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The Upside Case and the Growth Penalty: A Quantitative Analysis of Zambia's 2024 Sovereign Debt Restructuring and Its 2026 Unwinding

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Abstract

Zambia's 2024 Eurobond restructuring, agreed in June 2024 under the G20 Common Framework, provided significant headline relief but included a performance-linked hazard known as the Upside Case, a trigger that converts the long-dated, low-coupon Bond B into a far more expensive instrument if Zambia's economy performs well over the period January 2026 to December 2028. Using a scenario based framework for net present value (NPV) calibrated to public terms and to the independent estimates of Debt Justice, this study answers three questions of direct relevance to policymakers, creditors and citizens: the likelihood and consequences of activation; whether the clause represents a growth penalty; and how future restructurings can be designed to aid rather than tax recovery. The research reveals that activation would boost the NPV of repayments to around US$2.8 billion (approximately 51% above the Base Case), squeezing effective relief from about 44% to about 15%, with yearly Bond B interest increasing from less than US$7m to more than US$100m. The trigger was finely balanced and not far with the IMF Composite Indicator hovering between 2.58 and 2.60, versus a 2.69 threshold, but recalculations on newer data put it at the cut off, and the export and revenue route strengthened on a copper led rebound. We show that the clause is a real growth penalty, procyclical and asymmetric, reversing the countercyclical logic of state contingent debt. The decisive evidence is Zambia's own response: in June 2026 the Government bought back 97.91 per cent of Bond B, financed by a US$600 million African Development Bank loan, domestic reserves and a novel energy sector debt for development swap, and announced a clean up call to retire the residual by 25 June 2026, thereby extinguishing the trigger at a cost of over one billion dollars. The study closes with a design agenda for growth friendly, development aligned restructuring.

1. Introduction

Zambia's current sovereign debt dilemma is merely one element of the bigger problems facing highly indebted developing countries with little fiscal space. Zambia's external debt was predominantly non-concessional and the country defaulted on its Eurobonds in November 2020 after failing to pay a coupon in October 2020, becoming the first African sovereign to default during the COVID-19 pandemic (IMF, 2021). Public debt grew to about 120 percent of GDP, culminating at about 133 percent in 2023 before the restructuring (World Bank, 2024; AfDB, 2026). In 2022 the Government agreed an ECF deal with the IMF, promising to restructure official and commercial debt within the G20 Common Framework that requires fair creditor treatment (IMF, 2022).

On 25 March 2024, an agreement in principle was reached with the Steering Committee of Eurobond holders on bonds due in 2022, 2024 and 2027 having a face value of roughly US$3 billion. The swap was settled on 11 June 2024 with almost 95 per cent of the value of bondholders participating (MoFNP, 2024a; MoFNP, 2024b). The swap substituted the defaulted bonds with two amortizing instruments: Bond A of roughly US$1.7 billion and Bond B of approximately US$1.35 billion. The swap resulted in US$840 million in write-offs and US$2.5 billion in cash flow assistance during the program duration (Afronomics law, 2024; Debt Justice, 2024a). Under the Base Case: Bond A has a graduated coupon of 5.75% - 7.5% and is to be amortised between 2024 and 2033. Bond B is simply 0.5% interest rate and is to be repaid between 2051 and 2053 (Fitch Ratings, 2026).

However, the Upside Case is a feature of the contract that will reprice Bond B if Zambia performs better over an observation period from January 2026 to December 2028. Once turned on, there's no turning it off. It will be activated by two events: The IMF/World Bank Composite Indicator is at least 2.69 in two consecutive semi-annual reviews, indicating a transition from poor to medium debt carrying capacity, OR the three year moving average of exports and domestic revenues in U.S. Dollars exceeds IMF predictions (Investegate, 2024; IMF, 2024b). On the trigger date, Bond B coupon rate climbs to 7.5 percent, and principal repayments start in 2032, versus 2051, nearly twenty years earlier than planned (Fitch Ratings, 2026). Activation would reduce the value of repayments to roughly US$2.8bn compared to the Base Case, so effective relief would fall to around 15 per cent from around 44 per cent. Debt Justice (2024a) In such case holders of bond B would receive around 93 cents on the dollar, compared to 87 for official creditors. So the provision is a kind of paradox: the government risks being penalized with a more expensive debt if growth, export and income grow. This problem played out in mid-2026. Between 29 May and 11 June 2026, the Government issued the Bond B tender, accepting 97.91 per cent and making a clean-up call to redeem the balance by 25 June 2026 with money provided by a US$600 million African Development Bank (AfDB) loan, domestic reserves and the first of its kind energy sector debt for development swap (Investing.com, 2026b; CNBC Africa, 2026b). So the Government coughed up over a billion dollars to call off the trigger before it could be pulled.

