Sovereign Debt News Update No. 162: Angola's $1 Billion Total Return Swap: The Hidden Risks of a Silent Deal

By:

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In December 2024, Angola stealthily entered into a US$1 billion one-year derivative contract known as a ‘total return swap’ with JP Morgan Securities Plc (“JPM”). The transaction was concluded at a time when Angola’s public debt was approaching 60% of GDP, intensifying scrutiny of non-traditional financing instruments that can generate hidden or contingent liabilities. Uniquely, this agreement unfolded without the usual spectacle of a traditional sovereign financing deal. There was no bond roadshow, no parliamentary debate, and scarcely any press fanfare following the event. This absence of public process meant that neither parliamentary scrutiny nor advance disclosure of potential contingent liabilities accompanied the transaction. As Maria Uina Baptista observes in her article, *‘Angola’s Billion-Dollar Swap: Financial Innovation or Masked Debt?’*, “…just a discreet line in the Ministry of Finance's communiqués

and a technical annex in London's debt market filings". The filing itself, a 297-page Global Medium Term Note Programme released by Angola in 2024, tucks away the details of the total return swap somewhere in between the lengthy document, demonstrating the esoteric nature of this arrangement.

Background and Financial Mechanisms- How the TRS Works?

A total return swap (TRS) is a financial agreement between two parties: the total return payer (typically the asset owner) and the total return receiver (the investor). Under the contract, the total return payer transfers the full economic return of an asset such as bonds, an equity index, or a basket of loans. The return on this asset, such as interest payments and capital gains is transferred to the receiver. In exchange, the receiver makes floating-rate payments, usually based on Secured Overnight Financing Rate (SOFR) plus a spread. The total return receiver then gains the asset's income and capital appreciation without direct ownership. As structured finance analysis emphasizes, this separation of economic exposure from legal ownership allows leverage and synthetic financing while obscuring who ultimately bears risk. Conversely, the total return payer shifts the asset's market and credit risks onto the receiver. At the end of the contract, the receiver compensates the payer for any decline in the asset's value or, conversely, benefits from any appreciation. A TRS is classified as a credit derivative and serves as a form of synthetic financing.

The JP Morgan Total Return Swap

JPMorgan's Total Return Swap (TRS) arrangement provided Angola with immediate liquidity against its outstanding bonds. Under this structure, Angola transferred notes with a nominal value of US$1.2 billion, issued under the Programme, to JPMorgan. These notes were issued without Angola receiving proceeds at the time. Hence, the government did not generate immediate cash proceeds from the $1.9 billion bond issuance. Instead, the bonds were pledged as collateral to secure two loan facilities from JPMorgan, one for $600 million and another for $400 million, structured in a way that allowed the government to avoid recording the debt directly on its balance sheet. According to Angola's Medium Term Note Programme, the TRS stipulates that full ownership of the notes passes to JPMorgan, granting it the right to sell or otherwise dispose of its interest. Angola intends to record the Financing Amount as external debt, while

the TRS Notes exchanged for that financing will be treated as contingent liabilities until the TRS terminates. If, upon termination, whether due to default or otherwise, the notes are not returned and cancelled, any outstanding principal will be reclassified as debt of the Issuer. This accounting treatment effectively delays full debt recognition even though Angola remains economically exposed, illustrating how derivative structures can defer transparency without eliminating fiscal risk.

This agreement was collaterised by US$1.9 billion in sovereign Eurobonds, significantly exceeding the US$1 billion financing amount and reflecting the conservative margining typical of derivative-based sovereign financing. The swap was scheduled to expire at the end of 2025. In November 2025, Reuters reported that Angola had agreed to roll over the deal. Although the details were not disclosed, a source from the finance ministry indicated the country's intention to negotiate a lower interest rate, compared to the previous rate which, according to the Ministry, was slightly below 9%. JPMorgan on the other hand, declined to comment on both the extension agreement and the review of terms. The terms of the agreement have never been published. Nevertheless, the decision to refinance, extend, or partially repay is complicated by fragile fiscal conditions, reliance on oil revenue, and a pressing need to improve financial transparency. The decision on whether to extend, refinance, or partially repay the swap represents a critical policy choice amid tightening fiscal conditions.

