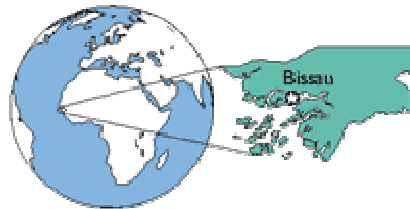


# COUNTRY REVIEW

## Guinea-Bissau



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**ANALYST: Dr. Manfred Stamer**

**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:       | Bissau   |
| GDP:                | USD 461 mn (2008)                                  |
| Population:         | 1.75 mn (2008e)                                    |
| GDP per capita:     | USD 264 (2008e)                                    |
| Currency:           | CFA franc (XOF)                                    |
| Form of state:      | Presidential republic                              |
| Head of government: | President Malam Bacai SANHA (since September 2009) |
| Next elections:     | Legislative: 2012 / Presidential: 2014             |

Systemic political risk is very high in Guinea-Bissau. Since independence from Portugal in 1974, the country has experienced considerable political and military turmoil. There have been free presidential elections in 1994, 2000 and 2005, but none of the democratically elected presidents were able to serve their term in full. In March 2009, the assassinations of then president João Bernardo Vieira and the military chief, General Tagme Na Wai—the former appeared to have been a retaliation of the latter—triggered several months of violent political turmoil. The era of Vieira was characterised by latent tensions between the president, his government and the army. The peaceful election of Malam Bacai Sanhá as the new president—he won the run-off in July with 63% of the vote and was sworn in in September—affords an opportunity to overcome this era and to improve political stability. Sanhá is widely viewed as a consensus figure but he faces a number of challenges. He has been the candidate of the ruling African Party for the Independence of Guinea-Bissau and Cape Verde (PAIGC, the party which fought colonial rule) which has a comfortable majority in parliament with 67 out of 100 seats but has suffered heavy infighting in recent years. Sanhá won the internal PAIGC nomination only narrowly and was not supported by Prime Minister Gomes Júnior whom he nevertheless confirmed in his post in a cabinet reshuffle in October 2009. Sanhá has also reconfirmed Captain Induta as army chief and for now, the army appears to support the new President. However, wide-reaching reforms of the civil and military services that are needed to secure an envisaged IMF-funded Poverty Reduction and Growth Facility could potentially cause tensions with the army. Another challenge for Sanhá is combating the growing drug-trafficking through Guinea-Bissau.

Guinea-Bissau follows a non-aligned foreign policy and its international relations are generally good. Portugal, of which Guinea-Bissau was a former colony, remains the key supporter, but China and Angola have increased their development assistance in recent years. IMF and World Bank support has often been disrupted by political turmoil and lack of reform, but since 2004 these institutions have provided some emergency budgetary assistance whenever needed.

Guinea-Bissau is among the poorest countries in the world, reflected in per capita GDP of just USD264 in 2008. The UNDP *Human Development Index 2009*, a composite indicator which takes into consideration social as well as economic variables, ranks the country 173<sup>rd</sup> out of 182 countries surveyed. A civil war in 1998-99 caused severe damages to the economy, including a 28% decline from which it has not recovered to date in terms of real GDP per capita. Donor assistance dwindled for several years, worsening already extremely weak macroeconomic fundamentals. Since 2000, both the fiscal and the current account deficit (even including grants) have been unsustainably high, exceeding 10% of GDP in many years. Moreover, the government has accumulated new domestic and external arrears. Total external debt is estimated at about USD1.1bn (37% of which are arrears) at end-2009, equivalent to a hefty 250% of GDP. Guinea-Bissau had, in principle, qualified for a USD800mn debt forgiveness after reaching decision point under the HIPC initiative in December 2000, but the programme then stalled for the lack of reform under the then government. The country still has to push forward reforms in order to reach completion point under the HIPC initiative which would result in considerable debt relief and provide an improved basis for long-term external debt sustainability. The Structural Business Environment is generally poor: Guinea-Bissau ranks 192<sup>nd</sup> out of 210 economies in our assessment overall. On a positive note, Guinea-Bissau's membership of the CFA franc zone has resulted in generally modest inflation and provides for low transfer risk in the medium term.

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