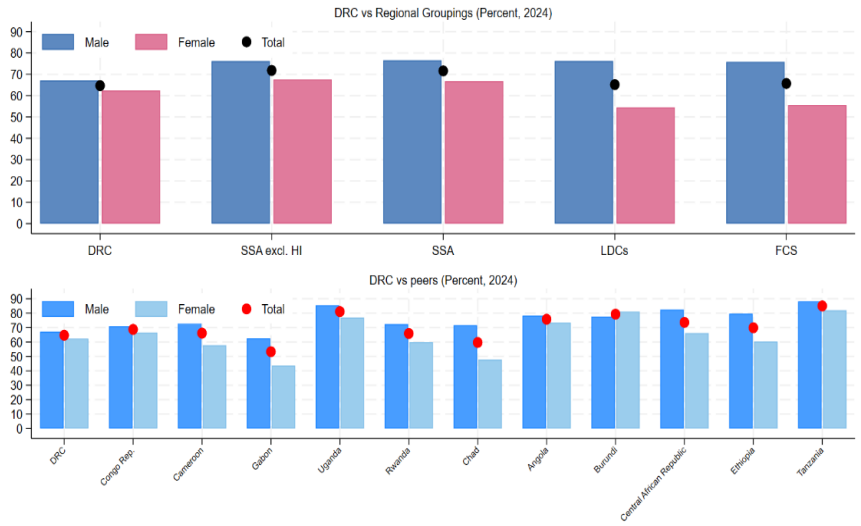


Sources: INS, ECVM 2024 and IMF staff calculations.

C. International Comparison and Challenges

12. Labor force participation in the DRC is strong, though lower than in several peer countries. In 2024, the labor force participation rate stood at 64.7 percent overall (67.1 percent for men and 62.4 percent for women). This gap is markedly smaller than in developing countries (21.7 percentage points), fragile and conflict-affected countries (20.3 percentage points), and sub-Saharan Africa countries (9.8 percentage points). In other words, the DRC stands out as having a more moderate gender gap in participation, suggesting relatively high "inclusion in volume," coherent with economies where female labor supply is driven by necessity (Goldin 1995/2021; ILO 2018, 2022). However, compared with stronger and more stable labor market participation, the DRC continues to face persistent challenges in mobilizing its labor force to support long-term inclusive growth.

Figure 9. Labor Force Participation Rate



Sources: World Development Indicators and IMF staff calculations.

13. Employment rate is lower than peers, but the gender gap is smaller. The employment rate in the DRC in 2024 (Figure 10a and 10b) reached 61.6 percent overall (63.5 percent for men and 59.7 percent for women), implying a male–female gap of 3.9 percentage points. However, this employment is slightly below that of sub-Saharan Africa (66.4 percent) and is broadly in line with the averages for developing countries (60.6 percent) and fragile and conflict-affected states (61 percent). By contrast, the gender gap in employment in the DRC (3.9 points) is far smaller than in developing countries (21.3 pp) and fragile and conflict-affected states (19.8 pp), again characteristic of economies where women work extensively, but often in informal, vulnerable, and low-productivity jobs (Fields 2019; ILO 2022; Kabeer 2016). The correlation between changes in sectoral productivity and employment (figure 12) reveals a contrast between DRC and selected peers, notably Tanzania, where industry combines strong employment expansion with positive productivity gains, and Angola, where services achieve high productivity growth despite declining employment shares. Therefore, in the DRC, labor appears to be shifting toward sectors where productivity gains are small, while agriculture experiences productivity gains despite shedding labor. This pattern suggests an incomplete and potentially inefficient structural transformation, where employment is moving toward sectors that have yet to become strong drivers of productivity growth, compared with regional peers.

Figure 10a. Employment to Population Ratio, DRC vs Regional Groupings

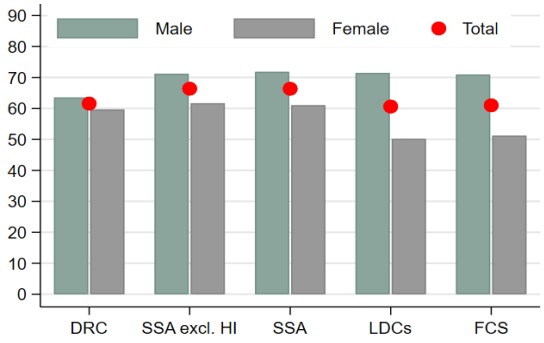


Figure 10b. Employment to Population Ratio

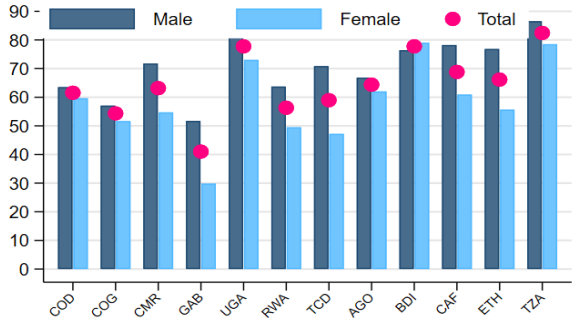


Figure 11a. Unemployment Rate, DRC vs Regional Groupings (percent)

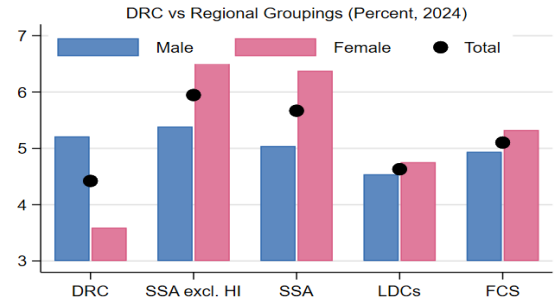
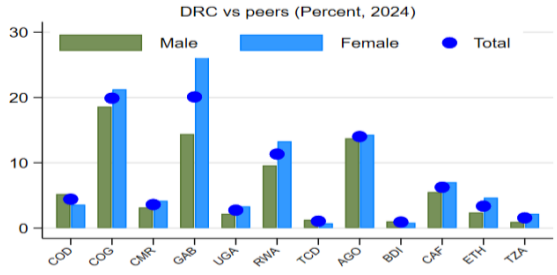
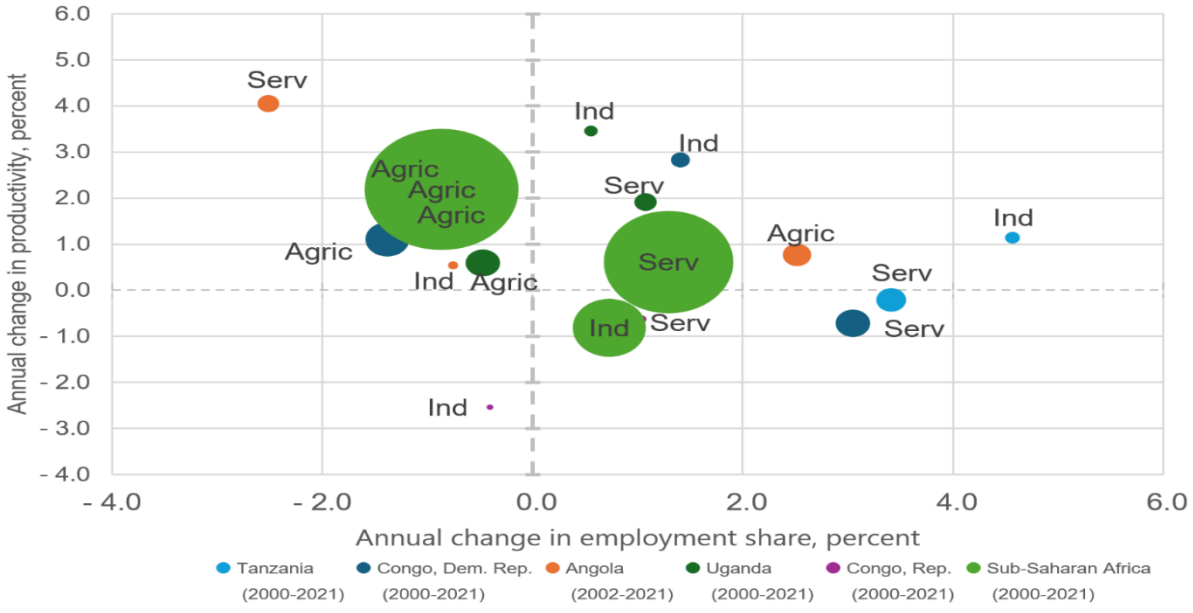


Figure 11b. Unemployment Rate (percent)



Sources: World Development Indicators and IMF staff calculations.

