

## Guinea-Bissau

Economic growth in Guinea-Bissau reached 3.6% in 2010 thanks to higher cashew nut prices, sustained construction of private housing and investment in major infrastructure projects.

The new government's main political challenges in 2011 will be to bring stability, implement reforms in the defence sector and fight the narcotics trade.

Guinea-Bissau's main emerging partners are China, Brazil and India. China is present primarily through bilateral co-operation and large infrastructure projects, while India has strong trade ties in the cashew nut sector. Brazil has long been involved in capacity-building projects in the education sector.

Economic growth in Guinea-Bissau picked up slightly to 3.6% in 2010 from 3.0% in 2009 thanks to higher cashew nut prices, sustained construction of private housing and major infrastructure projects. The indirect impact of the global economic crisis, felt mainly through lower government export revenues and remittances, has been mitigated by a strong increase in the world demand for cashew nuts. Heightened political instability, however, resulted in the withdrawal of budget support from the European Union (EU), one of the country's main development partners. Economic growth is expected to increase to 4.5% and 4.8% in 2011 and 2012, sustained by increased agricultural production, cashew nut exports and foreign direct investment (FDI) in mining projects and infrastructure. The major downside risk is persistent political instability, which could result in a further decrease in donor funding, hampering the execution of the public investment programme in the coming years. In the medium term, inflation is expected to remain within the Central Bank of West African States' (BCEAO) target of 3%, maintaining the good performance of 2010.

The normalisation of relations with the International Monetary Fund (IMF) in January 2008 continued to yield benefits in 2010. In May, Guinea-Bissau obtained a three-year Extended Credit Facility (ECF) worth 22.4 million Special Drawing Rights (SDR), on top of the Emergency Post Conflict Assistance (EPCA) facility to support the government's 2008 and 2009 economic programmes.

A weather-related drop in cashew nut export volume compared to last year's exceptional performance was offset by higher prices, boosting overall export value and reducing the trade deficit. This improvement in the terms of trade, however, did not compensate for the withdrawal of EU budget support in 2010, and the result was a gradual widening of the current account deficit.

Guinea-Bissau remains highly dependent on subsistence agriculture, the export of cashew nuts and foreign assistance. In order to diversify its economy and foster growth, Guinea-Bissau needs major reforms in public administration (in particular security and defence), as well as investment in agriculture, basic transport and energy infrastructure. The exploitation of its large minerals potential, likely to start soon, could generate substantial resources to finance these investments.

In December 2010, Guinea-Bissau reached completion point under the Heavily Indebted Poor Countries (HIPC) debt relief initiative, which should result in a debt reduction of 1.2 billion US dollars (USD) and qualifies the country for further debt relief under the Multilateral Debt Relief Initiative (MDRI).

Guinea-Bissau's main emerging partners are China, Brazil and India. China has been involved in the country mainly through bilateral co-operation and large infrastructure projects, while India has traditionally had strong trade ties in the cashew nut sector and has only recently started to intensify its bilateral co-operation. Brazil has long been a supporter of capacity-building projects in the education sector and is becoming a significant trade partner.

The attempted coup led by the army vice chief of staff, General Antonio Indjai, and his subsequent controversial appointment as head of the army dominated the political scene in 2010. Political developments resulted in the suspension of budget support from the EU, which had been funding defence and security sector reform (SSR) and paying for the salaries of teachers and civil servants. Donors' financial support in the medium term will depend to a large extent on the return of long-term political stability.

Creating political stability, implementing reforms in the defence sector and fighting the narcotics trade will be the new government's main political challenges in 2011. Economic performance will depend on the government's success in tackling these issues.

Table 1: Macroeconomic indicators

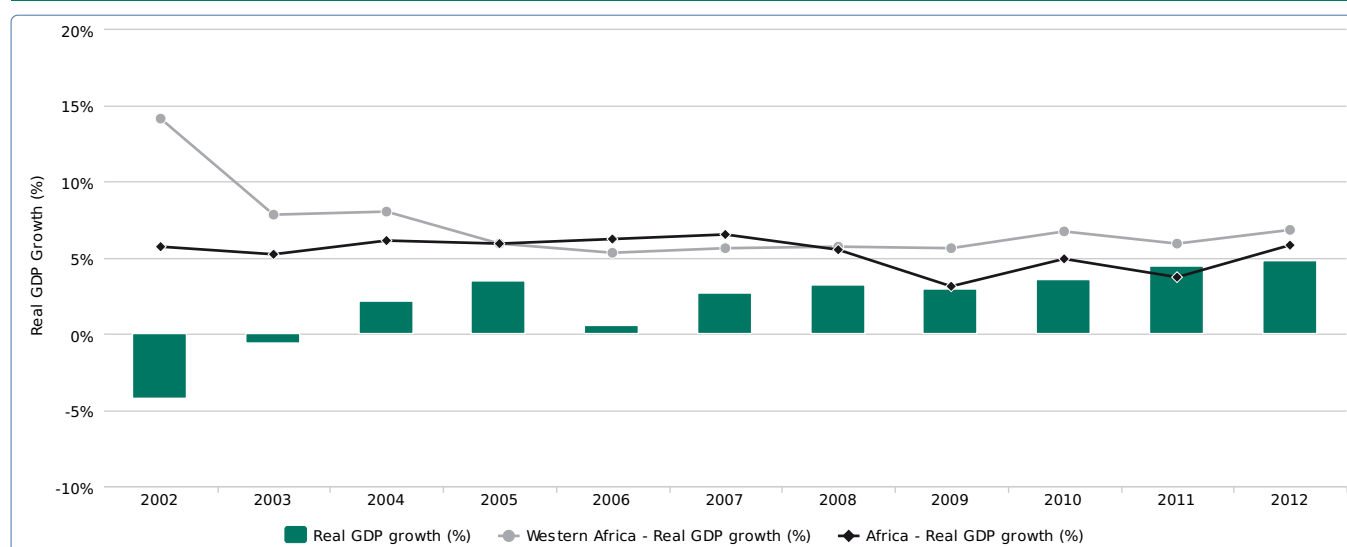
	2009	2010	2011	2012
<b>Real GDP growth</b>	3	3.6	4.5	4.8
<b>CPI inflation</b>	-1.6	2.6	2.7	2.6
<b>Budget balance % GDP</b>	2.8	-0.2	-2	-1.2
<b>Current account % GDP</b>	-4.1	-5.6	-6.2	-6.1

**Source:** National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (W)



**Source:** IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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