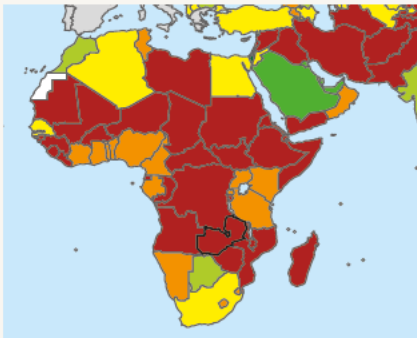


Basic facts (2020)

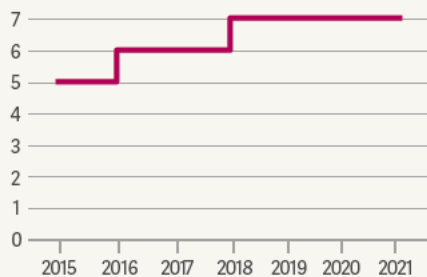
Population: 19 million

GDP, nominal: USD 18 529 million

GDP/capita: USD 981



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history

Source: EKN

Strengths

- + Abundant copper resources.
- + Relatively politically stable, although the trend is negative.

Weaknesses

- The economy is vulnerable to weather, climate change and commodity prices.
- Weak government finances and weak debt management.
- Difficult business environment

Strong copper industry, weak currency

Zambia's economy is based on the copper industry, which accounts for approximately 70 per cent of export revenues. The privatisation of the mining industry in the 1990s led to increased productivity which, together with high copper prices, contributed to strong economic growth of close to six per cent a year on average in the 2000s. Falling copper prices in 2015, coupled with falling demand from China, the country's main trading partner, have led to a marked drop in export revenues. Around the same time, the country was entering an energy crisis, caused by neglected infrastructure and droughts. As a result, growth has slowed down, public finances have drastically deteriorated, and external liquidity has declined. Since 2015, the Zambian kwacha has lost nearly 70 per cent of its value against the USD, which is a major contributor to the country's increased indebtedness relative to GDP. The country's public institutions are relatively weak, as shown by the mismanaged economy and substandard debt management over the past five years. Zambia has long been among the more democratic and politically stable countries of sub-Saharan Africa, however since the 2016 elections the situation has rapidly deteriorated. Given the country's large agricultural sector and dependence on hydropower for the generation of electricity, Zambia is exposed to significant risk from climate change.

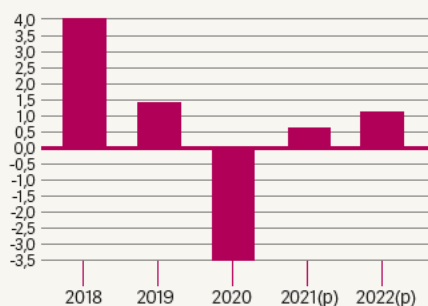
No turn around, despite higher copper prices

Global copper prices fell very sharply at the start of the coronavirus crisis, but recovered quickly and ended the year at the highest level since 2013. Nevertheless, the Zambian economy contracted by 3.5% in 2020 and government debt rose to close to 118% of GDP. The cost of the debt is high, equivalent to nearly 30 per cent of government revenue. Like many other countries on the African continent, Zambia imposed early severe COVID-19 restrictions to protect the weak healthcare system, but quickly relaxed restrictions when the economic consequences proved too great. Almost all of Zambia's government debt is

abroad, making it sensitive to exchange rate fluctuations. In the first three quarters of 2020, the Zambian kwacha lost nearly one-third of its value against the USD, foreign exchange reserves continued to decline and inflation rose. In November 2020, the country failed to pay a USD 43 million interest payment on some of its outstanding foreign currency bonds, making Zambia the first country on the continent to suspend payments during the coronavirus crisis.

