EXPLANATORY REMARKS TO THE FINANCIAL STATEMENTS

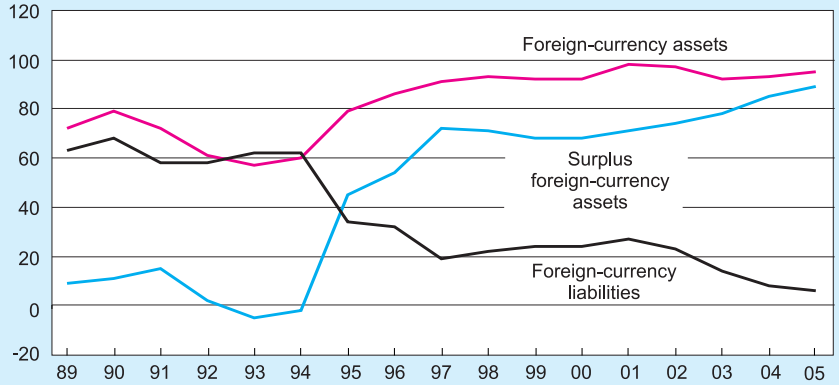
The Bank of Israel's balance sheet totaled NIS 139 billion at the end of 2005, compared to NIS 129 billion at the end of 2004, an increase of approximately NIS 10 billion (7 percent). On the assets side, this increase was credited to an increase of some NIS 13.5 billion in foreign currency reserves in shekel terms, which was partly offset by fall in most other items. The increase on the liabilities side came from several items: banknotes and coins in circulation rose by NIS 4 billion, deposits of banking corporations (demand and other deposits) grew by NIS 3.2 billion. The total balance of the main instruments of monetary policy—*makam* (short-term bills issued by the Bank of Israel for purposes of monetary management) and *pazak* (resident time deposits)—was almost unchanged, although the switch from the latter, which declined by about NIS 12 billion, to the former, which rose by a similar amount, continued. A one-time adjustment for inflation, as required in Accounting Standard 12, increased the balances of the non-monetary items on the balance sheet, principally the share capital and general reserve, and also the loss balance, as detailed below.

In the Profit and Loss Account, the Bank moved from a loss of about NIS 0.8 billion in 2004 to a profit of NIS 1.4 billion in 2005. This improvement was accounted for primarily by the rise of almost NIS 1 billion in income from realized exchange-rate differentials, a rise of NIS 0.8 billion in interest income from foreign exchange reserves and a drop of NIS 0.8 billion in expenses on operating monetary instruments. Conversely, net income from government deposits fell by NIS 0.4 billion.

Figure 1

Foreign-Currency Assets, Liabilities, and Surplus Foreign-Currency Assets of the Bank of Israel, 1989-2005

(Percent of balance sheet, end-of-year, at current prices)



1. MAJOR FACTORS THAT INFLUENCED THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

As in previous years, in 2005 the most notable aspect of the Bank of Israel's financial statements arose from the fact that the great majority (95 percent) of the Bank's assets are either denominated in or indexed to foreign currency, whereas most of its liabilities are in local currency. The NIS/$ exchange rate rose during the year by 6.8 percent, from NIS 4.31 to the dollar at the end of 2004 to NIS 4.6 to the dollar at the end of 2005. The shekel value of the foreign exchange reserves therefore grew by 11.8 percent, while in dollar terms this increased by only 4.6 percent. The short-term interest-rate differential between the shekel and the dollar contracted considerably during the year and on average stood at only 0.5 percentage points (compared to 2.8 percent during 2004). The US interest rate continued its upward trend which began in mid-2004, while interest rates in Israel fell at the beginning of the year to 3.5 percent, and stayed at that low level until September. (In September, there was a reversed interest rate differential: the short-term interest rate in Israel was lower by 0.25 percentage points than that in the US). The increase in the dollar interest rate contributed to a rise in interest income from foreign exchange reserves of NIS 815 million, while the fall in

Table 1
Exchange-Rate Differentials on Foreign-Currency Balances, 2004–2005
(NIS million, at current prices)

