



Bank of Zambia

INVESTING IN GOVERNMENT SECURITIES



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INTRODUCTION

Government securities can help achieve a variety of financial objectives for both individuals and corporates. They serve as an alternative investment instrument to investors with varying investment horizons. This is a collection of frequently asked questions regarding investing in Government securities.

1. WHAT ARE GOVERNMENT SECURITIES?

Government securities are debt instruments issued by the Government of the Republic of Zambia through the Bank of Zambia. These debt instruments are in the form of Treasury bills and Government bonds. By issuing these instruments, the Government is borrowing money from the buyers of the debt instruments. The Zambian Government is obliged to pay the holder of the Treasury bill or Government bond a fixed sum of money on the maturity date of the instrument. Thus, when you buy Government securities, you are lending your money to the Zambian Government.

2. WHY DOES THE ZAMBIAN GOVERNMENT ISSUE GOVERNMENT SECURITIES?

The Zambian Government issues Government securities to raise the money needed to pay off maturing debt and finance its operating and development expenditures that cannot be fully met from tax collections.

3. WHAT IS THE DIFFERENCE BETWEEN A TREASURY BILL AND A GOVERNMENT BOND?

Treasury bills are short-term instruments that the Zambian Government issues to borrow money for a period of one year or less. Government bonds are relatively longer-term instruments that the Government issues to borrow money for a period of more than one year.

The other difference is the manner in which Treasury bills are bought and interest paid. Treasury bills are always bought at a price less than their face (par) value. 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 price you pay to buy the security and the face (par) value you receive on the maturity date. Unlike Treasury bills, Government bonds can be bought at prices that are either less, equal or more than their face value. The Zambian Government pays a fixed rate of interest called the coupon every six months and the face (par) value on maturity date.

INVESTING IN GOVERNMENT SECURITIES

4. WHY SHOULD A POTENTIAL INVESTOR PURCHASE A GOVERNMENT SECURITY?

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 made when they fall due. Government securities are a liquid investment, which means that they can easily be sold for cash and/or used as collateral for loans.

5. AM I ELIGIBLE TO PURCHASE GOVERNMENT SECURITIES?

There are no restrictions for eligibility. Business firms, institutions, foreign entities and individuals are all eligible to purchase Government securities at the Bank of Zambia. The only condition is that every entity must have a local commercial bank account.

6. HOW ARE GOVERNMENT SECURITIES ISSUED?

The Bank of Zambia issues Government securities on behalf of the Zambian Government. Government securities are sold at auctions and on a non-competitive basis.

Competitive basis (auctions): investors compete to lend money to the Government by specifying the interest rate and the face value of securities they wish to purchase. The Bank of Zambia then ranks all bidders and allots securities 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 exhausted.

Non-competitive basis: Investors do not specify the interest rate. Instead investors are willing to be allotted securities at the interest rate determined in the auction. The return on the investment is determined as the cut-off price/rate prevailing at the auction. Therefore, an investor does not have to specify the return he/she would like to receive. Here, the investor is a price taker.

7. HOW ARE GOVERNMENT SECURITIES PRICED?

Government securities are currently issued using a single-price in the auction. If you participate as a competitive bidder in the auction, you may not pay the price you have indicated in your application, but the cut-off price. All successful bidders are awarded at the cut-off price. The price is quoted per K100 face value. If you choose to submit a non-competitive bid instead, you pay the cut-off price determined in the auction.

8. HOW CAN I PURCHASE GOVERNMENT SECURITIES?

You can purchase Government securities at the Bank of Zambia by either submitting a bid

INVESTING IN GOVERNMENT SECURITIES

yourself or through any commercial bank that will submit the bid to the Bank of Zambia on your behalf. You will be required to indicate your bid on an appropriate application form that can be obtained from the Bank of Zambia offices or can be downloaded from the Bank of Zambia website (www.boz.zm). Before purchasing Government securities, you need to register with the Bank of Zambia by providing personal details on a Central Securities Depository (CSD) Application Form. The CSD is the Bank of Zambia Government Securities Registration and Settlement System.

9. HOW CAN I SUBMIT MY APPLICATION?

Applications for Government securities can be submitted through any one of the following ways:

- The Bank of Zambia, provided investors obtain a Letter of Guarantee, which is a statement from your respective commercial bank, that it will make settlement on your behalf once your bid is successful. Individual investors wishing to bid through Bank of Zambia should submit their bids at least a day prior to the auction to the Financial Markets Department;
- Through respective commercial banks; or
- Directly via the Virtual Private Network (VPN) connectivity to the CSD. VPN is a communications mechanism managed by the Bank of Zambia which allows secure communication between users. The VPN access can be extended at a cost to any investor who wishes to submit bids directly.

