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7th September, 2021



Capital Markets IdeaCast

Capital Markets Association
Of Zambia CMAZ

BOZ adjusts auction bid thresholds

Why does it matter?

The Bank of Zambia announced on 7th September 2021 that it had made changes to the Government Securities Auction Thresholds for both Treasury Bills and Government Bonds.

- The maximum bid amount for the Non- Competitive window has been bumped up from K29,000.00 to K499,000.00 (Face Value) per bidder per tenor. The minimum bid amount is unchanged at K1,000.00.
- The minimum bid amount for the Competitive amounts has been increased from K30,000.00 to K500,000 (Face value)



What is the Non-Competitive Bid window?

- The non-competitive bid window was designed by the Bank of Zambia to allow small retail and less sophisticated investors participate successfully in the auction of government securities.
- If you are not sure what yield to use for your bid to have a good chance of succeeding, what the trends have been, what market cycle you are in or what political pronouncements affect bond trends, this is the tier for you.
- This tier separates bids for small retail investors from very sophisticated analysts' bids who represent big investors, the guys who have been around for a very long time.
- If you are in the non-competitive bid window it means that you are a **price taker**. The **cut-off price** in the competitive bid will be applied to the non-competitive bids. This is because the Bank of Zambia uses a **single price auction system** to price government bonds and Treasury Bills.
- The non-competitive bid window allows for wider participation in the auction. Both small retail investors and sophisticated investors have an equal chance of succeeding, it enhances financial inclusion and creates appetite for government securities.



Why now?

- Until recently there has been very little participation in government securities auction by small retail investors. This has been largely occupied by financial institutions and non-resident investors. The past couple of months has seen high demand even from local retail investors.
- For example, if you look at July and August Government securities subscription rates with the Treasury bills and bond auctions registering an average of 86.1 percent and **116.3 percent** and 99.4 percent and **428.6 percent** subscription rates, respectively.
- Notably, last auction saw a drop in yields. The 2yr tenor dropped from a yield of **29.99%** in July auction to **23.0%** in August while the 5yr tenor dropped from a yield of **32.99%** in July to a yield of **25.00%** in August. It is hard for small retail investors to anticipate such movements resulting in high bid rejections for this bracket.



Allotment

- If bids at the cut-off price exhausting the amount on offer exceed the value on offer, the Bank of Zambia will proportionally allocate amounts of Treasury bills and bonds at the cut-off price to exhaust the amount on offer. **BOZ will pro-rate bids at the cut-off yield rate.**



Competitive Bids

- The minimum bid amount for competitive bid window is K500,000.00 (Face value).

How can I participate in the auction?

Treasury Bills and Government Bonds

Eligibility - Individuals, organizations and corporate institutions are eligible to participate in the primary auctions of Government Bonds. These investors may be resident in Zambia or outside the country.

a) **Through your commercial bank** - this is the most commonly used method.

b) **Through the Bank of Zambia** as long as you obtain a Letter of Guarantee from your respective commercial banks.

Bond term to Maturity

2 years, 3 years, 5 years, 7 years, 10 years and 15 years.

Tbills term to Maturity

91 days, 182 days, 273 days and 364 days.

Fees on Government Securities

Handling fee - 1%

Withholding Tax - 15%

Secondary market fees-(not applicable to auction trades)

Securities and Exchange Commission Levy - 0.125% buy/sell side on cash amount

LuSE charges- tiered, max K1,800.00 above K1m.

Sources

- BOZ website
- External Operating Rules for Government Securities
- Securities and Exchange Commission website.