	2004	2005
Assets		
Foreign-exchange reserves	124	4,434
Credit to the government—binational funds	-2	10
International financial institutions	64	-24
Liabilities		
Government deposits	69	-798
Banks' foreign-currency deposits	37	-106
International financial institutions	-19	7
Deposits of the binational fund	3	-11
Other liabilities—NIS/$ swaps	-99	288
Total	**176**	**3,800**
Realized exchange-rate differentials	947	1,938
Unrealized exchange-rate differentials	-771	1,862

the shekel interest rate reduced the expenses on the aggregate of the major monetary instruments[1] by NIS 668 million. The non-renewal of NIS/$ swap auctions during the months of July and August increased the balance by around $ 1.2 billion and cut interest expenses on this item by NIS 127 million. The cumulative capital deficit, which was created mainly in the years 1999 and 2000 as a result of the imbalance between the currency compositions of the Bank's assets and its liabilities, contracted this year and at the end of 2005 it stood at NIS 15.6 billion, compared to NIS 17.1 billion at the end of 2004.

2. MAIN DEVELOPMENTS

In 2005 the shekel depreciated by a moderate 1.6 percent against the currency basket, the result of conflicting influences of the various currencies in the basket. The dollar, which comprises 67 percent of the basket, appreciated by a relatively high rate of 6.8 percent against the shekel, while the other currencies in the basket weakened. The depreciation against the dollar resulted mostly from the dollar's strengthening worldwide (during 2005 the dollar appreciated against the euro by 15.3 percent), but also from the rise in the dollar interest rate, which reduced the short-term interest rate differential between Israel and the US, and the increasing political and security uncertainty in the second half of the year. The depreciation occurred mostly during the months June, July and November, following the political uncertainty accompanying the disengagement from the Gaza Strip and the northern West Bank, and the approaching elections, while in the first half of the year the shekel remained stable.

Relative economic stability was also reflected by the stabilization of inflation expectations at a low level, which enabled the Bank of Israel to maintain a low rate of monetary interest rate, despite the rising dollar interest rate, thus supporting economic activity. The short-term interest-rate differential vis-à-vis the US reflects the risk premium of the Israeli economy as derived from the markets, which contracted greatly from 7.85 percent at the end of 2002 to a negative differential of 0.25 percent in September 2005. The ability to maintain currency stability and low inflation despite the Bank of Israel's expansionary monetary policy and despite political events that accompanied the disengagement process, highlights the markets' broad confidence in the government's fiscal policy—a policy characterized by a deficit significantly lower than the permitted ceiling—and in the Bank of Israel's monetary policy. Following a rise in inflation expectations in the second half of the year, the Bank of Israel began,

[1] *Makam* and time deposits *minus* the monetary loans. The Bank of Israel also uses other monetary instruments—options and NIS/$ swaps—but these account for a very small quantity compared to the major instruments. In recent years, balance of monetary loans was also a very small quantity, but in the long-term view, this was an important component of the monetary instruments. Ending the swaps in 2005 reduced the total balance of monetary instruments, and therefore we have referred to this item separately.

in the months October through December, to raise the interest rate moderately (by a total 1 percentage point) and in December, interest stood at 4.5 percent, 0.5 percentage points above the US short-term interest rate. (In February and March 2006, the interest rate was raised to 5.0 percent). On average the short-term interest rate fell this year by half a percentage point (to 3.7 percent from 4.2 percent in 2004). This led to lower expenses on the aggregate of the major monetary instruments by 15 percent, while the size of the actual aggregate remained almost unchanged.

a. The foreign exchange reserves

The foreign exchange reserves grew this year by $ 1.2 billion, a rise of 4.6 percent, compared to a rise of $ 0.8 billion in the previous year. The growth in the reserves was due almost entirely to not renewing NIS/$ swap auctions which were redeemed in July and August. In the past 8 years, the balance of the swaps has stood permanently at $ 1.4 billion. Each week, an auction for $ 350 million in one-month swaps was conducted, recycling the repayments received on previous swaps redeemed. As a result of not renewing the auctions, the commercial banks returned dollars to the Bank of Israel in exchange for shekel; part of this total came from overseas, and the rest they transferred from their foreign currency accounts held at the Bank of Israel. The government withdrew some $ 0.2 billion from the reserves, following the government's net negative capital raising in foreign currency. The Bank of Israel made only a small contribution to the reserves, as the weakening of the non-dollar part of the reserves against the dollar created capital losses in dollar terms, and these offset most of the interest income of the reserves.