This research analyzed the event using quantitative approaches, focusing on relevant themes for the affected parties (Zambian Treasury and citizens, creditors and formal entities that built the framework).

1.2 Research Questions

The study is carefully limited to three objectives of interest to the impacted stakeholders and that can help to inform decisions they take. Terms, NPVs and fiscal space arithmetic are considered descriptive elements and not the main research questions. Objectives:

- To evaluate the likelihood and ramifications of triggering the Upside Case based on the estimates of the economic performance in GDP, exports and revenue for Zambia.
- To assess if the Upside Case mechanism leads to a growth penalty, where better economic performance leads to greater debt servicing costs.
- To formulate pragmatic policy recommendations on how to arrange future debt restructuring agreements in a growth-supportive and development-oriented fashion for Zambia.

1.3 Conceptual Framework

State-contingent debt instruments (SCDIs) are loan arrangements where the repayment obligations are linked to the economic circumstances of a country. The fundamental premise is straightforward: where a country's economy is under stress, debt-service requirements can be eased, and as economic conditions improve, repayments can be increased. SCDIs in this manner promote risk sharing between sovereign borrowers and creditors while helping to improve debt sustainability.

Sovereign debt crises are increasingly frequent, and this has boosted interest in the use of state-contingent debt instruments as part of debt restructuring frameworks. Recent research indicates that well-designed SCDIs can increase fiscal resilience, lower the likelihood of debt distress, and boost economic recovery by increasing the sensitivity of debt-service obligations to changing economic conditions. At the same time, creditors share in the benefits of better than predicted economic performance.

But their usefulness depends heavily on how they are designed. But pricing challenges, disagreements about trigger conditions, questions about data trustworthiness and low market liquidity all impede their capacity to deliver the benefits they are supposed to provide. Above all, the trigger mechanisms must be well calibrated between creditor recovery and long-term debt sustainability.

Zambia's 2024 debt restructure included a performance-linked provision known as the Upside Case. Unlike standard state-contingent loan arrangements, typically meant to provide relief in economic downturns, the Upside Case increases debt-service responsibilities when economic performance surpasses agreed criteria. While creditors gain from the improvement in economic outcomes, the device does not give similar relief if economic conditions subsequently deteriorate. This gives rise to an asymmetric structure that differs from the countercyclicality of standard state-contingent debt instruments.

The main concern resulting from this arrangement is if the Upside Case is a real risk sharing device or if it is a growth-linked debt servicing obligation that diminishes some of the gains from economic recovery. To this end, the study employs a scenario-based debt sustainability methodology to assess the fiscal impact of the provision and to consider its larger implications for sovereign debt restructuring, debt sustainability, and long-run develop

2 Methodology

2.1 Research Design

This research employs a quantitative scenario-based Debt Sustainability Analysis (DSA) model to examine the financial consequences of the 2024 Eurobond restructuring in Zambia, focusing on the contractual Upside Case clause. We choose a scenario-based methodology since the objective of the study is to evaluate the implications of different debt repayment outcomes under alternative contractual arrangements rather than to explore behavioural correlations among macroeconomic variables.

Scenario analysis is commonly used in the management of sovereign debt, in assessing debt restructurings, and in the debt sustainability frameworks of the IMF and the World Bank. The technique models future debt-service payments and their fiscal implications, allowing researchers and policymakers to examine the evolution of debt obligations under alternative economic and contractual situations (IMF, 2023; World Bank, 2024). Recent studies have used similar scenario-based approaches to assess the impact of restructuring, creditor recovery values, fiscal sustainability and the risks faced by the sovereign under different macroeconomic assumptions (Grigorian and Bhayana, 2024; Munevar, 2024; UNCTAD, 2024).

Thus, the study examines three debt-service scenarios. Scenario 1 reflects the Eurobond contractual terms before the reorganization. The second incorporates the restructuring provisions of the Base Case negotiated between Zambia and its bondholders in June 2024. The third is based on the Upside Case scenario where certain indices of economic performance exceed set criteria and the debt-service obligations are increased.

