

From Currency Board to Central Banks: The Precursor of the Debt Crisis in East Africa

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Between 1950 and 1970, the basic monetary institutions in East Africa were transformed partly to allow the governments to stimulate economic development, partly to allow for national financial systems after independence. This paper explores the consequences, both intended and unintended, of these reforms for a) the relation between public and private money, b) the relation between foreign and domestic sources of finance and finally, c) the relation between credit and savings as means for investments. The paper suggests that in the circumstances, the shift from an East African currency board to national central banks left the governments with no other alternative than to expand the national debt. Hence, the reforms strengthened the gate keeper state structure of the states which in turn affected both further development efforts in general and the transformation of the financial sector in particular.