b. Income from exchange-rate differentials

In 2005 exchange rate differentials totaled NIS 3.8 billion, as a result of the average rise in the shekel exchange rates of the currencies in which the foreign reserves are invested. According to past practice, this total sum would be regarded as income and recorded as such in the Bank's Profit and Loss Account. As the reserves were not sold, then clearly these exchange-rate differentials are not real income and could disappear if the currency exchange rates were to fall. This did in fact occur in February 1999, when the profits for 1998, stemming principally from exchange-rate differentials, no longer existed by the time of their transfer to the government, as a result of the rise in the shekel vis-à-vis the foreign currencies. According to current practice, exchange-rate differentials are defined as income only when the reserves held in a particular currency actually fall; When the reserves do not change or even increase, then the arising exchange-rate differentials are not defined as income and are registered in the Bank's balance sheet as "revaluation accounts." Half of the exchange-rate differentials

created in 2005—NIS 1.9 billion—was registered as income, and the other half increased the Bank's revaluation accounts.

c. The monetary instruments

The Bank of Israel employs various monetary instruments to implement its monetary policy, and this is reflected in the Bank's balance sheet and Profit and Loss Account. Up to 1995, the aggregate of the major monetary instruments comprised principally of monetary loans, as is common in other central banks around the world, but since the second half of the 1990s, the share of the monetary loans has fallen and the Bank has become a net borrower from the banking system, principally through *makam* and time deposits. This is because the Bank of Israel had to absorb the import of capital that is converted into shekel. In the past the Bank would use mainly time deposits to absorb money from the public. Following an agreement between the Bank and the Ministry of Finance in 2001, the ceiling on *makam* was removed, and the Bank started gradually to make greater use of *makam* instead of time deposits, to expand the short-term money market and to make more efficient use of the monetary instruments. In 2005, the process of making *makam* the Bank's major monetary instrument was completed. The balance of time deposits contracted greatly, and during the year there were even days when it actually reduced to zero. At the end of the year, the share of *makam* in the aggregate of the major monetary instruments reached 96 percent, while the share of time deposits fell to only 4 percent compared to 57 percent for time deposits and 43 percent for *makam* at the end of 2001). The average balance of the aggregate was almost unchanged on 2004 and in fixed prices, it actually fell by 1 percent. The overall balance of monetary instruments fell even further, by an average of 4 percent, following the non-renewal of swaps. The fall in the average balance of monetary instruments together with the fall in shekel interest rates caused a sharp drop in expenses on operating monetary instruments: expenses in fixed prices fell 17 percent, following a 34 percent fall in 2004 (NIS 3.8 billion in 2005 compared to NIS 4.6 billion last year and NIS 6.9 billion in 2003).

d. Government operations

In 2005 total government deposits for financing the budget grew by 15 percent, from NIS 5.8 billion in 2004 to NIS 6.6 billion this year. The composition of government deposits changed greatly; the debit balance in the government's local-currency deposits, which stood at NIS -7.4 billion in 2004, decreased and at the end of 2005 stood at only NIS -48 million, while a credit balance in its foreign-currency deposits fell from NIS 13.2 billion in 2004 to NIS 6.7 billion at the end of 2005. The average balance of all government deposits fell in 2005 by 4 percent from NIS 11.7 billion in 2004 to

NIS 11.3 billion. As a result of the change in composition, together with the average increase in dollar interest rate of 1.8 percent and an average drop in shekel interest of 0.5 percent compared to 2004, the Bank of Israel incurred net interest expenses of NIS 0.3 billion on government deposits, compared to a net interest income of NIS 0.1 billion in 2004. During the year, the government's foreign-currency deposits not for financing the budget grew gradually, from only $ 60 million on average in recent years to more than $ 1 billion in 2005. During December the government converted the accumulated amount into shekel, and transferred it to its deposit for financing the budget.