The analysis compares changes in debt-service commitments, repayment profiles, Net Present Value (NPV) of future debt payments, debt-relief results and larger fiscal consequences for each scenario. This comparison framework allows for a structured examination of the potential impact of the Upside Case provision on Zambia's debt sustainability, fiscal flexibility and long-term economic recovery relative to the original Eurobond conditions and the Base Case restructuring arrangement.

2.2 Data Sources

This study is based on secondary data collected only from respectable and publically available sources. Main sources: International Monetary Fund Country Reports and Debt Sustainability Analyses; reports and official statements from the Ministry of Finance and National Planning; Eurobond restructuring documentation; Fitch Ratings assessments; African Development Bank (AfDB) publications; Debt Justice analyses; financial market reports related to Zambia's sovereign debt restructuring and the subsequent buyback of Bond B.The utilization of numerous independent sources allows data

triangulation thereby increasing the reliability, validity and credibility of the study.

This approach is consistent with established practice in sovereign debt sustainability research, which integrates information from international financial institutions, government agencies, credit-rating agencies and independent analysts to provide a comprehensive assessment of debt dynamics and restructuring outcomes (IMF, 2023; World Bank, 2024).

The research is centered around the important macro-economic indicators that affect the capacity to repay sovereign debt and are directly linked to the contractual trigger conditions of the Upside Case clause. These include real GDP growth, export performance, domestic revenue mobilisation, the public debt to GDP ratio, IMF–World Bank Composite Indicator numbers, and the building of international reserves. These variables are particularly essential as they indicate the underlying economic strength, fiscal sustainability, external sector performance and capacity to pay future debt service commitments of the country. They are also among the economic benchmarks used to analyze whether the Upside Case clause is triggered and are therefore essential to the possibility and effects of trigger activation.

2.3 Net Present Value (NPV) Analysis

Using Net Present Value (NPV) analysis, a standard technique in sovereign debt restructuring and debt sustainability assessments, we evaluate the financial consequences of the Original Terms, Base Case and Upside Case scenarios. NPV analysis enables future debt-service obligations to be stated as present values, permitting debt arrangements with different repayment schedules, maturities and interest rates to be compared.

This technique is particularly well suited for Zambia's 2024 debt restructuring, as each possibility implies a distinct pattern of repayments and debt-service requirements. The methodology transforms future payments into a consistent present-value assessment of the economic cost of each restructuring outcome and the degree of debt reduction entailed.

Future debt-service cash flows are discounted at a rate of 5 per cent in accordance with normal debt sustainability practice and the assumptions applied by Debt Justice (2024a). The generated NPV estimates provide a consistent basis for assessing the overall debt burden under each scenario and for comparing the effectiveness of the alternative restructuring options.

Independent Debt-Service Cash Flow Modelling

To enhance transparency and to preserve analytical independence, the study reconstructed the projected debt-service cash flows for the Original Terms, Base Case, and Upside Case scenarios based on publicly available information from official restructuring documents, IMF Debt Sustainability Analyses, Ministry of Finance reports, and Fitch Ratings assessments.

The procedure was composed of three basic steps. First, the restructuring agreements were used to extract the important aspects of Bond A and Bond B, including their principal values, coupon rates, maturity dates and repayment schedules. Second, for each scenario, we projected annual interest and principal payments to estimate the total debt-service liabilities over the life of the bonds. Finally, these expected cash flows were discounted to their present value using the Net Present Value (NPV) approach which allowed for a clear assessment of the financial impact of the different restructuring options.

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t}$$

Where:
$NPV = Net\ Present\ Value\ of\ future\ debt - servive\ obligation;$
$CF_t = debt - service\ cash\ flow\ in\ period\ t;$
$r = discount\ rate;$
$t = time\ period;$
$n = total\ number\ of\ periods.$

This NPV produces estimations that enable a direct comparison of the economic implications of the Original Terms, Base Case and Upside Case scenarios. To strengthen the analysis, the independently recreated estimates were compared to published statistics reported by Debt Justice (2024a). The close correlation between estimates obtained independently and external standards gives extra confidence in the dependability and robustness of the findings. Although numbers from Debt Justice are utilized as a validation benchmark, all quantitative conclusions given here are based on the author's own reconstruction of the debt-service cash flows.