Figure 12. Correlation Between Change in Sectoral Productivity and Employment Shares, by Country (Size of Bubble=# Employed People in Sector)

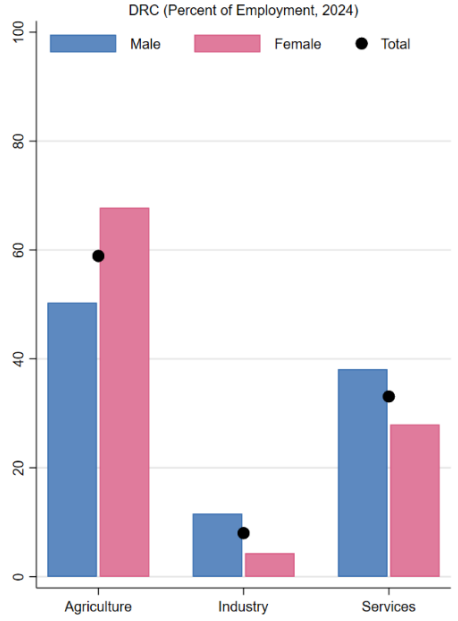


Source: JobStructure Tool, World Bank.

14. Unemployment is relatively low, with female unemployment being the lowest. In 2024, the DRC's unemployment rate was 4.4 percent, below the sub-Saharan African average of 5.9 percent (Figure 11a). More notably, female unemployment rate in the DRC (3.6 percent) is lower than the male unemployment rate (5.2 percent), a female–male gap of –1.6 percentage points, the opposite of the sub-Saharan African average, where female unemployment rate exceeds male unemployment rate by 1.3 percentage points. This combination of moderate unemployment alongside high participation and employment, is typically interpreted in low-income countries not as a sign of "full employment," but as evidence of an absorptive labor market: in the absence of social protection and savings, a large share of the population cannot afford to remain inactive and resorts to subsistence work (ILO 2018, 2022).

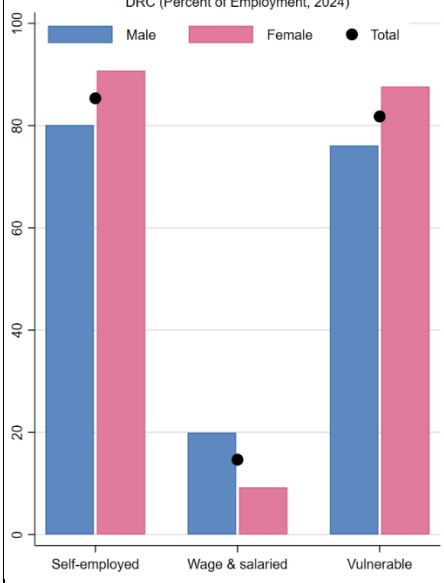
15. Evidence suggests a structural imbalance, with labor concentrated in low-productivity activities (Figures 13 to 19). Employment remains heavily concentrated in agriculture, which represents 59 percent of total employment, compared to 33 percent in services and 8 percent in industry, with strong gender segmentation. According to recent World Bank statistics (World Development Indicators, WDI), the sub-Saharan African (SSA) average is around 52–55 percent agricultural employment; 10–12 percent in industry; and 35–38 percent in services. Despite employing most of the labor force, agriculture remains the least productive sector, with labor productivity (Figures 17-10) falling relative to the economy-wide average between 2000 and 2024. By contrast, industry continues to exhibit exceptionally high productivity levels, well above the national average, and has experienced the strongest gains in value added per worker over time, although it absorbs only a small share of total employment. The services sector contributes increasingly to employment but shows relatively modest productivity performance and limited improvement in value added per worker. Overall, the evidence points to a structural imbalance in which labor remains concentrated in lower-productivity activities, while the most productive sectors, particularly industry, have yet to generate sufficient employment to drive broad-based productivity gains.

Figure 13. Employment by Sector



Sources: World Development Indicators and IMF staff calculations.

Figure 14. Type of Employment



Sources: World Development Indicators and IMF staff calculations.

16. The agricultural sector in the DRC exhibits a pronounced feminization (Figure 13). The female-male gap in the agricultural sector indicates that women are 18 percentage points more concentrated in this sector than men (68 percent versus 50 percent). This pattern is consistent with

the literature on low-income economies, where constraints on access to productive assets, modern inputs, formal credit, and structured markets limit women's sectoral mobility (FAO 2011; Duflo 2012; Kabeer 2016). In the DRC, this concentration suggests that women's participation remains largely rooted in low-productivity subsistence activities.

Figure 15. Value Added by Major Sector

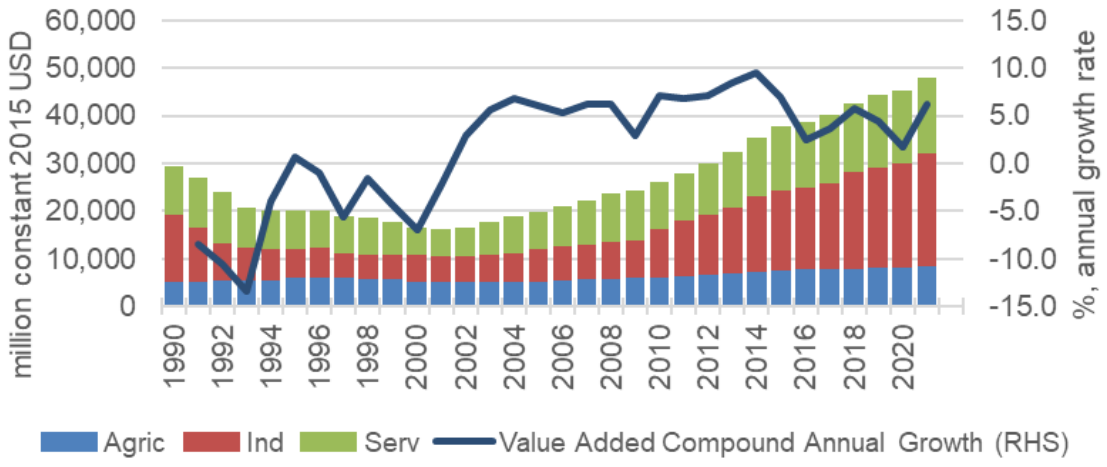
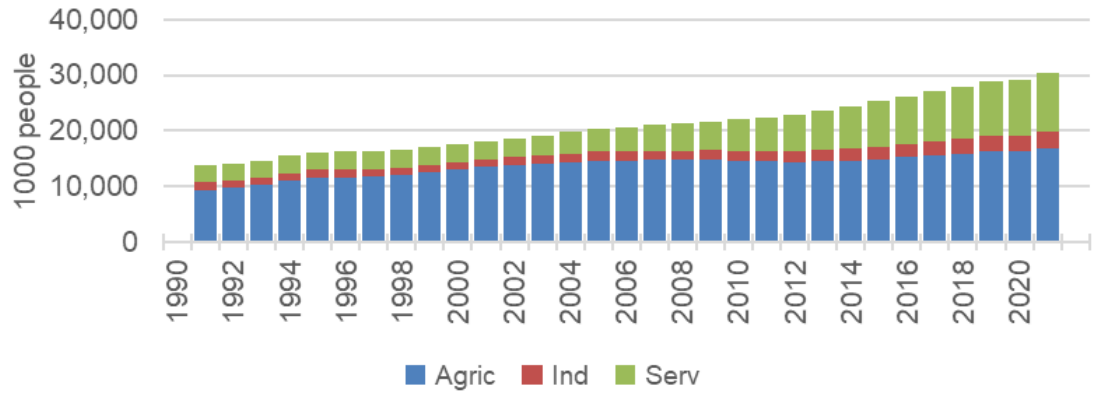


