Sovereign Debt News Update No. 179: Nigeria Ignores Total Return Swap Warnings from IMF, Fitch and Moody’s; Proceeds to Draw $2B from $5B Swap with First Abu Dhabi Bank

By:

The African Sovereign Debt Justice Network

September 08, 2026

Nigeria’s debt trajectory remains a central concern, particularly as the country continues to experiment with increasingly complex financing structures to address fiscal pressures, foreign exchange shortages, and infrastructure financing needs. Concerns intensified following reports that Nigeria was pursuing a US$5 billion Total Return Swap (TRS) structure with Abu Dhabi, a move that drew scrutiny from ratings agencies Fitch and Moody’s. The development aids longstanding concerns around debt transparency, contingent liabilities, and the use of off-balance sheet financing mechanisms that obscure the true extent of sovereign obligations.

Sovereign Debt News Update No. 171 on Nigeria previously highlighted concerns around debt transparency, accountability, democratic oversight and the risks associated with increasingly complex financing arrangements. The warnings from the International Monetary Fund (IMF) Fitch and Moody's reinforce AfSDJN's concern that the use of TRS structures risk deepening opacity in sovereign borrowing and complicate future debt sustainability assessments. These concerns included persistent revenue weaknesses, high debt servicing costs, heavy reliance on market-based borrowing, and exposure to external shocks. The warnings from these international institutions suggest that these vulnerabilities may now be compounded by the adoption of more opaque financing tools that can weaken accountability and complicate debt restructuring if distress worsens. This update explores how Nigeria's decision to proceed with the TRS arrangement, despite repeated warnings, raises urgent questions about debt transparency, democratic oversight, and whether increasingly complex financing structures are advancing economic sovereignty or deepening debt vulnerability.

External Warnings on the Emerging Risk of Total Return Swaps

International Monetary Fund (IMF)

The IMF raised explicit concerns over Nigeria's proposed swap arrangement during its 2026 Article IV Consultation concluded on 9 June 2026. While the IMF acknowledged that reforms under President Bola Tinubu, particularly exchange rate liberalisation and subsidy removal, had helped strengthen macroeconomic stability and restore some investor confidence, it warned that the benefits remained uneven, with millions of Nigerians still facing poverty and food insecurity. More importantly, the Fund cautioned against Nigeria's planned US$5 billion derivatives-based financing arrangement with First Abu Dhabi Bank, warning that such transactions are often opaque, complex, and capable of creating significant contingent liabilities outside conventional debt reporting frameworks. The IMF stressed that off balance sheet or derivative-linked borrowing can undermine debt transparency, distort debt sustainability assessments, and expose sovereigns to heightened refinancing and liquidity risks, especially if collateral values deteriorate or margin calls are triggered under stressed market conditions. The IMF has taken the unusual step of counting the entire US$6.7 billion of collateral as public debt, signalling a much tougher approach to these structures.

Fitch

On 19 June 2026, Fitch Ratings published a report titled "*Sovereign Use of Total Return Swaps Ups Transparency, Recovery Risks*", warning that sovereign use of TRS structures increases debt transparency risks and complicates creditor recovery in cases of restructuring or default. Fitch specifically noted that while such instruments can provide governments with alternative liquidity sources, they often create contingent obligations that may not appear clearly in public debt statistics. This creates a gap between reported sovereign debt and actual fiscal exposure, reducing the ability of investors, citizens, and oversight institutions to accurately assess debt sustainability.

Fitch warned that these structures can undermine transparency because legal ownership of the underlying asset may remain with one party while economic exposure is transferred to another. In sovereign borrowing contexts, this means governments can effectively raise debt without classifying the transaction as conventional borrowing. Fitch stated that this "*may weaken debt transparency and complicate sovereign restructuring scenarios*," particularly where disclosure standards are weak. Such concerns are especially relevant in countries with already strained public financial management systems. This warning reinforces long standing concerns that complex financial engineering is increasingly being used to bypass the scrutiny attached to conventional loans and bond issuance.

The agency also emphasized recovery risks. In traditional sovereign debt restructurings, creditor claims are typically assessed based on clearly documented debt instruments such as Eurobonds, bilateral loans, or multilateral obligations. TRS contracts, however, can blur creditor ranking and complicate legal enforcement. Since swap structures involve derivative-like arrangements tied to asset performance or return streams, they can create uncertainty over priority in restructuring. Fitch noted that this may reduce recovery values for creditors and increase litigation risks during debt workouts. This has major implications for countries like Nigeria, where debt servicing pressures already remain elevated.

Moody’s

Moody’s Ratings added to growing concerns around sovereign use of Total Return Swaps in a sector report published on 22 June 2026. Titled “*Sub-Saharan African sovereigns’ use of total return swaps eases liquidity, but raises risk*”, the report warns that while TRS arrangements may offer African sovereigns short term foreign currency liquidity, they also introduce significant credit risks that could worsen fiscal vulnerability. Moody’s noted that an increasing number of Sub-Saharan African sovereigns are turning to TRS and other collateralised financing structures as access to conventional external financing, particularly Eurobond markets, becomes more expensive or constrained. The agency identified three major risks associated with these structures: debt transparency risk, liquidity risk from margin calls, and restructuring or creditor priority risk.