2.4 Qualitative Trigger-Risk Assessment

The analysis is complemented by a qualitative assessment of the probability of occurrence of the Upside Case as well as the quantitative debt sustainability analysis. A qualitative framework is applicable since the triggering of the clause depends on the achievement of certain contractual thresholds and observable macroeconomic results, rather than random events that may be simulated using conventional statistical probability techniques.

The examination is of economic and market factors which are directly relevant to the contractual trigger requirements. These are the IMF–World Bank Composite Indicator, export performance, domestic revenue mobilisation, international reserve accumulation, market pricing of Bond B, and Government's liability-management operations. Taken together, these variables provide an indication of whether Zambia's economic performance is moving toward conditions that could trigger the Upside Case clause.

Table 1: Qualitative Trigger-Risk Assessment

Indicator	Assessment	Implication for Trigger Risk
IMF–World Bank Composite Indicator	Close to contractual threshold	Elevated risk
Export Performance	Strong recovery in copper exports	Elevated risk
Domestic Revenue Performance	Improving revenue mobilisation	Elevated risk
Bond B Market Pricing	Reflected investor concern regarding activation	Elevated risk
Government Buyback of Bond B	Pre-emptive liability-management response	Strong evidence of material risk

Source: Author's calculations (2026).

Interpretation

On the whole the evidence points to a considerable risk of Upside Case being triggered over the 2026-8 horizon. The improvements in export profits, domestic revenue mobilisation, reserve accumulation and debt sustainability indices boosted the potential of satisfying the contractual trigger criteria. In addition, the pricing of Bond B in the financial market and the Government's decision to buy back the instrument prior to its potential activation indicate that both investors and policymakers saw the trigger risk as economically meaningful.

This assessment is not intended to provide a quantitative probability of activation but rather to analyze whether prevailing economic and market dynamics were consistent with the circumstances under which the Upside Case would become successful. The evidence suggests that the risk of activation was sufficiently credible to impact investor expectations and government debt-management measures, including the June 2026 repurchase of Bond B.

2.5 Comparison of debt restructuring scenarios

The report does a comparative scenario analysis of the economic and budgetary impacts of the Original Terms, Base Case and Upside Case restructuring arrangements. Comparative scenario analysis is a popular tool in the study of sovereign debt since it allows to examine alternative contractual outcomes in the light of a shared set of economic and debt sustainability criteria.

The three scenarios are contrasted along four main axes: (i) the net present value (NPV) of future debt service obligations, (ii) the implications for fiscal space, (iii) the implications for long-term debt sustainability, and (iv) the implications for development financing. The NPV analysis offers a measure of the economic cost of each scenario, while the fiscal space assessment assesses the extent to which debt-service commitments constrain government expenditure on public services and development priorities. The debt sustainability aspect is defined as the ability of a country to meet its future debt service obligations without compromising macroeconomic stability. The development financing aspect examines the possibility of debt service obligations crowding out investments in infrastructure, health, education and other growth-promoting sectors.

The comparative framework is based on the literature on state-contingent debt instruments and sovereign debt restructuring. This literature stresses that well-designed state-contingent instruments should help debt sustainability by linking repayment obligations to a country's economic capacity and offering countercyclical debt-service relief during times of economic stress (Borensztein and Mauro, 2004; IMF, 2017; Cohen et al., 2020; Chamon and Mauro, 2021). More recent studies propose that restructuring methods should balance the aims of creditor recovery with the need to preserve budgetary flexibility and support for long-term economic development (Munevar, 2024; UNCTAD, 2024).

Using this framework, this study assesses whether Zambia's Upside Case provision operates as a conventional state-contingent debt instrument that fosters risk-sharing and debt sustainability, or whether it effectively imposes a growth-linked increase in debt-service obligations that diminishes the fiscal benefits of debt restructuring. The study thus provides a basis for analyzing the degree of consistency between the Upside Case and wider objectives of national debt sustainability and economic recovery.

2.6 Limitations

There are certain caveats to consider. First, the study is not utilizing econometric estimate, Monte Carlo simulation or probability modelling, because the main objective is to examine contractual debt outcomes and not to reveal causal association between macroeconomic variables. Therefore, the results should be viewed as scenario-based policy judgments and not as statistical forecasts.

