



Bank of Zambia

INVESTING IN GOVERNMENT SECURITIES

Frequently Asked Questions



The Government of Zambia, from time to time, borrows money from the public in order to finance its budget. It does this by entering into financial arrangements in which it borrows money and promises to pay it back with interest after a stipulated time. One of the arrangements that Government enters into is the issuance of Government securities.

1. What are Government securities?

Government securities are debt instruments issued by the Government of Zambia through the Bank of Zambia. By issuing these instruments, the Government is raising money from the purchasers of the instruments. Government is obliged to pay the holder of Government securities a fixed sum of money on the maturity date of the instrument. Thus, when you purchase Government securities, you are lending your money to the Zambian Government.

2. What Government securities are available?

There are two types of Government securities namely, Treasury bills and Government bonds:

Treasury bills: These are short-term debt instruments that the Zambian Government issues in order to borrow money for a period of up to one year. In Zambia, you can buy Treasury bills for periods (tenors) of 91 days, 182 days, 273 days and 364 days. Treasury bills are always bought at a price less than their face value (maturity amount). On maturity date, the Government pays the holder of the Treasury bill an amount of money equal to the face value. Therefore, the interest earned on the Treasury bill is the difference between the amount you paid at the beginning of the investment (cost amount) and the face value (maturity amount) that you receive on maturity date.

Government bonds: These are longer-term instruments that the Government issues to borrow money for a period of more than one year. Government bonds are currently issued for 2 years, 3 years, 5 years, 7 years, 10 years and 15 years. In Zambia, Government bonds are bought at par value. This means that the amount you pay at the beginning of the investment (cost amount) is equal to the face value (maturity amount) that you receive at maturity date. Furthermore, the Zambian Government pays a fixed rate of interest called the coupon every six months and the face value (maturity amount) at end of the period. This means that the investor receives coupon payments every six months and their investment amount at maturity date.

3. What does face value, cost value, discount, and maturity period mean?

Face Value: This is the amount that Government promises to pay you at the end of your investment. Each Government security has a face value of K100.

Cost Value: This is the amount of money you lend to the Government at the beginning of the investment. You may, for instance, propose K95 to receive the K100 face value for a contract period of 182 days. The amount you propose is called the Cost Value.

Discount: This is the difference between the Face Value and the Cost Value. Treasury bills are issued at a discount meaning that the face value is higher than the cost value. For instance, in the above case, the face value is K100 and the cost value is K95, which makes the discount K5. With respect to Government bonds, these are issued at par with no discount. The face value is equal to the cost value.

Maturity Period: This is how long you lend your money to the Government. In the example above, the maturity period is 182 days.

Coupon: This is a fixed cash flow that is paid every six months by the Government on the bonds it has issued. A Coupon only applies on Government bonds, and it is a payment over and above the face value. It is calculated on the bond's face value (or par value). For example, a coupon rate of 20% on a bond with a face value of K1,000 means an investor receives K200 worth of coupon payments per year—which will be paid out in instalments of half (K100) every six months until the face value is paid.

4. How can I participate in Government securities investments?

Anyone who wants to lend money to Government through Government securities is required to open a securities account—a Central Securities Depository (CSD) Account at Bank of Zambia. A CSD account will show all Government securities you own at any given point. To open a CSD account, please contact Bank of Zambia.

5. How do I make money out of investing in Government securities?

Treasury bills are always bought at a price less than their face value—which means they are bought at a discount. On maturity date, the Government pays the holder of the Treasury bill an amount of money equal to the face value. Therefore, the interest earned on the Treasury bill is the difference between

the amount you paid at the beginning of the investment (cost amount) and the face value. That difference is your profit.

Unlike Treasury bills, Government pays a series of fixed cash amounts to you on Government bonds. As explained in point 3, these amounts are called coupons and are paid every six months until a bond reaches its maturity date. In addition, the face value of the bond is paid at maturity date. This means that you would be receiving coupon payments every six months, and your investment amount will be paid back at maturity date.

6. What cash flows will I receive by investing in Government securities?

Treasury bills do not pay any coupons and the discount amount is what you receive over and above your investment. Unlike Treasury bills, Government bonds pay coupons every six months, and the number of coupon payments depends on the tenor of the bond. For a 2-year bond, that would be 4 coupons; a 3-year bond would pay 6 coupons, and so forth.

7. How are Government securities issued?

The Bank of Zambia sells Government securities through periodic auctions on a competitive and non-competitive basis.

Competitive basis means that you will compete with other investors to lend money to the Government by specifying an interest rate and the face value of securities you wish to purchase.

Non-competitive basis means that you do not specify any interest rate, but are willing to be allotted the securities at an interest rate based on the results of the competitive auction. In other words, you are a price taker.

8. Am I eligible to purchase Government securities?

There are no restrictions to eligibility. Business firms, institutions, foreign entities, and individuals are all eligible to purchase Government securities at the Bank of Zambia. However, there are two key requirements: (i) every investor must have a local commercial bank account denominated in Kwacha and (ii) every investor must register on the Central Securities Depository at Bank of Zambia. Clients can register online through the Bank of Zambia Investor Portal on this link: <https://investorportal.boz.zm/>

9. How can I purchase Government securities?

You can purchase Government securities by either submitting a bid yourself directly to the Bank of Zambia through the Bank of Zambia Investor Portal or through any of the local commercial banks. Before purchasing any security, you will need to register with the Bank of Zambia by opening a CSD Account.

