BUSINESS

STOCKS BoT's reduction of the statutory minimum reserve requirement provided banks with additional liquidity

# Bonds oversubscribed by 247pc

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**Dar es Salaam**. The sale of a two-year treasury bond exceeded its target this week after investors oversubscribed it by 247.5 percent in the wake of reported improved money availability.

The Bank of Tanzania (BoT) had offered Sh122.5 billion during the primary trading of the bond on Wednesday, but it received 149 bids worth Sh425.722 billion, according to the auction summary on the central bank website.

However, the central bank which uses the long-term debt instruments to raise money for government budget, successfully accepted 50 bids worth Sh165.755 billion which is higher than the offered amount.

Analysts said the significant investor demand reflects high liquidity in the financial markets.

"This was driven by high liquidity from the investors who are mostly commercial banks and pension funds," said the director of Arch Financial and Investment Advisory Limited, Mr Mazengo Kasilati.

Mr Kasilati, who also doubles as managing partner at TEG consultancy firm, said when the central bank reduced the statutory minimum reserve (SMR) requirement from seven percent to six percent in June this year, it provided banks with additional liquidity.

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> KASILATI | ANALYST

"With the additional funds, banks have been channeling it into financial assets that are stable and profitable like the fixed long term government securities," he said.

The central bank also adopted measures such reduction of discount rate from seven to five percent and loan rescheduling to shield the economy from the adverse impact of Covid-19 pandemic.

Zan securities chief executive officer Mr Raphael Masumbuko said the increased liquidity in the financial market is also an opportunity for people with big project ideas to tap the opportunity and source funds from the investors.

"The oversubscription shows that people have money and they are ready to invest at any profitable project," he said.

The weekly auction showed that the rate of returns assuming the investors will hold the assets until its two-year maturity fell to seven percent from 7.8 percent recorded during the previous auction on March 18, 2020.

Mr Masumbuko said: "The decreasing yields show that the costs of bonds are increasingly pushed up by the strong appetite."

Like any other financial assets, bonds are affected by the market forces of demand and supply. Bond prices rise when demand outweighs supply and fall when there is insufficient demand.

On Wednesday the highest bid was at 103.42 per 100 while the lowest was at 97 percent.

The minimum accepted price by the central bank was at 99.99 percent higher than 98.2 percent of the last auction.