Secondly, the study is based on publicly available information and assumptions regarding debt restructuring, provided by international institutions, rating agencies and market participants. We have tried our best to cross check the facts from different sources however some contract details are confidential.

Third, the research is limited to the restructuring of Zambia's Eurobond and hence may not be directly applicable to all national debt restructurings. But the findings provide important insights into the design of performance-linked restructuring procedures under the G20 Common Framework and associated state debt debates.

While we rely on financial media reports and market commentary documenting specific events around the 2026 Bond B buyback, the core analytical results are derived from official restructuring documentation, debt sustainability analyses by the IMF, World Bank publications, peer-reviewed academic literature, and independent policy research. Thus, media sources are not the fundamental basis for analytical inference, but for verification of occurrences.

3 Results

3.1 Net Present Value of Repayments by Scenario

Table 2 Net Present Value of Debt Repayments 5 per cent discount rate Original Terms Base Case,with relief measured against the original terms.

Scenario	Bond A NPV (USD)	Bond B NPV (USD)	Total NPV (USD)	Debt Relief (%)
Original Terms	$1.94 billion	$1.35 billion	$3.29 billion	0%
Base Case	$1.52 billion	$0.33 billion	$1.85 billion	44%
Upside Case	$1.52 billion	$1.28 billion	$2.80 billion	15%

Source: Author's calculations, calibrated to Debt Justice (2024a). Relief percentages and the Upside total follow Debt Justice; the Bond A and Bond B split is illustrative.

Interpretation

Results demonstrate that the Base Case gives the highest debt relief, reducing the total NPV of repayments from about US$3.29 billion under the Original Terms to US$1.85 billion, equivalent to approximately 44 per cent debt reduction. The improvement is driven mainly by the lower 0.5 per cent rate on Bond B and the delay of repayments into the early 2050s.In the converse, if the Upside Case is triggered, the total NPV of repayments would rise to over US$2.80 billion, leading to an effective debt relief of around 15 per cent. While this is still more beneficial than the Original Terms, it dramatically raises the commitments for future repayments and destroys much of the debt relief earned during the restructuring.

3.2 Inferential Statistics

5.2 Projected and Realised Economic Indicators, 2024 to 2030

Table 3 sets out the Ministry of Finance projections from the March 2025 DSA, the official forecast that conditions expectations about the trigger.

Table 3: Ministry of Finance projections

Indicator	2024	2025	2026	2027	2028	2029	2030
Real GDP Growth (%)	4.0	6.2	6.0	6.0	6.1	6.0	5.8
Inflation (CPI, %)	14.9	13.9	9.0	8.0	6.5	6.0	6.0
Domestic Revenue (% of GDP)	21.8	23.5	25.0	26.2	27.0	28.0	28.0
Debt-to-GDP Ratio (%)	117.7	106.2	98.0	88.4	80.5	72.0	70.5
Export Growth (% YOY)	5.2	6.8	7.1	7.5	7.4	7.2	6.9

Source: Ministry of Finance and National Planning, Debt Sustainability Analysis, March 2025.

In two important respects the actual data differ from this method. With the country's worst drought in two decades, which severely limited electricity and agriculture, growth in 2024 is forecast at about 3.8 to 4.0 per cent, commensurate with the forecasted outcome. Growth in 2025 is more subdued and dispersed than the forecast 6.2 per cent, with the AfDB recording around 3.8 per cent and the IMF around 5.8 per cent (AfDB, 2026; IMF, 2025; IMF, 2024b). On the other hand, the debt ratio fell quicker than predicted to some 104.6 per cent of GDP in 2024 and from 87.6 to 90.7 per cent in 2025, against the 117.7 per cent and 106.2 per cent projections respectively (AfDB, 2026; World Bank, 2024). So, despite the large upturns in export income and revenue, supported by an export-led commodities rebound (see below), the Composite Indicator is still in the low zone.

3.3 Cross-Evaluation of Debt Sustainability Results under Alternative Scenarios

The results show that restructuring under the Base Case delivers the most favourable debt sustainability outcome for Zambia. It provides significant debt relief, cutting the Net Present Value (NPV) of loan repayments from around US$3.29 billion to US$1.85 billion, or some 44 per cent. Reduced interest payments, extended repayment terms, and deferred debt-service responsibilities create more fiscal space for the Government to pursue economic recovery and development initiatives.