Figure 16. Employment by Major Sector



Source: Based on JobStructure Tool, World Bank

17. Women remain underrepresented in industry and services sectors (Figure 13). Women account only for 4 percent of employment in industry, compared with 11 percent for men. In services, women account for 28 percent, compared with 38 percent for men. This sectoral segmentation is characteristic of resource-rich economies, where extractive-led growth generates few jobs for women (IMF 2024). Limited industrial diversification therefore constrains the economy's ability to absorb female labor into formal and productive jobs.

Figure 17. Labor Productivity Gaps (2000)

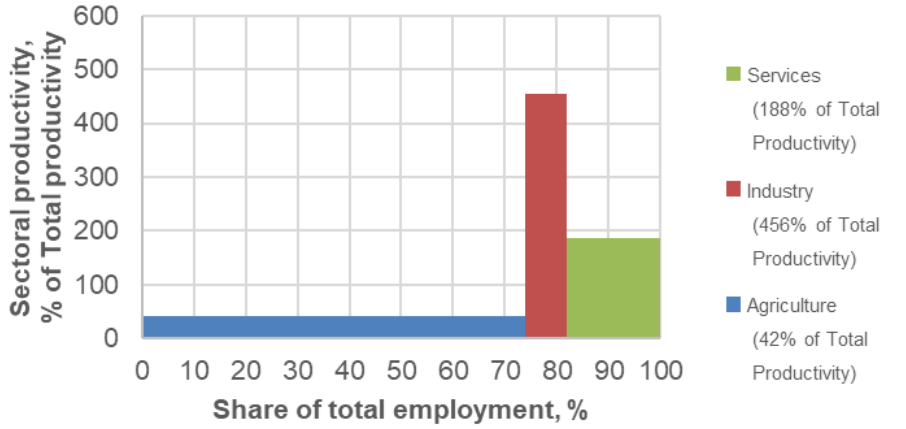
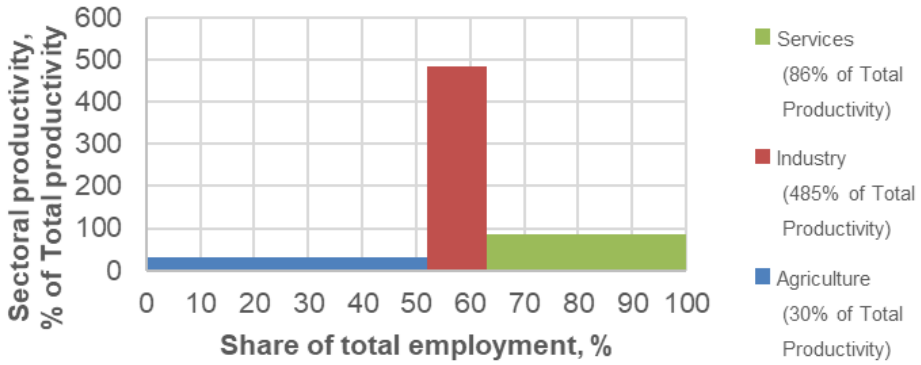


Figure 18. Labor Productivity Gaps (2024)



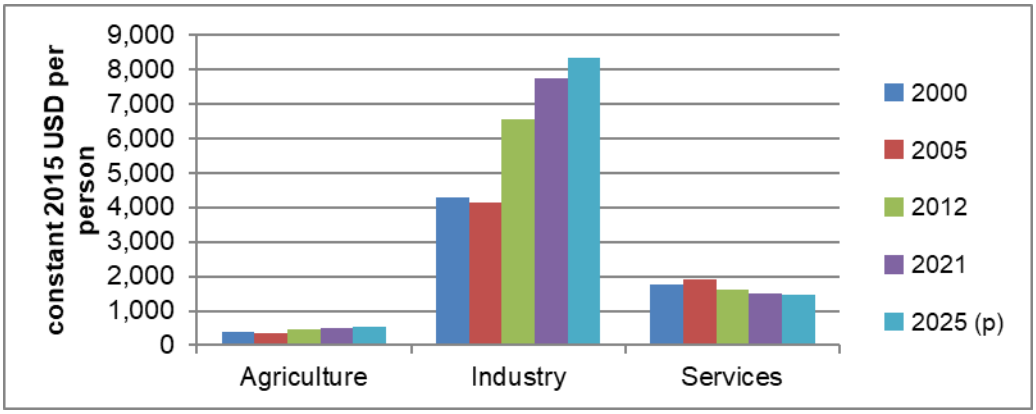
Source: Based on JobStructure Tool, World Bank

18. Informality and structural vulnerability[6] characterize employment in the DRC (Figure 14). Analysis by employment status confirms the dual nature of the DRC's labor market. Compared with the sub-Saharan African average — where vulnerable employment represents about 68–72 percent of total employment (ILO 2022) and wage employment is about 25–30 percent — the DRC stands out with a share of vulnerable employment roughly 10 points above the regional average and a much lower share of wage employment. It is thus an economy largely dominated by self-employment, with 85 percent of workers self-employed (dominated by informality and often subsistence-based employment). Figure 14 also shows women's relative exclusion from wage jobs: only 9 percent of women are wage workers against 20 percent of men, a gap of 11 percentage points that is a sign of structural inequality. The literature illustrates that formal wage employment is coupled with higher productivity, more stable incomes, greater human capital accumulation, and stronger economic autonomy (Goldin 2021; IMF 2024). Finally, employment status data also indicates elevated female vulnerability: vulnerable employment reaches 88 percent among women, against 76percent among men, a 12-point gap showing that high female participation does not imply

[6]Vulnerable employment is defined as contributing family workers and own-account workers as a percentage of total employment (standard ILO labor market definition).

equivalent economic inclusion. As underscored in an ILO report (2022), this vulnerability is associated with the constraints in holding assets, social norms, infrastructure deficits, and unpaid domestic work. In a context of rapid population growth, this configuration limits the DRC's ability to convert its demographic dividend into an economic dividend (Bloom et al. 2003; World Bank 2022).