Credit to the government comes mostly from advances received from the Bank of Israel until 1988. Credit balance to the government stood at the end of 2005 at NIS 3.3 billion (in 2004, it was NIS 3.9 billion). This credit is mostly indexed to the first currency basket and bears interest rate of 8 percent linked to the same basket. The indexation and interest are paid at the end of each year, and the principal is paid off in yearly installments, the last of which is in 2012. Since the exchange rate of the first currency basket against the shekel was 2.7 percent lower at the end of 2005 than at the end of 2004 (after having risen by 3.8 percent in the preceding year), no indexation differentials were taken for long-term advances this year. As a result of the fall in balance of advances and the weakness of the basket against the shekel, the Bank of Israel's income from credit to the government fell by 36 percent, from NIS 0.57 billion in 2004 to NIS 0.37 billion in 2005.

e. The monetary base

The monetary base—banknotes and coins in circulation and the banks' local-currency current-account deposits in the Bank of Israel—rose by about NIS 7.4 billion in 2005 (in 2004 it rose by only NIS 1 billion, Table 3). Banknotes and coins increased by NIS 3.6 billion in 2005 (NIS 1.6 billion in 2004), and the banks' current-account deposits in the Bank of Israel grew by NIS 3.7 billion (compared to contracting by NIS 0.7 billion in 2004). The rise was due to the fast pace of growth and the liquidation of the assets portfolio of the public given the low rates of both inflation and interest, as well as money received from the tax reforms. Factors that boosted the monetary base were the injection by the Bank of Israel of some NIS 9.9 billion (in 2004, this injection was NIS 1.1 billion) and an injection by the national institutions of NIS 1.2 billion, against which the government soaked up NIS 2.7 billion, because government's raising of capital in shekel was higher than budgetary needs. In 2005, the government deficit fell below the target deficit, despite a sharp fall in government's raising of capital; this was due to high tax receipts, a result of growth in the economy on the one hand and a fall in government expenditure on the other. According to a monthly breakdown, in April and May there was a seasonal flow of NIS 5.5 billion for government debt repayment, while in December there was an exceptional flow of NIS 6.1 billion for government activities for the end of the budget year, but for the rest of the year, the government principally absorbed money.

f. The Profit and Loss Account

The Bank of Israel's surplus income over expenses in 2005 totaled, as said, NIS 1.4 billion, compared to a loss of NIS 0.8 billion the year before. The main factors contributing to this surplus income over expenses were, as mentioned, the rise in the dollar interest rate, the fall in the shekel interest rate and the increase in realized exchange-rate differentials. The Bank of Israel's income from the foreign exchange reserves—interest and capital gains *plus* realized exchange-rate differentials (most of which derive from the foreign exchange reserves)—totaled NIS 5.1 billion (compared to NIS 3.1 billion in 2004), and expenses of the monetary aggregate totaled NIS 3.7 billion (in 2004, these totaled NIS 4.3 billion). Against this the Bank recorded net expenses of NIS 0.3 billion on government deposits (compared to a net income of NIS 0.1 billion the previous year).

Table 2
Indicators of the Bank of Israel Profit, 1990–2005

	Profit (loss)	Realized exchange-rate differentials[a]	Net foreign-currency assets end-of-year	Change in currency-basket exchange rate during year	*Makam* plus time deposits minus monetary loans 31 Dec.	Average interest, annual rates	
						Time deposits	Monetary loans
	NIS billion		$ billion		NIS billion		
	(at current prices)			percent	(at current prices)	percent	
1990	1.5	0.5	1.5	10.6	-	-	14.4
1991	1.9	0.8	2.0	11.2	-1	-	15.5
1992	1.7	0.6	0.3	16.3	-5	-	12.1
1993	1.3	-0.2	-0.8	6.3	-10	-	10.7
1994	1.8	0.4	-0.3	5.7	-8	-	12.7
1995	2.5	1.4	6.0	6.3	9	-	14.9
1996	-0.5	0.5	8.6	1.6	21	16.2	14.9
1997	-1.1	2.1	17.5	4.1	51	13.9	13.5
1998	10.9	13.1	18.4	20.4	63	11.9	11.5
1999	-8.7	-3.5	17.7	-3.2	73	12.2	11.8
2000	-6.7	-3.7	18.0	-5.5	80	9.4	8.9
2001	0.9	0.1	18.7	7.0	79	6.9	6.5
2002	1.7	0.9	20.2	13.0	77	7.0	6.6
2003	0.3	2.5	23.0	-1.6	84	7.5	7.1
2004	-0.8	0.9	25.4	0.8	87	4.3	3.8
2005	1.4	1.9	26.7	1.7	87	3.7	3.2

[a] Until 1999 all exchange-rate differentials were defined as realized.