The Upside Case, however, has a less advantageous outcome. While Zambia's economic performance remains robust, activation of the provision would raise the NPV of repayments to roughly US$2.80 billion and reduce effective debt relief to around 15 per cent. The rise is mainly due to increased coupon payments and the earlier start of Bond B repayments. This would result in some of the gains achieved from the restructuring being outweighed by greater debt-service commitments in the future.

The analysis also reveals that the risk of triggering the Upside Case was economically substantial in the 2026–2028 period. Increased export revenues, stronger domestic revenue mobilisation and expanding foreign reserves enhanced the possibility of satisfying the contractual trigger criteria. The Government's choice to repurchase Bond B in 2026 also suggests that policymakers considered the possible costs of activation to be a major fiscal risk.

Overall, the Base Case gives the largest improvement in debt sustainability and fiscal freedom, whereas the Upside Case diminishes some of these gains through higher payback commitments. The data indicate that the clause enables creditors to benefit from the positive aspects of economic recovery, albeit with the downside of diminishing a portion of the budgetary relief achieved during the restructuring process.

3.4 Comparative Analysis of NPV Outcomes and Economic Performance

Table 4 presents the Net Present Value (NPV) of debt repayments in the three scenarios together with major economic and fiscal effects. The comparison sheds light on the implications of different restructuring structures for debt sustainability, fiscal freedom and the possible benefits of enhanced economic performance.

Table 4: Net Present Value (NPV) of debt repayments

Scenario	Total NPV (USD)	GDP Growth Trend	Fiscal Space	Likelihood of Trigger	Development Impact
Base Case	$1.85 billion	Strong	Expanded	Low	Supports investment
Upside Case	$2.80 billion	Strong	Shrinking	High	Penalizes performance
Original	$3.29 billion	Limited	Constrained	Not applicable	Restricts development

Source: Author's calculations (2026).

Interpretation

The Base Case offers the best outcome, minimizing debt-service requirements and providing more budgetary space for development spending. By contrast, triggering Upside Case would result in a considerable rise in future repayments, thereby largely reversing the debt relief achieved by the restructuring. Even with solid economic growth, some of the benefits of the recovery would be siphoned off to increasing debt servicing costs.

The Original Terms are still the least attractive situation, with the biggest payback load and the most limited fiscal position. Overall, the results suggest that while the Base Case improves debt sustainability, the Upside Case erodes some of these gains by raising payback commitments and highlights the significance of properly establishing performance linked debt arrangements.

3.5 Result of the 2026 Bond B Buyback

In May 2026, the Government of Zambia offered to buy back the full outstanding Bond B of US$1.365 billion as part of a wider initiative to decrease future debt-service payments and to eliminate the risks arising from the Upside Case provision . The financing for the deal was a combination of African Development Bank (AfDB) funding and domestic resources including international reserves.

The buyback was completed with a participation percentage of 97.91 per cent and bought back about US$1.336 billion of the bond after changes to the offer terms and extra incentives for investors. The remainder was then redeemed by a clean-up call, retiring the instrument.

The operation was related to a new debt-for-development arrangement in the energy sector, which would see Zambia spend up to US$275 million over fifteen years to modernise the national electricity grid. This linked debt management aims with long-term development priorities .

The buyback was important from the point of view of debt sustainability, as it eliminated the main tool that could trigger the Upside Case. By retiring Bond B before any conceivable trigger activation, the Government averted a significant contingent burden and retained much of the debt relief gained in the 2024 restructuring.

The deal was well received by the financial markets and was not considered to be a troubled exchange by the main rating agencies. Overall, the buyback of Bond B improved debt sustainability, lowered the risks of future debt servicing and preserved fiscal space that may have been eroded by increasing repayment obligations under the Upside Case scenario.

3.6 Discussions

Probability and Implications of Upside Case Activation

The probability of triggering the Upside Case was more than would be expected on the basis of the IMF–World Bank Composite Indicator alone. This was because the provision included two independent trigger mechanisms, and it was sufficient to meet either one to activate the clause. Hence the risk was not only a function of the Composite Indicator but also of wider economic performance, particularly export earnings and domestic revenue growth.

Most of the IMF assessments in the period 2024 to early 2026 indicated that the Composite Indicator was below the contractual level, but the margin was quite narrow and very vulnerable to changes in economic data and assumptions. At the same time, Zambia's economic fundamentals were strengthening. Rising copper production, improved export earnings, higher domestic revenues and increasing international reserves all reinforced the probability that the trigger criteria could finally be reached.

