

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 brochure is a collection of frequently asked questions regarding investing in Government securities.

For more information, visit the Reserve Bank of Malawi website or contact us:
www.rbm.mw

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Reserve Bank of Malawi

Investing in Government Securities



**TREASURY BILLS
AND
TREASURY NOTES**

Information Brochure



1. What are Government Securities?

Government securities are debt instruments issued by the Government of the Republic of Malawi through the Reserve Bank of Malawi. These debt instruments are in the form of Treasury bills and Treasury notes. By issuing these instruments, the Government is borrowing money from the buyers of the debt instruments. The Malawi Government is obliged to pay the holder of the Treasury bill or Treasury notes 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 Malawi Government.

2. Why does the Government of Malawi issue Government Securities?

The Malawi 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, foreign borrowing, and grants.

3. What is the difference between a Treasury Bill and Treasury Note?

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

The other difference is in the manner in which Treasury bills and Treasury notes are bought and pay interest. Treasury bills are always bought at a price less than their face (par or maturity) 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, Treasury notes can be bought at prices that are either less, equal or more than their face value. The Malawi Government pays a fixed rate of interest called the *coupon* periodically, usually every six months, and the face (par) value on maturity date.

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 Malawi 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. Who is 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 Reserve Bank of Malawi. The only condition is that every entity must have a local bank account.

6. How are government securities issued?

The Reserve Bank of Malawi issues Government securities on behalf of the Malawi 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 Reserve Bank of Malawi 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, this method of bidding allots a single-price for everyone and all investors are price takers.



7. How are government securities priced?

Government securities are currently issued using a multiple-price in the auction. If you participate as a competitive bidder in the auction and your bids are accepted, you earn the interest rate you indicated; thus, there is no single price applicable to everyone. The price is quoted per K100 face value. If you choose to submit a non-competitive bid instead, you pay the weighted average price obtained in the auction.

8. How can I purchase government securities?

You can purchase Government securities at the Reserve Bank of Malawi by submitting a bid through any commercial bank that will submit the bid to the Reserve Bank of Malawi on your behalf. You will be required to indicate your bid on an appropriate application form that can be obtained from the Reserve Bank of Malawi, commercial banks or can be downloaded from the Reserve Bank of Malawi website (www.rbm.mw).

Before you submit your bid to invest in Government securities, you can check tentative return on your planned investment by using the Treasury Bills Calculator available on the Reserve Bank of Malawi website (www.rbm.mw).

If it is your first time to invest in Government securities, you need to register with the Reserve Bank of Malawi by providing personal details on a Central Securities Depository (CSD) Application Form through any commercial bank. The CSD is the Reserve Bank of Malawi Government Securities Registration, custody and Settlement System.

9. How can I submit my application?

You can apply to invest in Government securities by submitting bid forms through any commercial bank.

10. 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 Reserve Bank of Malawi. The securities can be held in one of two ways, either directly under an account created for you at the Reserve Bank of Malawi or under the custody of your bank, which in turn maintains a separate account for its customers in the Reserve Bank of Malawi CSD.

11. How long can I lend my money to Government through government securities?

The Malawi Government borrows money through Treasury bills for three maturity periods, namely 91 days, 182 days, and 364 days. The Government also borrows money through Treasury notes for five maturity categories, namely 2 years, 3 years, 5 years, 7 years, and 10 years.

12. Is there a minimum or maximum amount of securities I can purchase?

For competitive purchases, the minimum face value amount is currently K10,000.00 for Treasury Bills and in multiples K1,000.00 thereafter. For Treasury notes, the minimum is K1,000,000.00 and in multiples of K100,000.00 thereafter. Both the Treasury bills Treasury notes do not have maximum limit on the amount you may bid.

As for non-competitive purchases for Treasury Bills the minimum amount still applies, however the maximum amount has a limit of K10,000,000.00 per tenor. While competitive purchases allow multiple bids per tenor, non-competitive purchases only allow one bid per tenor. Non-competitive bidding is not allowed on Treasury notes.



13. How often are auctions of government securities held and how can I find out when one is held? What about the results?

Treasury bill auctions are conducted every week on Tuesdays while Treasury note auctions are currently conducted every two weeks, also on Tuesdays. Auctions of Government securities are advertised on the Reserve Bank of Malawi website (www.rbm.mw). A calendar showing which Treasury notes will be issued, when and how much, is published on the Reserve Bank of Malawi website every three months.

The results of auctions are automatically communicated from CSD to you on the auction days (on Tuesdays) but you make payment(s) to Government the following Thursdays through your bank. Summary notices and results of the entire Government securities auction are published on the Reserve Bank of Malawi website.

14. How do I receive payments including interest for my government securities transactions?

All payments to you are made through your account at commercial bank. Interest for Treasury bills is only paid at maturity together with the money you invested at purchase.

For Treasury notes, interest which is called a *coupon* payment is normally paid every six months from the date you paid the money to government. Upon maturity, you receive the last coupon payment and the money that was initially invested.

15. Are there any other charges for investing in government securities?

Interest income is subject to 20% withholding tax with no handling fee from RBM. Commercial banks charge processing fee during the bidding process. Charges vary per bank, so you are encouraged to consult your bank for details.



16. Can I cash in my government securities before they mature?

Yes, you can sell any amount of your government securities to anyone willing to purchase them should you need cash before the maturity date. You can sell to commercial banks, discount houses, individuals, basically anyone.

17. What are the benefits of investing in government securities?

- ✓ The timely payment of interest and principal at maturity on Government securities is guaranteed by the full faith and credit of the Malawi Government. This makes government securities a very safe investment.
- ✓ Government securities can be pledged as collateral for a loan obtained from a commercial bank or any other financial institution.
- ✓ Government securities are transferable and can easily be sold and bought at competitive prices.
- ✓ 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.

- ✓ 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.
- ✓ Money loses value over time because of inflation and Government securities normally pay interest that is higher than the inflation rate. Hence, Government securities protects the real value of investors' money.

*Save, Invest
And
Build Wealth*

Notes

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