The strong development in copper prices has continued during the beginning of 2021, which gives Zambia good external conditions when the coronavirus crisis begins to subside. However that will not be enough to enable a turnaround in the economy. In the coming years, weak growth of 1-2% per year is expected, government debt will continue to rise towards 150% of GDP while external liquidity will remain low. According to the latest IMF forecast, the country's international reserves will only cover about 2% of external financing needs in a few years' time, which is an extremely low level. An IMF programme is currently Zambia's only chance to get the economy back on track, however negotiations are proceeding slowly. Given the demands for budgetary constraints imposed by

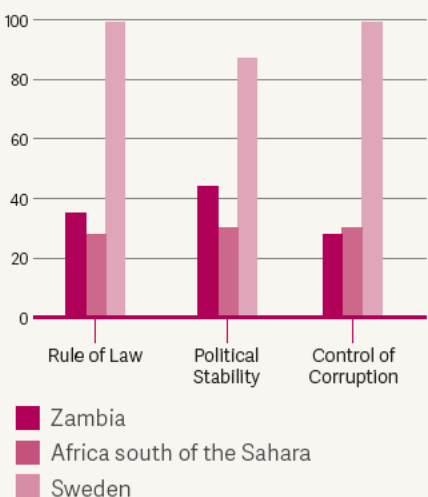
**GDP growth
(fixed prices, % per annum)**



Source: IMFWEQ, Macrobond

the IMF, it will be after the general elections in August 2021 at the earliest before any agreement is in place. Transparency of loans from China, which accounts for an estimated 30% of foreign debt, is crucial if and when an IMF agreement can materialise. Zambia has received a deferral of payments under the G20 Debt Service Suspension Initiative (DSSI) plus it has applied for a renegotiation of the country's debts under the Common Framework. This means a Paris Club renegotiation with participation from China and the private sector, among others. Such a renegotiation may include cancellations of debt. However loan renegotiations in the Common Framework require that an IMF agreement is in place first. Given the continued negative trend in the economy and the sluggish negotiations with the IMF, a possible turnaround is still several years away. An upgrade from EKN's country risk category 7 is currently highly unlikely.

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Business environment

On paper, the business and regulatory environment in Zambia is relatively good. For example, in the World Bank's Ease of Doing Business Index the country is ranked 85th out of 190 countries, which is a good position from a regional perspective. However the economic downturn and the growing shortage of hard currency means in practice a generally difficult business and regulatory environment for companies in the country. Corruption is at relatively high levels: Zambia ranks 117th out of 179 countries in Transparency International's Corruption Perception Index. The regulatory environment in the mining sector has become less predictable in recent years through several changes in a short period of time in the conditions for mining companies. Due to the protracted fiscal crisis, companies have been hit by increased taxes and fees for the purpose of increasing revenues to the fragile treasury. In Verisk Maplecroft's Resource Nationalism Index, Zambia is among the ten most risky countries in terms of intervention, expropriation, and nationalisation of assets, especially in the copper industry. For transactions that results in a claim, the assessment is that legal proceedings in a court would be very protracted and complex.

**Swedish export to
Zambia**

	MSEK
2020	231
2019	358
2018	655
2017	469
2016	317

Source: SCB

EKN:s policy

EKN does not currently cover any sovereign risks. Other public risks include requirements for a letter of credit or bank guarantee. In the case of bank risks, a letter of credit is required as payment instrument and, in addition, elevated premiums apply for long risk terms. Companies are required to have their own hard currency earnings or external support and, in addition, premiums are elevated for long risk terms.

EKN:s exposure

	MSEK
Guarantees	1 115
Offers	108

EKN:s commitment and experience

Most of EKN's transaction flow in Zambia concerns private buyers in the country's mining industry. However the outstanding guarantee commitment consists primarily of a guarantee for an electricity transmission project. With this guarantee, Zambia is one of EKNs largest guarantee exposures in sub-Saharan Africa. Due to the country's economic difficulties and EKN's increasingly restrictive policy, the issuance of guarantees has in principle come to a standstill. In 2020, only two transactions were made and the offer volume is low.

Zambia

Generally, the experience of issuance of guarantees in Zambia has been good. The exception is the electricity transmission project where EKN is experiencing significant payment delays in and a receivable from a public buyer in Zambia. Otherwise, there is in principle no payment delays. A few older claims from the period 2009-2017 exist, primarily on buyers in the mining sector.