Figure 19. Value Added per Worker by Sector



Source: Based on JobStructure Tool, Jobs Group, World Bank

19. The DRC labor market appears to provide limited access to *decent work*. The Labor Rights Index (LRI) 2024 indicates that the DRC scores 67/100 overall, placing it in the category of "Limited Access to Decent Work", which suggests that, while the country has established some important labor protections in law, substantial gaps remain in guaranteeing comprehensive worker rights. The pattern suggests that DRC's labor framework provides stronger protection in certain formal legal areas, while remaining comparatively weak in dimensions associated with labor market security, representation, and inclusive employment relations.

Table 1. DRC: Labor Rights Index 2024: Indicator Scores

Indicator	*Score (/100)*
Fair Wages	60
Decent Working Hours	80
Employment Security	40
Family Responsibilities	25
Maternity at Work	100
Freedom of Association	25
Child & Forced Labor	100
Fair Treatment	80
Social Security	60
Safe Work	100
Overall LRI Score	**67**

Source: Labor Rights Index (2024), D.R. Congo country profile

20. Education substantially enhances women's access to more formal and stable employment. The 2024 Household Living Conditions Survey (ECVM 2024) data conducted by the National Institute of Statistics (INS DRC) indicates that female labor market in the DRC is characterized by considerable economic and institutional sectoral segmentation, a situation arising from structural limitations, socio-cultural norms, and disparities in human capital development. With no formal education, women's employment is predominantly concentrated in private sector (93.6 percent against 95.5 percent for men) (Figure 21a and 21b), as well as in agriculture and trade (64.6 percent and 14.4 percent doe women against 53.1 percent and 6.8 percent for men, respectively)

(Figure 20a and 20b), in self-employment: 82 percent vs. 65.7 percent for men (Figure 22a and 22b), illustrating a "double vulnerability" in female employment, marked by restricted access to wage employment and a significant dependence on self-employment and household-based activities. Higher education substantially enhances women's prospects for secure and formal employment: 26.9 percent of tertiary-educated women working in public administration (against 27.2 percent of men) and 18.8 percent in public or semi-public enterprises (17.6 percent of men, and 50.3 percent in the private sector (50.9 percent of men) (Figure 21a and 21b). Higher education also affected economics sector (Figure 20a and 20b), particularly in agriculture (2.2 percent for women vs. 6.6 percent for men), trade (19 percent vs. 8.4 percent), and education and health (38.8 percent compared to 31.5 percent). A similar pattern is observed in employment status, where the share of self-employment declines to 26.7 percent (vs. 22.3 percent for men), indicating a partial transition toward more formal and stable forms of employment. (Figure 22a and 22b).

21. In the DRC, female education levels and employment are meaningfully influenced by institutional and socio-cultural factors. These include patriarchal marital regimes and customary land tenure systems that frequently grant primary control of land and productive resources to men, restricting women access to capital and formal employment. Traditional gender norms, which are prevalent in various provinces of the DRC (especially rural areas), assign women the main responsibility for domestic duties and childcare, promoting engagement in flexible yet lower-productivity activities such as survival agriculture and informal trade and, consequently diminishing the time they can dedicate to paid work. Gender disparities in education in rural areas, especially at the secondary and tertiary levels, further limit women's access to higher-productivity and formal sector jobs. These patterns are frequent in many labor markets in Sub-Saharan Africa, highlighting the crucial role of human capital accumulation and institutional reforms in improving women's access to quality employment and reducing persistent gender segmentation in labor markets (AfDB 2024; ILO 2023; World Bank 2017; UNESCO 2021; Charmes and Wieringa 2018).

22. These structural and socio-cultural limits are reinforced by the exposure to shocks, including conflict (armed and non-armed), climate (rainfall variability, floods) and health (Ebola) shocks. Empirical literature shows that those exogenous shocks can meaningfully affect employment and exacerbate gender gaps. For example, conflict shocks have been shown to alter labor supply decisions and push women into lower-productivity agricultural employment, with lasting impacts on participation (European Commission, Knowledge for Policy 2025). Research on fragile states (Stone and Chikuruwo 2024) highlights how the interaction between conflicts, climate change and violence undermines women's economic resilience, reinforcing structural barriers to participation. Many studies on labor-demand shocks in developing economies highlight that, even where education progresses, demand-side constraints can limit women's access to employment and reinforce existing disparities (Fallah and al. 2020; Elmallakh 2022; Afridi and al. 2021).

23. Over the past decades, the DRC has experienced periods of high growth without a commensurate improvement in labor market outcomes. Over 2000–2024, average GDP growth stood at 5.1 percent, pointing to a generally favorable macroeconomic performance (Figure 24). However, this performance has been insufficient to attain the inclusive-growth target under the SDG of 8.1. The average growth gap needed to achieve this target is roughly 1.8 percentage points (UNDP & ILO 2021). Growth has also been volatile during this period. The standard deviation of GDP growth was 4.2 percent, highlighting vulnerability to shocks (e.g. terms of trade, commodity prices, mining investment cycles, etc.). This volatility reduces the predictability of returns on private investment,

thereby discouraging investment in sectors that generate durable jobs, particularly in cycle-sensitive sectors.