10. ONCE PURCHASED, WHERE ARE GOVERNMENT SECURITIES KEPT?

All Government securities are issued in script-less form, meaning that you will not receive a physical certificate of holding. Your Government securities are safely held in electronic record form in the Central Securities Depository (CSD) at the Bank of Zambia. The securities can be held in one of two ways, either directly under an account created for you at the Bank of Zambia or under the custody of your bank, which in turn maintains a separate account for its customers in the Bank of Zambia CSD.

11. HOW LONG CAN I LEND MY MONEY TO GOVERNMENT THROUGH GOVERNMENT SECURITIES?

The Zambian Government borrows money through Treasury bills for four maturity periods, namely 91 days, 182 days, 273 days and 364 days. The Government also borrows money through Government bonds for six maturity categories, namely 2 years, 3 years, 5 years, 7 years, 10 years and 15 years.

INVESTING IN GOVERNMENT SECURITIES

12. IS THERE ANY MINIMUM OR MAXIMUM AMOUNT OF SECURITIES I CAN PURCHASE?

For competitive purchases, the minimum face value amount is currently K30,000 for both Treasury bills and Government bonds. The maximum amount is subject to the amount on offer. Should you wish to purchase more than K30,000, you will need to acquire extra amounts in multiples of K5,000. For non-competitive purchases, the minimum face value is K1,000, but not more than K29,000. Should you wish to purchase more than K1,000, you will need to acquire extra amounts in multiples of K1,000.

13. HOW OFTEN ARE AUCTIONS FOR GOVERNMENT SECURITIES HELD AND HOW CAN I FIND OUT WHEN ONE IS HELD? WHAT ABOUT THE RESULTS?

Treasury bill auctions are conducted fortnightly on Thursdays while Government bond auctions are currently conducted once every month. Auctions of Government securities are advertised in the newspapers every Wednesday and online on the Bank of Zambia website (www.boz.zm). The results of your bid will be communicated to you on the auction days on Thursdays for Treasury bills and Fridays for Government bonds. Summary notices and results of the entire Government securities auction are published on the Bank of Zambia website and in the newspapers every Monday following the auction.

14. HOW DO I MAKE OR RECEIVE PAYMENTS FOR MY GOVERNMENT SECURITIES TRANSACTIONS AND RECEIVE INTEREST PAYMENTS?

All payments are made through banks. Should you decide to participate at the auction, you will need to obtain a Letter of Guarantee from your bank, which should be submitted together with your bid application form to purchase Government securities. Interest income on Treasury bills is only paid at maturity together with the money you invested (principal). Interest income for Government bonds is paid every six months and the money you invested (principal) is only paid at maturity.

15. ARE THERE ANY OTHER CHARGES TO MY INTEREST INCOME ON TREASURY BILLS?

Your interest income is subject to 15% withholding tax and a 1% handling fee, both of which are collected when Treasury bills mature.

INVESTING IN GOVERNMENT SECURITIES

16. ARE THERE ANY OTHER CHARGES TO MY INTEREST INCOME ON GOVERNMENT BONDS?

For Government bonds, only your coupon interest income is subject to the 15% withholding tax and a 1% handling fee, both of which are collected on the payment date.

17. CAN I CASH IN MY TREASURY BILLS BEFORE THEY MATURE?

You can sell any amount of Treasury bills to any willing buyer in the Government securities secondary market should you need cash before the maturity date. Alternatively, you can cash in Treasury bills at the Bank of Zambia.

18. CAN I CASH IN MY GOVERNMENT BONDS BEFORE THEY MATURE?

You can sell any amount of Government bonds to any willing buyer in the Government securities secondary market should you need cash before maturity date. However, you cannot cash in Government bonds at the Bank of Zambia before the maturity date.

19. BENEFITS OF INVESTING IN GOVERNMENT SECURITIES

Government Securities offer a combination of benefits:

- Government securities have been dematerialised. This means that all records are stored and processed electronically in the Central Securities Depository (CSD). 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.
- Government securities can be pledged as collateral for a loan obtained from a commercial bank or any other financial institution.
- The timely payment of interest and principal at maturity on Government securities is guaranteed by the full faith and credit of the Zambian Government.
- 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.
- Government securities are liquid and transferable.

For more information related to the latest yield rates in the primary market, visit the Bank of Zambia website on www.boz.zm. You are also free to reach us as follows:

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