However, the Programme states that in certain circumstances, Angola may be required under the terms of the TRS to pay down the Financing Amount and/or deliver additional collateral. Hence, this mechanism carries significant volatility risk, as demonstrated when a drop in oil prices triggered a $200 million margin call in May 2025, requiring the government to provide additional collateral. As bond prices and oil-linked revenues fell, the value of the pledged collateral declined, automatically activating the margining provisions embedded in the swap. This episode illustrates the high costs and risks associated with unorthodox financing instruments increasingly relied upon by indebted African sovereigns. The decision by Angola to renew the TRS also coincides with another major near-term obligation: an $860 million Eurobond maturity that was due in November 2025. The need to resolve both the swap and the maturity payment underscored the country's acute short-term liquidity

pressure. Furthermore, the secrecy surrounding the full terms of the TRS and the public nature of the margin call have heightened investor focus on Angola's risk profile. According to Dorivaldo Teixeira, General Director of the Public Debt Management Unit at Angola's finance ministry, the country's finance officials are taking steps to improve transparency by releasing debt statistics more frequently. The finance ministry has already begun publishing its debt bulletin on a quarterly basis and plans to move to monthly publication starting next year, ensuring that key data and information are accessible in both English and Portuguese.

Comparative Experiences and Legal Disputes

Comparative experiences with sovereign swap arrangements elsewhere suggest that opacity in such instruments can later give rise to legal disputes, fiscal uncertainty, and contested outcomes when market conditions deteriorate. Angola is not the only African country that has dabbled with this instrument. Senegal has also engaged with this collateralized instrument, with Gabon and Egypt mentioned in the context of "off screen" or non standard financing operations alongside countries like Cameroon, implying it may be exploring unconventional or niche structured deals (though not explicitly TRS). In Europe, Italian public entities entered into interest rate swap agreements with international banks prior to the emergence of subsequent disputes, arrangements that later became the subject of litigation and prosecutorial scrutiny. When interest rates moved sharply following the global financial crisis, these swaps generated substantial losses, prompting litigation against banks on grounds including misrepresentation, inadequate disclosure of risks, and failure to act in the public interest. Courts and prosecutors scrutinised whether public authorities fully understood the contingent liabilities embedded in complex derivative contracts and whether banks had fulfilled their duties of transparency and good faith. These disputes revealed how swap contracts can transform from risk-management tools into sources of hidden debt exposure, with long-term fiscal consequences that were not evident at inception. Importantly, the legal proceedings underscored the asymmetry of expertise between sovereign counterparties and sophisticated financial institutions, as well as the difficulty of ex post accountability once contracts are governed by foreign law and confidential documentation. For Global South sovereigns, such precedents highlight that the risks of swaps extend beyond pricing and

volatility to include legal uncertainty, weakened bargaining power in times of distress, and challenges to democratic oversight of public debt.

A further layer of risk in sovereign derivative arrangements lies in the choice of governing law and jurisdiction for resolving disputes. These contracts are nearly always governed by foreign legal systems, most often English or New York law, and provide for disputes to be litigated in foreign courts or arbitration forums. While this is a market standard in international finance, it can significantly constrain sovereign agency by shifting legal interpretation and enforcement far from domestic legal systems and democratic processes. The consequences of such jurisdictional clauses have been demonstrated in comparative contexts, including the Italian swaps litigation detailed by legal analysts at Collyer Bristow. In those cases, Italian public entities entered into complex interest rate swap agreements governed by English law with major international banks. When adverse market movements occurred, litigants faced English courts' doctrines such as "manifest error" and strict interpretations of contractual language, often with limited ability to introduce public interest arguments that might be recognised in their own legal systems. The Italian disputes also show that sovereign and sub-sovereign entities confronted with foreign jurisdiction clauses can encounter procedural and financial hurdles, from unfamiliar legal standards to the high costs of protracted litigation, a challenge that can exacerbate fiscal pressures rather than resolve them. Jurisdictional choices thus do not merely dictate the *where* of dispute resolution; they shape substantive legal outcomes, access to justice, and the balance of bargaining power between states and global financial institutions. For highly indebted sovereigns, especially those in the Global South with limited leverage, these clauses represent not a technical footnote but a material dimension of legal and fiscal risk that persists across market cycles.

Conclusion

Angola's case undoubtedly points to the limits of collateralization of public assets as discussed in Chapter 11 of the AfSDJN book "How to Reform the Global Debt and Financial Architecture". Altogether, Angola's reliance on the JPM swap is set against a backdrop of intensifying fiscal headwinds. The country's economic stability is deeply tied to crude oil, with exports accounts for over 30% of GDP. With Brent crude trading below the $70 per barrel

assumption in the 2025 budget, authorities are under pressure to adopt a more conservative fiscal approach for 2026.

The November decision on the JPMorgan swap is a microcosm of Angola's broader dilemma: balancing the urgent need for competitive short-term funding with the long-term imperative of sustainable fiscal management. While extending the TRS may offer immediate cost savings compared to market-based borrowing, the leverage inherent in a derivative arrangement exposes the sovereign to volatility, as demonstrated by the margin call. Angola’s parallel push for greater financial transparency is a welcome step toward improving market confidence and reducing borrowing costs. However, without clearer disclosure, stronger parliamentary oversight, and fuller integration of such instruments into debt sustainability assessments, derivative-based financing risks entrenching short-term relief at the expense of long-term fiscal accountability.

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