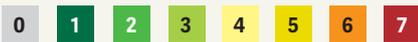
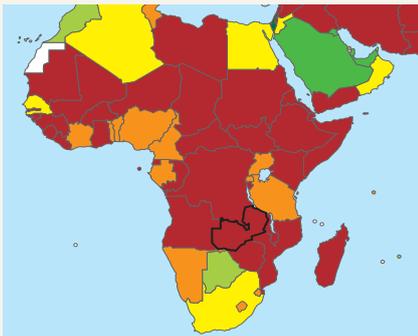


Basic facts (2021)

Population: 19 million
 GDP, nominal: USD 20,8 billion
 GDP/capita: USD 1 067



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 and climate change, and in addition to changes in raw materials prices.
- Weak public finances and weak debt management
- Difficult business environment

Strong copper industry, weak currency

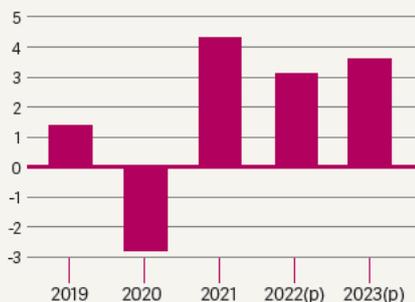
Zambia's economy revolves around the copper industry, which accounts for approximately 70 per cent of export revenues. The privatisation of the mining industry in the 1990s led to increased productivity which, together with high copper prices, contributed to strong economic growth of close to six per 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, government finances have drastically deteriorated, and external liquidity has declined. Between the years 2015 and 2021, 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. Given Zambia's large agricultural sector and dependence on hydropower for the generation of electricity, Zambia is exposed to significant risk from climate change. The country's public institutions are relatively weak, as shown by the mismanaged economy and substandard debt management over the past five years. Hakainde Hichilema has been the new president of Zambia since autumn 2021 and hopes are high that the country will return to being one of the more politically and economically well-governed countries in sub-Saharan Africa.

Better prospects with Hichilema

The transition from Edward Lungu to Hakainde Hichilema as President has meant a change of scene in the rhetoric in Lusaka, which in some cases has actually been translated into action. President Hichilema, who has a background in the private sector, has promised crackdowns on the widespread graft and corruption, better preconditions for business enterprises, and a return to a more democratic Zambia. Since taking office in August 2021, the President has initiated criminal proceedings against senior public servants and government ministers accused of corruption. Zambia's foreign policy has become more assertive, with a clear focus on economic diplomacy and improved relations with the West. The corporate tax rate has been reduced from 35% to 30%, and a tax deduction on payments to the State for mining operations has been reintroduced in an effort to avoid double taxation. The expectation is that the new administration will work towards more predictability and better conditions for companies, especially in the mining sector. The main priority for the new administration is an IMF agreement at USD 1.4 billion, which is a prerequisite for getting the economy back on track. A staff-level agreement was reached in December 2021, but due to China's opposition to the formation of a debt renegotiations credit committee under the Common Framework, no decision has yet been made by the IMF's Executive Board. Most likely a formal agreement will be reached in 2022.

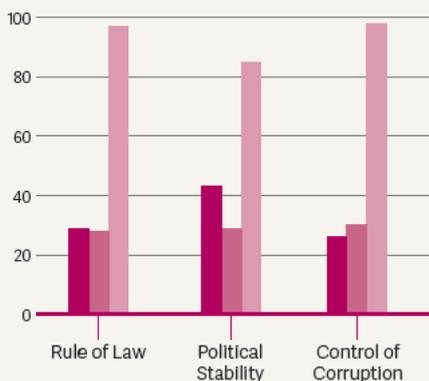
With the change of President and high copper prices, an impact on the economy has begun to be seen. In the coming years, growth is expected to return to pre-economic crisis levels, supported by high copper prices and more business-friendly policies. The forecast for the next five years is for growth to average a bit over four per cent. Inflation is expected to fall back to below ten per

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



Source: IMFWEQ, Macrobond

Business environment



■ Zambia
■ Africa south of the Sahara
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

**Swedish export to
Zambia**

	MSEK
2021	109
2020	321
2019	358
2018	655
2017	469

Source: SCB

EKN:s exposure

	MSEK
Guarantees	1 327
Offers	317

cent. On the external side, liquidity has improved thanks to higher copper prices and a strengthened current account surplus, along with liquidity support from the IMF in the form of Special Drawing Rights

(SDRs). August 2021 marked a reversal in the trend for the Zambia kwacha, which has strengthened by more than seven per cent since then. Consequently, foreign exchange reserves, which had been at a critically low level for several years, have recovered and are again equivalent to close to three months of import cover. As regards to public finances, the situation remains critical. Zambia intends to resume payments on its outstanding Eurobonds in 2022, but so far remains in default. The high level of sovereign debt has started to decline, but still remains at a very high level even for a country in country risk category 7. In 2021, it was equivalent to more than 120% of GDP and the cost of debt currently amounts to more than 35% of the government's forecast tax revenues. Basically all of Zambia's sovereign debt is to foreign entities, making it sensitive to currency fluctuations. Zambia has sought debt renegotiations under the Common Framework, but as of yet no IMF agreement is in place, therefore negotiations have not been able to commence. Transparency in regards to loans from China will be crucial in the renegotiations, which are further complicated by the presence of private sector creditors at the negotiating table. China accounts for an estimated 30% of Zambia's external debt, which means that relations with China will remain a very critical part of the country's foreign policy.

With Hichilema as President, the chances of a turnaround in the country's politics and economy have increased. However, as part of the IMF programme, he will need to implement unpopular cuts, which could cause problems to arise. Zambia's weak state institutions and widespread corruption also pose major challenges for the new President. EKN confirms country risk category 7 (out of 7).

Business environment

On paper, the business and regulatory environment in Zambia is relatively good. However, the economic crisis has led to a deterioration in the business and regulatory environment, not the least for mining companies, which have been hit by increases in taxes and other governmental charges in an effort to boost revenues for the ailing state coffers. In Verisk Maplecroft's Resource Nationalism Index (RNI), Zambia is among the ten most risky countries in terms of intervention, expropriation, and nationalisation of assets, especially in the copper industry. Corruption is at relatively high levels: Zambia ranks 117th out of 179 countries in Transparency International's Corruption Perception Index. For transactions that result in a claim, the assessment is that legal proceedings in a court would be very protracted and complex. Under Hichilema, the prospects for improvements in the business environment exist.

EKN:s policy

EKN does not currently cover any sovereign risks. For other official risks a letter of credit or bank guarantee is required. As regards bank risks, a letter of credit is required as the payment instrument and in addition, a higher premium is charged for longer risk periods. Companies are required to have their own hard currency earnings or have access to external support they can rely upon. Elevated premium rates apply for long risk periods, for those companies that

meet the requirements.

EKN:s commitment and experience

Most of EKN's transaction flow in Zambia relates to private buyers in the country's mining industry. However, in terms of volume the exposure consists primarily of a guarantee for a public electricity transmission project. With this guarantee, Zambia is one of the largest guarantee exposures for EKN 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 2021, only four transactions were concluded, and the volume of offers provided for potential transactions is low. Generally, the experience with the issuance of guarantees in Zambia has been positive. The exception is an electricity transmission project, where EKN has experienced extensive delays in payment and in 2020-2021 has paid out claims for losses. However, during 2021 all amounts have been recovered, which means that there is currently no outstanding claim against the buyer. Current claims relate to older transactions from the period 2009-2017, mostly on buyers in the mining sector.