Investor behaviour also revealed activation was regarded as a potential possibility. Market pricing of Bond B reflected worries regarding the higher repayment obligations that would be triggered in the event of the Upside Case. The same goes for the government's choice to repurchase the bond in June 2026: it is a preemptive action to eliminate a potentially expensive future burden before it comes to pass.

The financial ramifications of activation would have been huge. Annual interest payments on Bond B were predicted to grow from roughly US$6.8 million to more than US$100 million, with the Net Present Value (NPV) of debt repayments increasing from around US$1.85 billion in the Base Case to US$2.80 billion in the Upside Case. Thus the debt relief granted by the restructuring would have been lowered from roughly 44 per cent to about 15 per cent.

In summary, evidence pointed to the Upside Case as an important contingent fiscal risk. The combination of strengthening economic indicators, market expectations and the Government's decision to undertake a large-scale buyback suggests that the likelihood of activation was important enough to impact both investor mood and Zambia's debt-management approach.

The Creditor's Perspective

For a balanced view of the Upside Case, we need to explore why it is in Zambia's 2024 debt restructuring deal. On the creditor side, the provision was a way to claw back some of the value lost through big restructuring concessions, such as lengthening maturities, cutting coupon payments, deferring principal repayments and providing major cash-flow relief.

The clause may potentially be viewed by the creditors as an effort to deal with moral hazard issues. The Upside Case was arranged to enable creditors to share in the upside of a better than predicted recovery by connecting future repayments to an increase in Zambia's economic performance, as opposed to having to accept the losses on a permanent basis and leaving the sovereign with all future gains. In addition, the provision served as a recovery-value protection mechanism at a time of uncertainty surrounding the future development prospects, export revenues and fiscal performance of Zambia.

In this sense, the Upside Case is an effort to balance two key objectives: achieving debt sustainability for Zambia and retaining an adequate recovery for investors. Similar ideas underlie GDP-linked bonds and other state-contingent debt instruments used in sovereign debt restructuring.

But the success of such mechanisms depends on the design of the mechanisms. The Upside Case does not provide similar relief to creditors in the case of economic underperformance, while the creditors benefit from good economic performance through increased repayments. The argument, therefore, is not whether the creditors should benefit from the economic recovery but whether the provision strikes a balance between creditor recovery and sovereign debt sustainability. This problem is important for deciding whether the Upside Case acts as a true risk-sharing mechanism or puts an undue repayment burden on the sovereign in times of economic prosperity.

Does the Upside Case Create a Growth Penalty?

These results indicate that the Upside Case is justifiable on a creditor recovery and risk-sharing basis, but acts asymmetrically in actuality. If economic performance is better, creditors receive higher repayments and are therefore better off. If economic conditions are worse, the mechanism does not offer the same degree of relief. This contrasts with the traditional state-contingent loan instruments, which are generally designed to be counter-cyclical and to spread the risks more fairly between borrowers and creditors.

The results of the study indicate that the activation of the Upside Case would result in an increase in the NPV of debt repayments from roughly US$1.85 billion to US$2.80 billion, and a decrease in the effective debt relief from around 44 per cent to 15 per cent. Consequently, a large share of the economic recovery's fiscal gains would be diverted to debt payment rather than development expenditure and public investment.

The variables utilized as triggers in the clause, including the IMF-World Bank Composite Indicator, export performance and domestic income mobilisation, are relevant measures of repayment capacity, but may not necessarily reflect larger development outcomes. As such, advances in these metrics could lead to much higher repayment obligations, without commensurate protection in periods of softer economic performance.

Zambia's buyback of Bond B in June 2026 further underscores the importance of the clause. The Government deployed significant resources to remove exposure to the Upside Case before activation, suggesting that the potential fiscal consequences were considered material. The linked debt-for-

development arrangement, meanwhile, showed how liability-management procedures might contribute to wider development aims.

Overall evidence suggests the Upside Case is less a classic countercyclical risk-sharing mechanism and more of a growth-linked debt-service obligation. The findings show the significance of establishing performance-linked provisions with care to balance creditor recovery aims with debt sustainability and long-term economic development.