Figure 20a. Female Employment (percent) by Economic Sector and Education Level

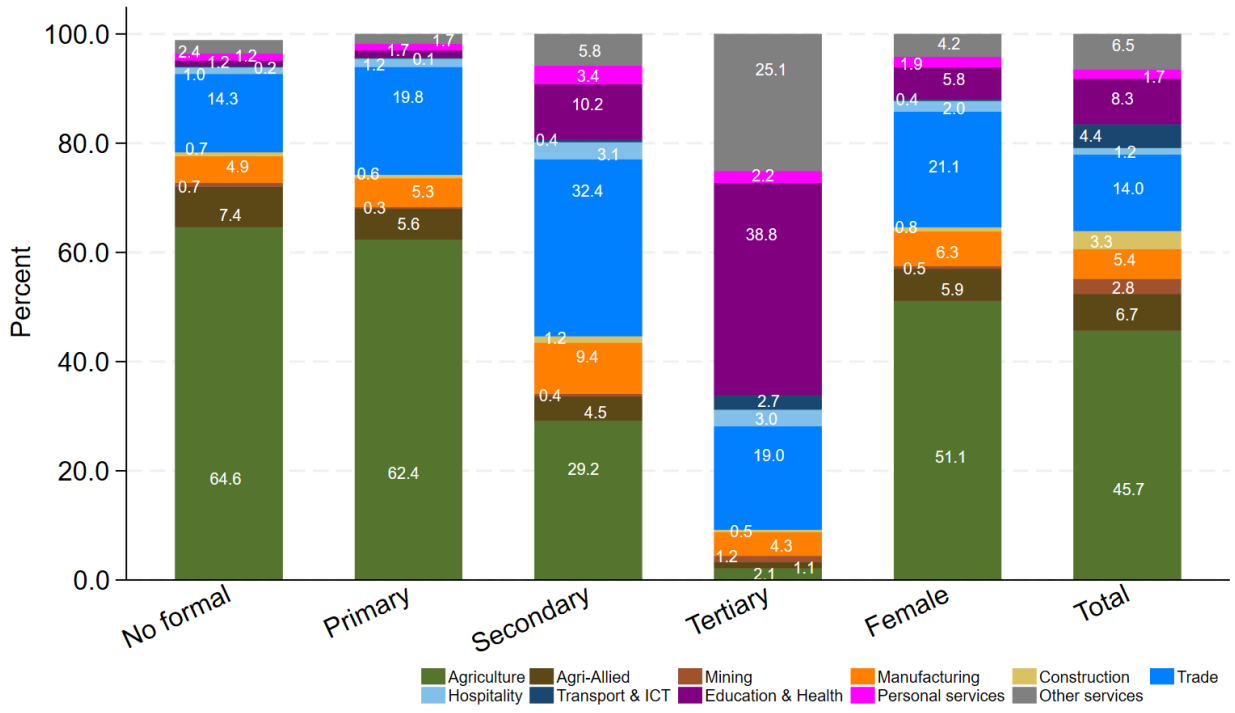


Figure 20b. Male Employment (percent) by Economic Sector and Education Level

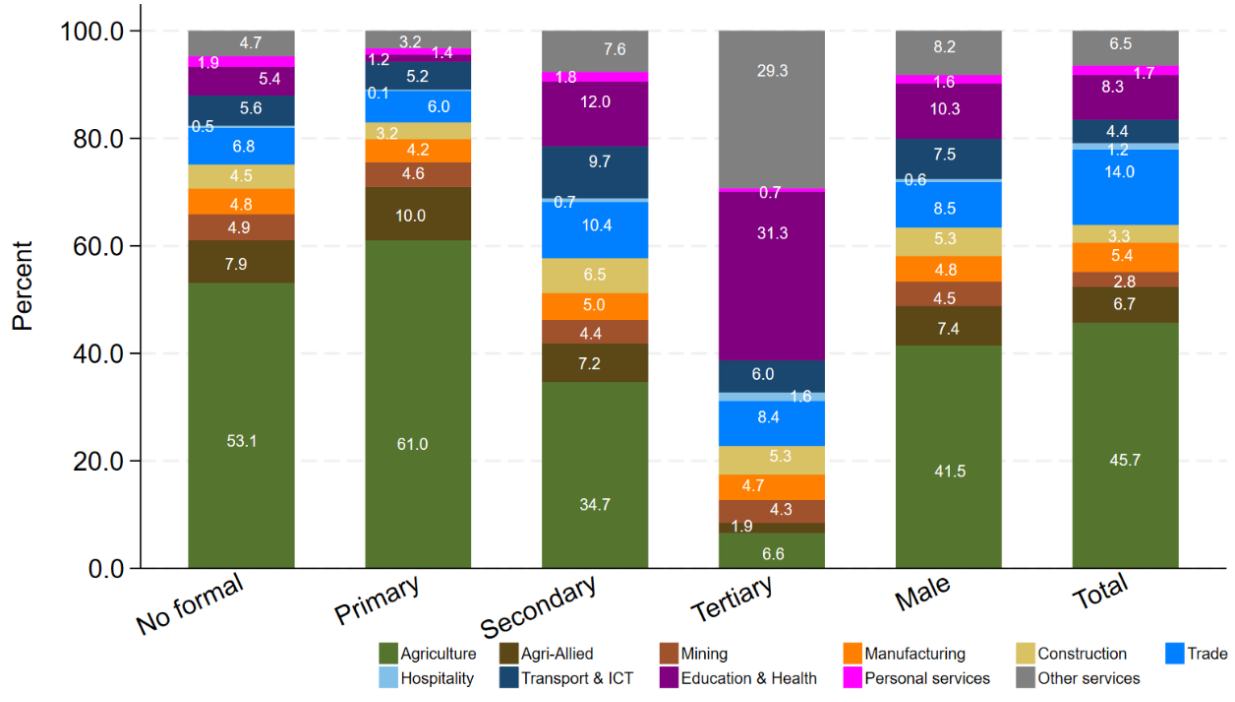


Figure 21a. Female Employment (percent) by Institutional Sector and Education Level

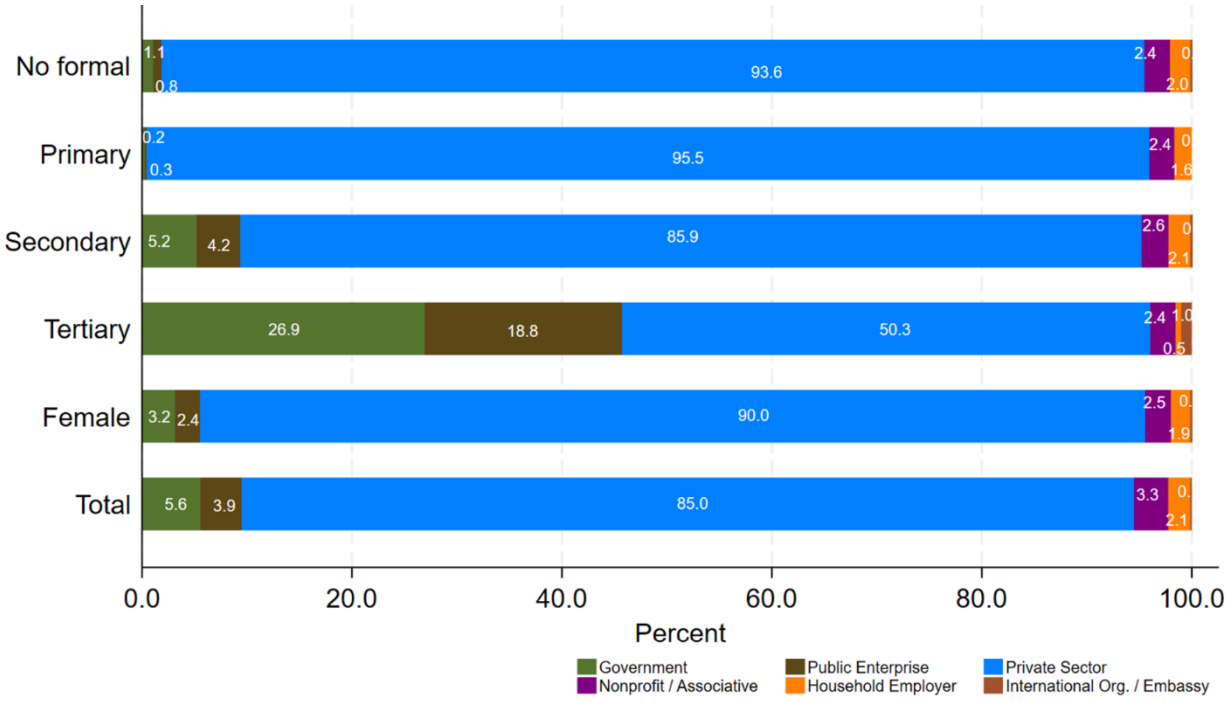


Figure 21b. Male Employment (percent) by Institutional Sector and Education Level