Moody’s warned that TRS can obscure the true cost and scale of sovereign borrowing, especially where only the cash proceeds are recorded while the underlying collateralised obligations remain insufficiently reflected in public debt statistics. It further cautioned that margin call provisions can create severe procyclical liquidity pressures, forcing governments to post additional collateral precisely when they are already under market stress. Citing Angola as an example, Moody’s noted that the country reportedly faced a US$200 million margin call after bond prices weakened. The agency also highlighted that TRS counterparties may possess closeout rights that allow them to liquidate collateral outside broader restructuring processes, potentially placing them ahead of unsecured creditors and complicating future debt workouts. Moody’s specifically referenced Nigeria, Senegal, and Angola as examples of sovereigns engaging with such financing structures, reinforcing concerns that TRS instruments, while marketed as innovative liquidity tools, may deepen opacity and weaken sovereign debt accountability across Africa.

Nigeria Proceeds to Withdraw US$2 Billion from Abu Dhabi US$5 billion Swap Deal

Despite warnings from the IMF and rating agencies Fitch and Moody’s, by the 26th of June 2026, it was reported that Nigeria had withdrawn the first US$2 billion tranche from the approved US$5 billion facility arranged with First Abu

Dhabi Bank (FAB). This initial drawdown marked the first operational use of the swap facility following legislative approval by Nigeria's House of Representatives on 31 March 2026. While the drawdown provides immediate dollar liquidity at a time of tight global financing conditions, it also sharpens concerns about debt transparency and contingent liabilities. The collateralization requirement introduces additional vulnerability, as declines in the value of the pledged securities due to bond selloffs or currency depreciation could trigger margin calls, requiring Nigeria to post further collateral during periods of fiscal stress. This reinforces concerns raised by the International Monetary Fund and ratings agencies that TRS arrangements, though marketed as innovative liquidity tools, may conceal the full scale of sovereign obligations and amplify refinancing risks during periods of market volatility.

Critically, the timing of Nigeria's withdrawal is particularly important because the risks associated with this arrangement had already been extensively highlighted ***before the drawdown*****.** Civil society, including through AfSDJN's consistent updates on Total Return Swaps in Angola, Nigeria, and Senegal, had repeatedly warned that TRS structures pose serious threats to debt transparency, public accountability, and sovereign debt sustainability. These concerns were further reinforced by warnings from the International Monetary Fund, Fitch Ratings, and Moody's Ratings, all of which (as indicated above) cautioned that such opaque financing mechanisms can conceal contingent liabilities and complicate future debt restructuring. Essentially, there was room to pause, reflect and re-route. Nigeria's decision to proceed despite these warnings therefore raises important questions about the government's position with regards to prudent debt governance and fiscal transparency.

Parliamentary Oversight and Democratic Accountability

One of the most significant issues raised by Nigeria's proposed swap deal concerns parliamentary oversight. As highlighted in Sovereign Debt News Update No. 171 on Nigeria, the approval of this TRS intensified concerns about the adequacy of legislative oversight in Nigeria's debt accumulation process. An op-ed by Fiacre E. Kakpo warns that the increasing use of TRS by sovereigns should trigger stronger parliamentary oversight. The article argued that *"the time for parliamentary complacency is over*," stressing that legislatures must understand these structures because they may create debt obligations without the visibility associated with normal public borrowing. Ecofin Agency’s commentary argued forcefully that legislatures must no longer remain passive in the face of increasingly complex sovereign financing instruments This concern is especially important in African contexts where executive borrowing powers sometimes outpace legislative scrutiny. The article further warned that complex swap structures can conceal fiscal stress until repayment pressures suddenly materialize, by which point policy options may be limited.

This warning resonates strongly in African debt governance contexts. Many past debt crises were worsened by weak legislative oversight, executive secrecy, and limited public disclosure. Where borrowing decisions are concentrated within small executive circles, democratic accountability weakens and corruption risks rise. Complex financial engineering can intensify this problem because technical opacity itself becomes a barrier to meaningful scrutiny. Even where transactions are technically legal, they may still undermine public accountability if legislators cannot fully understand the obligations being assumed.

Parliamentary oversight matters because sovereign debt ultimately creates public obligations. Citizens bear the long-term costs through taxation, inflation, spending cuts, or reduced public investment. This makes debt contracting fundamentally political rather than purely technical. Decisions involving complex financing structures should therefore be subject to robust public scrutiny, independent review, and transparent disclosure. In Nigeria’s case, the absence of full public information raises legitimate questions about whether such oversight has been sufficient.

Conclusion

Important to note here is that innovation without transparency only deepens debt vulnerability. Nigeria’s proposed US$5 billion Total Return Swap arrangement with Abu Dhabi reflects a growing trend in sovereign financing toward increasingly sophisticated and less transparent instruments. While such structures may offer short term liquidity benefits, the warnings underscore the significant risks they pose for debt transparency, creditor recovery, and fiscal accountability. The core concern is not innovation itself, but whether innovation is being used to strengthen resilience or to obscure risk.

Nigeria's experience serves as an important warning for the continent. As African sovereigns face tightening financing conditions and growing development needs, pressure to adopt innovative debt instruments will likely increase, even when sober advice not to engage with such instruments grows louder. The deeper call to governments is to assess is whether these instruments advance economic sovereignty or merely repackage debt in more opaque forms; that should be sufficient to guide on whether to proceed. From a debt justice perspective, transparency must remain non-negotiable. Borrowing that cannot be clearly understood, publicly scrutinized, or democratically justified risks deepening vulnerability even when it temporarily expands fiscal space.

View online: Sovereign Debt News Update No. 179: Nigeria Ignores Total Return Swap Warnings from IMF, Fitch and Moody's; Proceeds to Draw $2B from $5B Swap with First Abu Dhabi Bank

Provided by Afronomicslaw