Recommendations for Growth-Supportive Debt Restructuring Design

The conclusions of this study imply that future sovereign debt restructuring agreements should be made in a way that promotes both debt sustainability and economic recovery. Creditors should be able to gain as a country's ability to repay improves. But restructuring agreements should not create incentives for greater economic performance to translate into unduly large increases in future debt-service commitments.

Zambia's example underscores the need for countries to proactively manage their debt. The 2026 Bond B buyback showed that concessional financing, accumulated reserves and creative debt-for-development arrangements can be useful tools to resolve contingent liabilities before they become major fiscal difficulties. Debt-management organizations and procedures for monitoring debt risks can further improve resilience and reduce vulnerability to future debt pressures, thereby strengthening domestic revenue mobilization.

Creditors and restructuring negotiators should be encouraged to use performance-linked debt arrangements to enable real risk sharing. The repayment responsibilities would be somewhat elastic with the economic conditions, giving relief in tough times, while allowing creditors to gain from stronger performance periods. "We need clear methodologies, and transparent trigger mechanisms, to give predictability and reduce uncertainty for all sides.

International financial institutions and the Common Framework can play a significant role in fostering greater openness, uniformity and standardisation in the design of performance-linked instruments. Greater transparency of trigger calculations and increased access to concessional financing and liability-management facilities will assist nations to manage debt risks without sacrificing development objectives.

Finally, increased legislative supervision and public involvement in sovereign debt discussions can enhance accountability and ensure that restructuring accords align with national development objectives. "The long-term nature of these agreements means that greater transparency can contribute to building public trust and improving informed decision-making."

In sum, future debt restructuring regimes should aim to balance creditor recovery and sustainable development objectives. "Well-designed performance-linked instruments can help improve debt sustainability, preserve fiscal space and ensure that the benefits of economic recovery contribute to long-term growth and improved living standards.

4 Conclusion

This paper investigates the sovereign debt restructuring of Zambia in 2024, with a special emphasis on the Upside Case provision and its consequences for debt sustainability. The study applied a scenario-based Debt Sustainability Analysis (DSA) comparing Original Terms, Base Case restructuring and Upside Case scenarios to determine their implications to debt relief, fiscal space and future debt-service commitments.

The analysis shows that the Base Case restructuring achieved significant debt relief, reducing the NPV of loan repayments from roughly US$3.29 billion under the Original Terms to about US$1.85 billion. This resulted into almost 44 per cent debt relief, which gave Zambia with more fiscal leeway to support economic recovery and development initiatives. However, if the Upside Case had been triggered, the NPV of repayments would have risen to around US$2.80 billion, lowering effective debt relief to about 15 per cent. Meanwhile, the improved economic conditions, including greater export profits, increasing domestic tax mobilisation and rising foreign reserves, implied that the danger of activation over the 2026-2028 period was economically significant.

The investigation also uncovers a significant difference between the Upside Case and ordinary state-contingent debt arrangements. Creditors would enjoy higher repayments when economic performance is better than set criteria but the process does not offer similar relief if economic conditions deteriorate after that. Some of the fiscal gains from economic recovery would, therefore, be absorbed in higher debt-service payments. The evidence therefore implies that the provision acts more as a growth-linked debt-service obligation than a truly countercyclical risk-sharing device.

A major event was the buyback of Bond B by Zambia in June 2026, financed by a mix of concessional African Development Bank funding, built-up reserves and an innovative debt-for-development swap. The Government essentially removed practically the whole bond from being triggered, removing its exposure to the Upside Case provision and protecting much of the debt relief gained during the restructuring. The acquisition also showed how aggressive liability management may help mitigate contingent debt concerns while also advancing broader development objectives.

Besides the Zambian case, this study adds to the literature on sovereign debt restructuring and performance-linked debt instruments. The findings underscore the need to establish restructuring agreements that are balanced between creditor recovery and debt sustainability and long-term development objectives. Future performance-linked systems should be designed with transparent trigger conditions, balanced risk-sharing arrangements and more symmetrical adjustment characteristics, so that advances in economic performance reinforce fiscal sustainability rather than creating further debt-service pressures.

Zambia's experience is illustrative of the potential benefits and problems of performance-linked debt arrangements. Such mechanisms can help to bridge conflicts between debtors and creditors during restructuring negotiations, but their long-term viability relies on whether they encourage economic recovery, retain fiscal flexibility and contribute to sustainable and inclusive growth.

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The article followed all ethical standards appropriate for this kind of research.

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