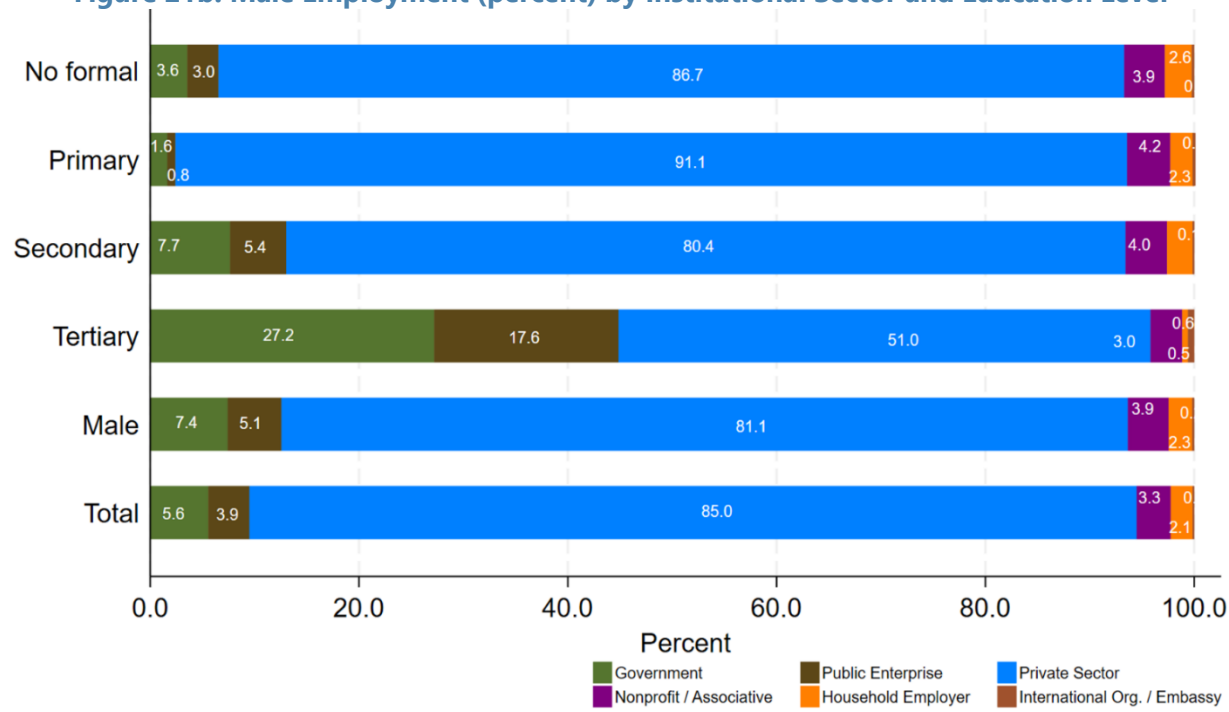


Figure 22a. Female Employment (percent) by Status and Education Level

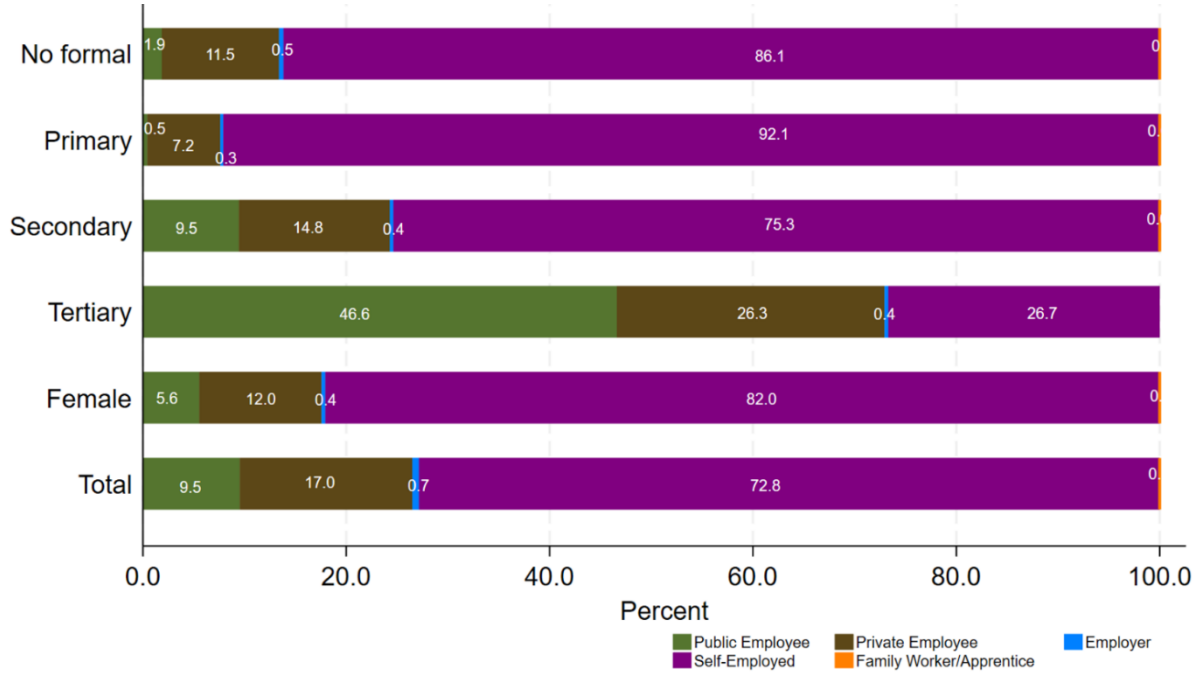
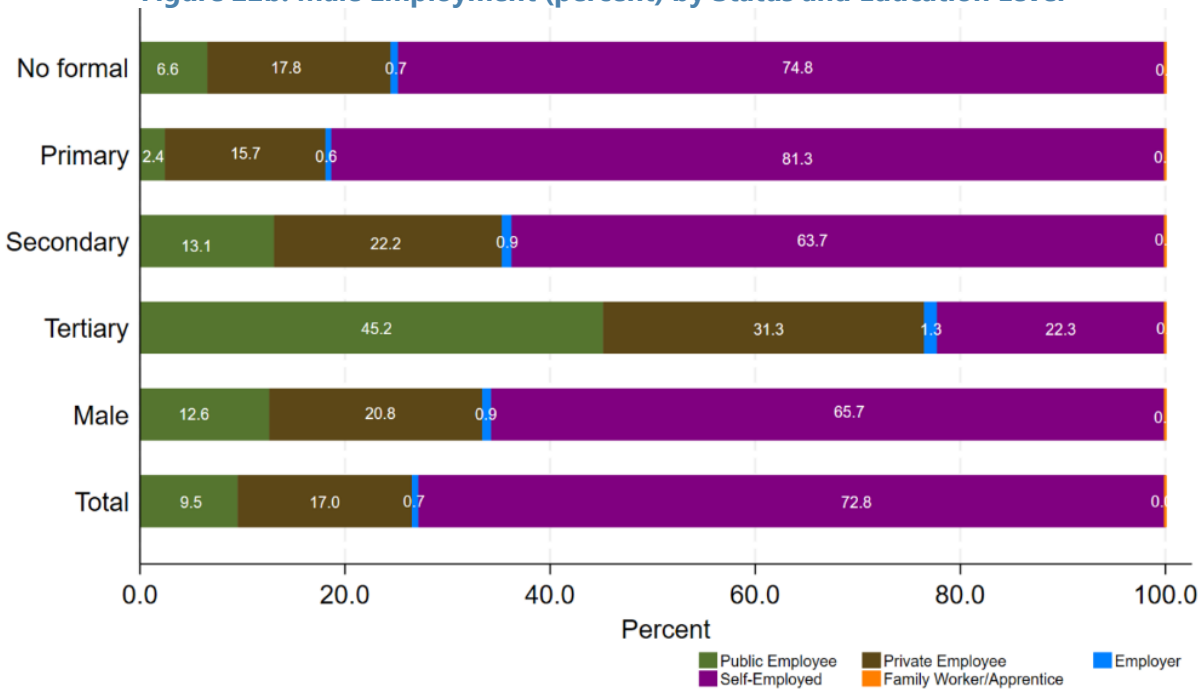


Figure 22b. Male Employment (percent) by Status and Education Level



24. Evidence suggests a persistent mismatch between higher education outcomes and labor market needs. According to Sindani and Mwiseneza (2025) — who analyzed the alignment between university competencies and employer requirements using semantic and probabilistic methods — approximately 49.1 percent of competencies taught in Congolese universities correspond to

competencies demanded by employers, indicating a substantial skills mismatch. The study finds heterogeneity across disciplines: Economics and Management Sciences show the highest alignment with labor market demand (around 60 percent), while Psychological and Educational Sciences display lower alignment (about 44 percent). The analysis also identifies persistent shortages in digital and other transversal skills, which are increasingly valued by employers. These findings, also highlighted by the International Labor Organization (2019), suggest significant scope for policy action to strengthen the alignment between higher education curricula and labor market needs, including through greater emphasis on technical, digital, and employability-related competencies.

