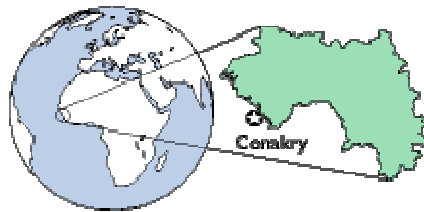


COUNTRY REVIEW

Guinea



9 July 2010

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

| | |
|-----------------|---|
| Capital city: | Conakry |
| GDP: | USD5,080mn (2009e) |
| Population: | 10.1mn (2009e) |
| GDP per capita: | USD503 (2009e) |
| Currency: | Guinea Franc (GNF) |
| Form of state: | Republic |
| Head of state: | Interim Head of Military Junta General Sekouba Konate |
| Next elections: | First round of presidential elections was held June 2010. Unspecified date for second round |

The death in December 2008 of long-serving President Lansana Conté resulted in **a period of political turbulence**. Risks were heightened when the CNDD military junta, which had assumed control, failed to deliver on pledges to install a democratic government. In December 2009, the junta leader, Captain Moussa Dadis Camara, survived an assassination attempt but required extensive hospitalisation. In his absence, **a transitional government** was tasked with preparing for presidential elections within a six-month period. Members of the transitional government were not allowed to run for the presidency. **Elections in late June 2010 were indecisive but a timetable for a second round vote has yet to be announced**. Alpha Condé, leader of the Rassemblement du peuple de Guinée and a politician of long standing, may yet be elected as civilian president and receive a mandate to govern from a broad range of ethnic groups and regional affiliations. This may encourage the army to return to barracks, but **stability and security are not ensured** and, with high popular expectations, **a further coup cannot be discounted** if the government fails to deliver. In addition to political parties, strong opposition is voiced through street demonstrations and by action (including strikes) of the labour unions.

The World Bank classifies the country as low-income. Despite a wealth of natural resources—the country has the **world's largest bauxite reserves and there are significant deposits of iron ore, diamonds and gold**—the economy does not fulfil its potential and more than half the population lives on less than one dollar a day and even basic services like water and electricity are in short supply. Per capita income growth in the past decade was only around 1% per year, 80% of the labour force is still employed in agriculture and manufacturing accounts for only 4% of GDP and is largely limited to activities around Conakry.

Recent political developments have largely halted an economic reform agenda and future relations with (and support of) the IMF are subject to resolution of the political hiatus. The **Fund currently provides an Extended Credit Facility** (ECF, formerly a Poverty Reduction and Growth Facility, PRGF), which expires in December 2010. The IMF previously identified weaknesses in terms of lack of full transparency and accountability in public finances, poor governance and limited administrative capacity but is **likely to extend the ECF, subject to firm evidence that a democratic political environment is being engendered**. The political uncertainties also prevent the wider donor community from engaging fully with the authorities in Conakry, although France and the EU have provided additional budgetary support.

As a result of lacklustre progress with economic reforms and persistence of electricity and water shortages, **annual real GDP growth was below 3% on average in 2000-08 and outright contraction of 2-4% is likely to have been registered in 2009**, reflecting domestic political unrest and weak global commodity demand. We forecast that annual GDP growth in 2010 and 2011 will be boosted to around 2-4% by improved political/social stability and stronger demand for bauxite and alumina, although mining investment may remain subdued into H1 2011. **Bauxite provides the bulk of annual export revenues (around 36%) but the current account is forecast to continue in heavy deficit** (equivalent to 8-12% of GDP), reflecting strong import growth because of the capital requirements of the mining sector, high imported petroleum costs and profit remittances by international mining companies. Completion point under the HIPC initiative is required to lessen the burden of external debt servicing but this is some way off, given political and policy uncertainties.

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