Income

Interest income on foreign exchange reserves rose by 32.0 percent (NIS 3.4 billion in 2005 compared to NIS 2.6 billion the previous year). This rise came from an increase of 4.0 percent on average of the reserves in dollar terms, from a rise of 1.8 percent on average of the US interest rate and a rise of 6.8 percent in the dollar exchange rate against the shekel, which increased the shekel value of interest income. In contrast, the Bank registered capital losses of NIS 0.2 billion (compared to NIS 0.3 billion in 2004) due to the rise in bond yields which brought their prices down.

The strengthening of the dollar against the shekel by 6.8 percent in 2005 brought income from exchange-rate differentials, though these were partially offset by the strengthening of the shekel against other currencies in which the reserves are invested. The euro and the British pound weakened by 7.3 percent and 4.4 percent respectively. As the dollar assets are the principal component of the foreign exchange reserves held by the Bank of Israel, this created income of NIS 3.8 billion from exchange-rate differentials. Around one half of this sum, NIS 1.9 billion, was defined as realized and registered as income in the Bank's Profit and Loss Account.

As a result of the fall in shekel interest rates, a drop in debit balances in the government's local-currency deposits and a rise in dollar interest, the Bank of Israel registered interest expenses of NIS 0.3 billion on the government's accounts.

Income from the local securities portfolio of the Bank of Israel grew by 30 percent (NIS 0.1 billion) despite a fall in 30 percent of the portfolio balances, due to the indexation differentials created from a particularly large bond redemption.

Expenses

The major component of the Bank's expenses is the interest payments on monetary instruments, and principally on *makam*. During the year the average interest on *makam* and time deposits continued to fall, further to a fall in 2004. Average interest on *makam* dropped by about 1 percentage points (from 5.4 percent in 2004 to 4.4 percent in 2005), and on time deposits by about 0.6 percentage points (from 4.3 percent to 3.7 percent). Because of this, expenses on *makam* fell by 3 percent despite a rise on average of 20 percent in the balances. The fall in average balances of time deposits (56 percent) together with the drop in its interest rate reduced interest expenses by 62 percent. Total interest expenses on the use of monetary instruments—which also include in addition to *makam* and time deposits, monetary loans, NIS/$ swaps and NIS/$ options—fell by 17 percent, totaling NIS 3.8 billion (in 2004, NIS 4.6 billion), though their average balances contracted by 4 percent.

Administrative and general expenses grew in 2005 by around NIS 100 million, principally due to the initial use of updated mortality tables which increased the pensions liabilities.

Net profit for the Bank of Israel, totaling NIS 1.4 billion, reduced the Bank's deficit balance, which stood at the end of the year at NIS 15.6 billion (in 2004, NIS 17.1 billion).

g. The Bank of Israel's capital

In 2005 for the first time, the Bank of Israel's financial statements applied Accounting Standard 12 of the Accounting Standards Institute, which dealt with a one-time adjustment (to financial statements not adjusted for inflation) of non-monetary items to the Consumer Price Index for the month of December 2003. Following the adjustment, comparable figures for 2004 were corrected in identical terms. In total, this adjustment increased the value of the Bank's assets by some NIS 0.5 billion, and the capital by NIS 3.7 billion. The cause of this rise in assets was the adjustment of the value of fixed assets and investments in international monetary institutions, while the increase in capital was a result of setting the Bank of Israel's share capital and general reserve at NIS 4 billion (compared to NIS 320 million before the adjustment). The Bank of Israel's basic share capital and general reserve were transferred to the Bank at its inception in 1954, and were increased a number of times during the years 1979-1986 according to Section 6(b) of the Bank of Israel Law. The increase was conducted through provisions from the Bank's profits and was designed to maintain the size of capital relative to the balance sheet. The effect of adjusting the capital item is greater than the effect of other items, as most of the capital was received in earlier years and therefore the CPI-indexation was in any case far greater. The adjustment made was not connected to any flow of actual monies to the Bank of Israel, and was registered against the growth in the loss balance of some NIS 3.2 billion, to NIS 15.6 billion in 2005 (in 2004, NIS 17.1 billion). (See Figure 1.12 in the financial statements).