Table 2. DRC: Summary Correspondence of Competences

Indicator	*Definition*	*Result*
Global Adequacy Rate (ICG)	Mean semantic similarity between university and job-market skills	49.14 percent
Best domain match	Economics & Management	60.00 percent
Lowest domain match	Psychological & Educational Sciences	44.34 percent

Source: Sindani and Mwiseneza (2025)

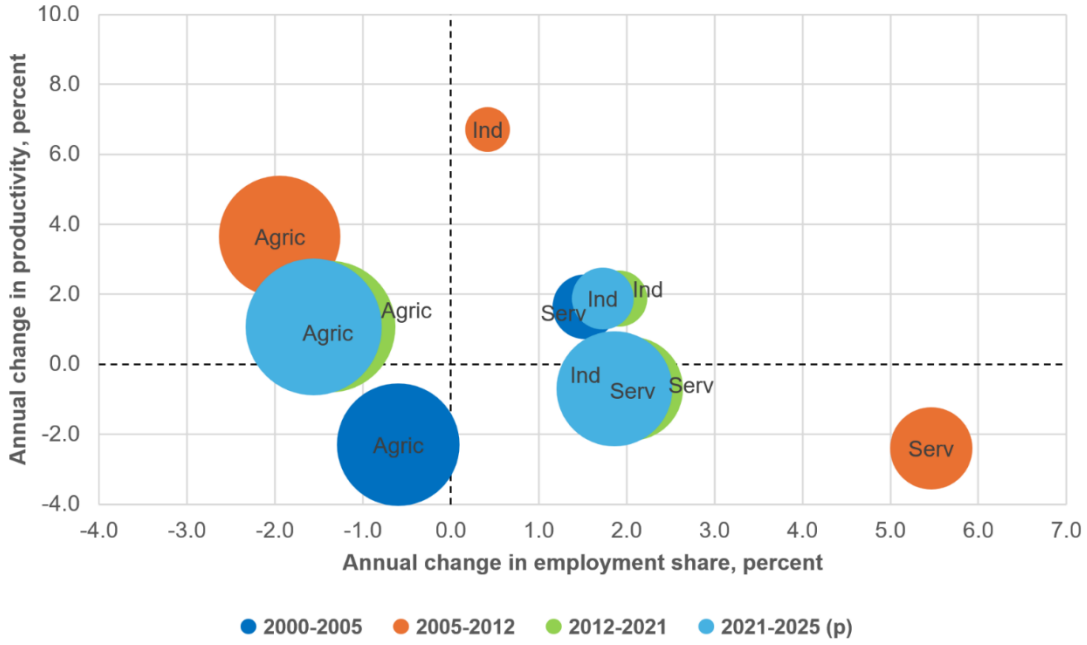
Table 3. DRC: Average Correspondence of Competences

Domain	*Correspondence rate (percent)*
Economics and Management Sciences	60.00
Health Sciences	51.76
Legal, Political and Administrative Sciences	48.69
Science and Technology	47.52
Letters, Languages and Arts	47.26
Human and Social Sciences	45.98
Psychological and Educational Sciences	44.34

Source: Sindani and Mwiseneza (2025)

25. The correlation between changes in sectoral productivity and employment shares across periods points to a nonlinear and uneven process of structural transformation in the DRC (Figure 23). During 2005–2012, industry recorded the strongest productivity gains despite limited employment expansion, suggesting that productivity improvements were concentrated in capital-intensive activities with weak job creation. By contrast, services consistently absorbed labor across all periods, but rising employment shares were often associated with stagnant or declining productivity, particularly after 2005, indicating that labor reallocation toward services has not translated into sustained efficiency gains. Agriculture presents a mixed pattern: earlier periods were characterized by declining employment shares alongside productivity improvements, consistent with productivity-enhancing labor reallocation, whereas more recent periods show weaker productivity outcomes. Overall, the evidence suggests that labor shifts in the DRC have increasingly favored sectors with limited productivity gains, highlighting an incomplete structural transformation in which employment reallocation has yet to support broad-based productivity growth.

Figure 23. Correlation Between Change in Sectoral Productivity and Employment Shares, by Period



Source: Based on JobStructure Tool, Jobs Group, World Bank

26. The sectoral composition of growth in DRC remains a key constraint in job intensity growth. Over the 2000–2024 period, the extractive sector experienced very high average yearly growth (12.4 percent), while non-extractive growth reached just 4.1 percent (Figure 24). This asymmetry is structurally important: the mining sector is capital-intensive, often enclaved, and its upstream and downstream connectedness with the rest of the economy is limited, reducing its capacity to generate employment directly or indirectly. These conclusions align with the idea established by Loayza and Raddatz, that the "winners" from growth are primarily those working in the sectors that drive it: when growth is driven by a capital-intensive sector, returns to capital rise faster than returns to labor, and employment spillovers remain modest (Loayza and Raddatz 2010). In addition, when capital ownership is partly external, gains from growth leak abroad through channels such as profit repatriation and import dependence, thereby weakening the domestic multiplier effect.

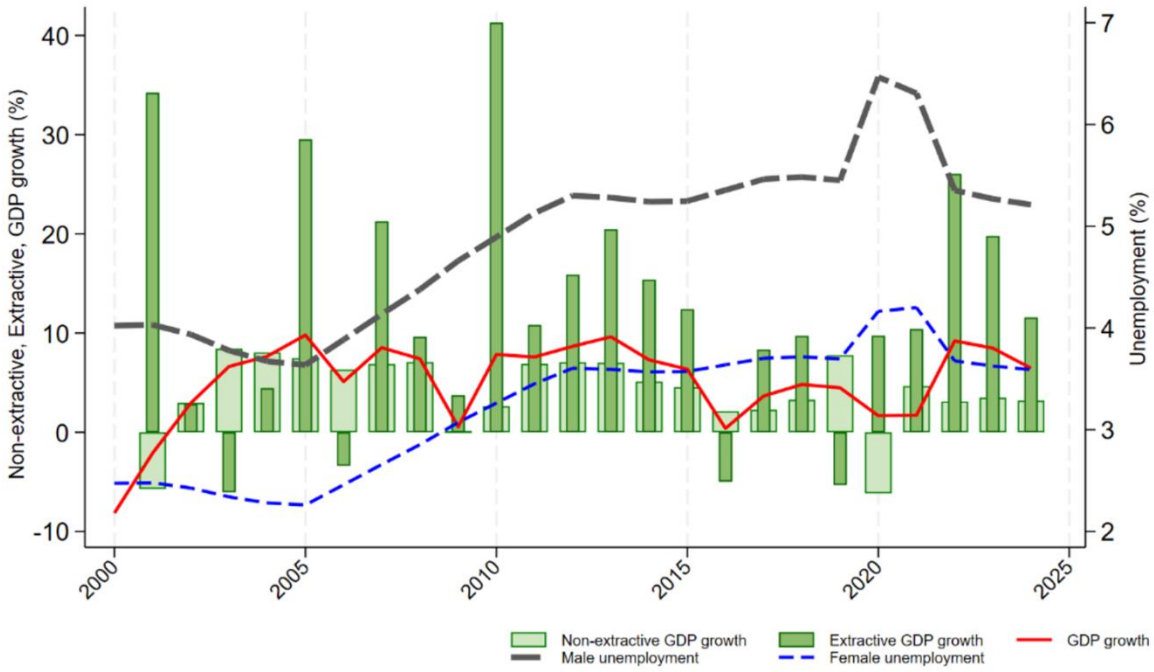
27. GDP per employee[7] has increased in the DRC, but with limited pass-through to employment outcomes. Figure 25 shows a clear rise in GDP per employee (right axis in the figure), from roughly 2,400–2,600 in the early 2000s to about 4,800–5,000 by the end of the period. This increase is consistent with gains in aggregate productivity and a sectoral reallocation toward higher value-added activities. However, the relative inertia of employment indicators, especially job quality,

[7] GDP per person employed (constant 2021 PPP $) is GDP divided by total employment in the economy. Purchasing power parity (PPP) GDP is GDP converted to 2021 constant international dollars using PPP rates. An international dollar has the same purchasing power over GDP that a U.S. dollar has in the United States.

implies that these benefits have been concentrated in labor-light segments rather than translating into job creation.