10. How do I make payments for my successful Government securities bids?

Your commercial bank will make payments on your behalf to Bank of Zambia. The commercial bank will then debit your account.

11. How do I receive interest and maturity payments for Government securities?

All the proceeds from your investments in Government securities will be paid to you through the commercial bank you have registered on your CSD account details.

12. How do I calculate how much money I need to invest? What about my interest income?

Given that price information on Government securities is usually expressed in terms of interest rates, you need to convert your required interest rate to a number expressed in Kwacha terms.

For Treasury bills, you will use the following formula to obtain the Kwacha-price expression and multiply the result by the total face value amount of Treasury bills you wish to purchase:

$$P = \frac{1}{\left(1 + \left(\frac{n}{365} \times i\right)\right)} \times F$$

where n is the number of days you intend to lend money to Government

i is the interest rate (the yield rate quoted on annual basis and expressed in decimal)

F is the face value amount of Treasury bills you wish to acquire.

Example for Treasury bills

If you want to purchase 182-day Treasury bills with a face value of K100 and you propose an interest rate of 10.5%, the price you will pay is K95.02 (or K95.02 per K100)

$$P = \frac{1}{\left(1 + \left(\frac{182}{365} \times 0.105\right)\right)} \times 100$$

Your interest income in this example is K4.98 which is simply the difference between the face value of K100 and the price of K95.02.

Example for Government bonds

Government bonds, effective January 2024, are issued at par. This means that the face value of the bond is the price. The amount of money you invest will be your face value (maturity value).

Your interest income (each periodic coupon payment) will be calculated as follows:

Your interest income (each periodic coupon payment) will be calculated as follows:

$$\text{Coupon Amount} = \text{Face Value} \times \text{Coupon rate} \times \frac{\text{Coupon period days}}{365}$$

For instance, for a face value of K100 Government bond with a coupon rate of 20%, the coupon amount would be:

$$\begin{aligned} \text{Coupon Amount} &= 100 \times 20\% \times \frac{182}{365} \\ &= \text{K}9.97 \end{aligned}$$

13. Are there any minimum or maximum amounts of securities I can purchase?

Yes. For competitive purchases, the minimum face value amount is currently K500,000 for both Treasury bills and Government bonds. The maximum amount is subject to the size of the invitation. For non-competitive purchases, the minimum face value is K1,000 and the maximum face value is K499,999.

14. How often are Government securities auctions held?

Treasury bill auctions are currently conducted every two weeks while Government bond auctions are conducted once every month.

15. How do I know when the next auction will be held?

Government securities auctions are advertised in the newspapers in the week of the auction. The advertisements, as well as quarterly auction calendars, can also be accessed online on the Bank of Zambia website (www.boz.zm).

16. How are Government securities interest rates determined?

Under competitive bidding, the Bank of Zambia ranks all bidders from one with lowest interest rate to one with highest. Allotment of securities is first to the investor with the lowest interest rate followed by one with the next lowest interest rate, in that order, until the amount of securities on offer is fully allotted. The interest rate of the bidder at which the full allotment is done determines the interest rate applicable to all successful investors of the Government security.

Under non-competitive bidding, the investor is a price taker and accepts the interest rate so determined in competitive bidding.

17. How do I know the latest results of an auction?

Summary results of the latest Government securities auction are published on the Bank of Zambia website on the day of the auction and in the newspapers every Monday following the auction.

18. Are there any charges to my interest income on Treasury bills?

Yes. Your interest income is subject to withholding tax of 15%. This tax is applied to Treasury bills. Your interest income will also be subject to 1% handling fee at maturity for Treasury bills.

19. Are there any charges to my interest income on Government bonds?

Your coupon interest income is currently subject to 15% withholding tax and a 1% handling fee. This means the income you will receive on each payment date will be net of these charges.

20. Can I cash in my Treasury bills before they mature?

Yes. The minimum face value amount that can be rediscounted at Bank of Zambia is K50,000.00. Alternatively, you can always sell any amounts of Treasury bills to any willing buyer in the Government securities market. Should you need cash before maturity date for your Treasury bills, you may approach your bank for advice.

21. Can I cash in my Government bonds before they mature?

You cannot cash in Government bonds at the Bank of Zambia before maturity dates. However, you can sell any amounts of Government bonds to any willing buyer in the Government securities secondary market. Should you need cash before maturity date for your Government bonds, you may approach your bank for advice.

22. What are the benefits of investing in Government securities?

Government Securities offer a combination of advantages outlined below:

- **Default free** – Government securities are a safe and secure investment because the full faith and credit of the Zambian Government guarantees that interest and principal payments will be paid when they are due. Therefore, there is a high degree of safety.
- **Paperless** – Government securities have been dematerialised. All records are, therefore, stored and processed electronically. This means that no physical certificate is issued for any Government security purchased. This feature makes Government securities safe and allows transactions in varying denominations.
- **Collateral** – Government securities can be pledged as collateral for a loan obtained from a commercial bank or other financial institution.
- **Locked-in-interest rates** – Since most Government securities cannot be called or redeemed before their final stated maturity date, an investor can lock in an interest rate for the full term of the security.
- **Liquidity** – Government securities can easily be sold to other individuals, institutions or commercial banks.



Government Securities Unit
Financial Markets Department
P. O. Box 30080
LUSAKA
Tel: +260 211 399 399/300
Email: Government.securities@boz.zm

Government Securities Unit
Financial Markets Department
P. O. Box 71511
NDOLA
Tel: +260 212 399 600
Email: Government.securities@boz.zm