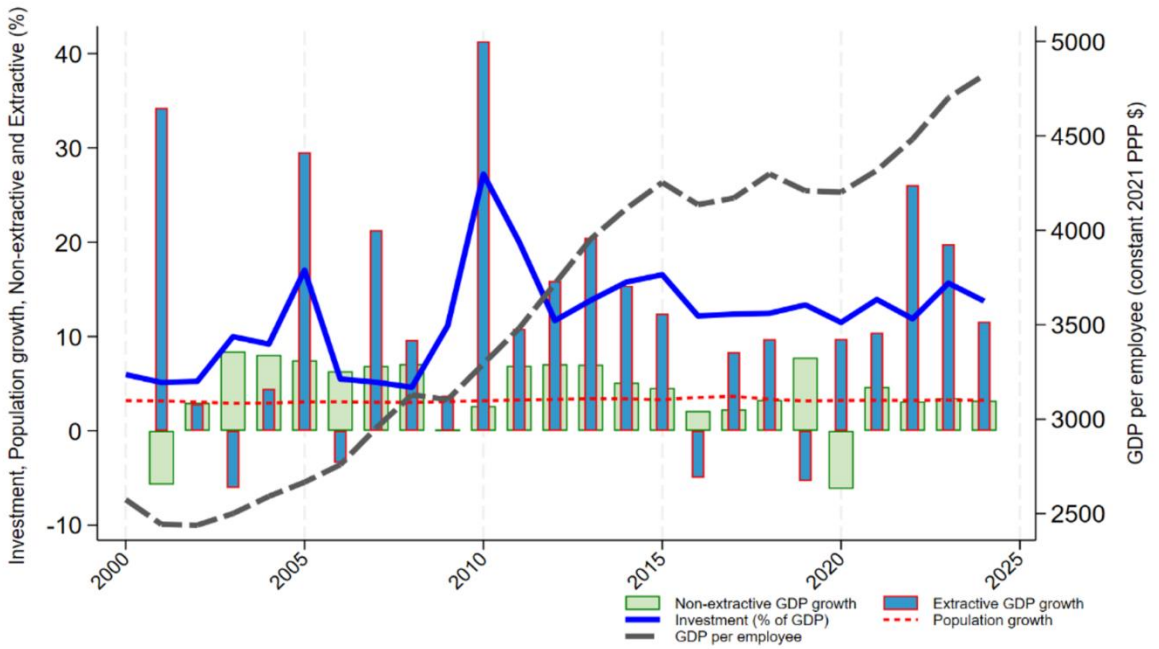
28. Demographic pressures continue to intensify absorption challenges in the DRC (Figure 25). Population growth has remained strong, at around 3 percent in the early 2000s and only slightly decreasing thereafter, resulting in a rapid expansion of the labor force. In this context, even an average real GDP growth of 5.1 percent may be insufficient, if it is concentrated in capital intensive sectors and not accompanied by an expansion in labor-intensive non-extractive sectors.

Figure 24. Growth and Unemployment



29. Investment in DRC remains characterized by both insufficient levels and a composition that limits its impact on job creation (Figure 25). The macroeconomic stabilization that started in the early 2000s was accompanied by a gradual improvement in investment, but the level remains structurally inadequate. Average investment stands at 12 percent of GDP over 2000–2024, well below the benchmarks in countries that have achieved structural transformation. In sub-Saharan Africa, average investment ranged between 20–23 percent of GDP over the past two decades. Moreover, economies that have absorbed labor at scale in manufacturing and modern services, particularly in East Asia, have sustained investment rates above 30 percent of GDP for extended periods (Commission on Growth and Development, 2008). The literature illustrates that investment, especially in infrastructure and productive capital, is a major lever for growth and jobs (Calderón and Servén 2004). In the DRC, the issue is not only the level, but also the composition of the investment, which is concentrated in the extractive sector and in projects that are limited in labor intensity, limiting spillovers to domestic employment.

Figure 25. Population, GDP per Employee, Investment and Growth



Sources: World Development Indicators and IMF staff calculations.

D. Conclusions and Policy Recommendations

30. The DRC would benefit from a structural transformation toward labor-intensive sectors, productivity-enhancing inclusion, gradual formalization, skills investment, and stronger institutional coordination. The DRC has considerable demographic potential, with the working-age population accounting for more than half of the total population. However, its demographic dividend has been limited, so far. First, labor force participation is dominated by informality, despite being reasonably high. The quality of jobs in the economy also remains low, despite low unemployment rate. Second, despite elevated women's labor force participation and a contained gender gap, women's jobs are heavily concentrated in agriculture (68 percent) and characterized by vulnerable employment (88 percent), while their access to formal wage employment remains very restricted (9 percent). Third, job creation has been limited and concentrated in extractive activities, despite robust average real growth over 2000–2024. At the same time, investment has remained structurally low (12 percent of GDP), below the levels observed in successful structural transformation cases (such as in East Asia).

31. Against this background, the following recommendations could help improve labor market outcomes by contributing to the creation of more productive jobs and to close the gender gap:

a. **Reorient growth toward more productive, labor-intensive sectors.** The literature suggests that job gains are larger when growth is driven by light manufacturing, agro-processing, and modern services (Loayza and Raddatz 2010; Commission on Growth and Development 2008; World Bank 2022).

b. **Remove structural restrictions on productivity.** Facilitating access to productive assets, credit, and social services is crucial for transitioning into higher-quality employment (FAO 2011; Duflo 2012; Kabeer 2016; Goldin 2021;).
c. **Promote gradual incentive-based formalization of jobs.** Low unemployment (4.4 percent) masks the prevalence of informality. International experience show that successful formalization relies on gradual incentives, rather than coercion (ILO 2018; Rafael and Shleifer 2014; IMF 2024; World Bank 2019).
d. **Invest in skills development and labor market intermediation.** Structural transformation requires a better matching of skills and jobs. Evidence suggests that labor market policies are most effective when training is closely aligned with employer needs (Card and al. 2018; World Bank 2019).
e. **Reinforce institutional coordination.** The DRC has a national strategy of employment, but its effective implementation is limited, in part due to institutional coordination challenges. Improving coordination and prioritizing job quality is important for the successful implementation of the strategy.
f. **Align macroeconomic policies with inclusive growth objectives.** Policies that strengthen education and investment in economic and social infrastructure will help improve inclusion and close the gender gap. For example, investments in health centers and access to clean water can alleviate the burden of unpaid care work for women, freeing them for more productive jobs. Investment in infrastructure, such as transportation and electricity, can support the creation of productivity-enhancing jobs.

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