From articles published in recent years, it is clear that although the financial activities of a central bank, unlike those of a financial company, arise from its role as defined by law, and not necessarily from an intent to make profits, there is nevertheless a clear connection between the size of a central bank's capital and its level of independence and ability to carry out its role, principally of which is to maintain price stability. Banks with a capital deficit, it is claimed, could lose the public's faith and their independence from the government, which would impair its ability to carry out its tasks.

The Bank of Israel has an accumulated loss of NIS 15.6 billion, against which it holds accumulated non-realized income of NIS 12.1 billion, which are in the balanced revaluation accounts.

The Bank of Israel's loss was created in the years 1999 and 2000, when cumulative losses of some NIS 15 billion were registered. These losses were a result principally of exchange-rate differentials (of some NIS 7 billion)[2] and the difference between interest receipts on the foreign exchange reserves and expenses of managing monetary policy (some NIS 7 billion). The fact that the Bank of Israel's major source of income

[2] If today's method of calculating realized exchange-rate differentials had been in practice in 1998, then these sums would not have been transferred to the government, and the balance of the Bank of Israel's cumulative losses would stand at only NIS 5 billion.

is from the reserves, which are influenced by interest rates abroad, while the expenses are influenced principally by the interest rate in Israel, makes the gap in interest rates between Israel and the US critical in its effect on the Bank's profit and loss account. In 2005 the average interest rate spread narrowed considerably and stood at only half of a percentage point (compared to 2.8 percentage in 2004 and 8 percent points in 2002). This contraction in interest rate spread is the major factor behind the Bank's net expenses excluding exchange-rate differentials totaling only NIS 0.5 billion this year, compared to NIS 1.7 billion in 2004.

The continuing trend of the contracting interest rate gap, beyond its being an important indicator of the markets' faith in the Israeli economy, is a significant factor in the Bank of Israel's ability to move into a positive capital balance sooner than was believed in the past, and thereby to strengthen its independence.

3. MAIN ITEMS

a. The foreign exchange reserves[3]

The foreign exchange reserves make up the largest part (93 percent) of the Bank of Israel's assets, and some of the Bank's other assets are also indexed to foreign currency. This asset composition explains why the Bank's financial statements are greatly affected by exchange-rate fluctuations, changes in interest rates and other changes in the global economy.

Currently the reserves fulfill two types of function:

- the possible uses of the reserves;
- the benefits to Israel's economy deriving from the fact that Israel holds a certain level of reserves.

The main use made of the reserves is their sale to the government for debt servicing, but there are other possible uses of the reserves, such as selling foreign currency to the government to finance essential imports at times of emergency, using them as an auxiliary instrument for conducting the Bank of Israel's policy in the foreign-currency market, and as an instrument to help implement monetary policy and to bolster stability in the financial markets. One of the benefits of a high level of reserves is that, *inter alia*, it lowers the probability of a crisis in the foreign-currency market and improves Israel's standing in the international financial environment, as the size of a country's reserves is one of the parameters taken into account by international entities and the credit-rating companies when rating its financial stability.

Defining the roles of the reserves is not merely a theoretical exercise, but it provides a basis for determining the desired level of the reserves, a method for managing them, and a basis for setting the currency numeraire, i.e., the currency composition used as a

[3] For further discussion see the survey by the Foreign Exchange Department in the Bank of Israel's Annual Report 2005, available on the Bank's website.

guideline for managing the reserves. Since December 2003, this composition has been derived from the distribution by currency of the reserves' possible uses.

The yields on the reserves

The Bank of Israel invests the foreign exchange reserves mainly in tradable securities with a relatively short average duration, to ensure an appropriate level of liquidity and to avoid the danger of wide swings in the value of the portfolio which could occur in the wake of fluctuations in the financial markets.

The yield achieved on the investment of the foreign exchange reserves is compared with the benchmark yield. The benchmark is a hypothetical portfolio made up of various assets that reflects the Bank's long-term investment strategy. The market yields of the assets included in the benchmark, in all currencies, are weighted by the weights of the assets in the basket of uses (the numeraire). The average duration of the benchmark since 1999 has been set at 16 months.[4]

The annual yield on the reserves was 2.64 percent this year. The actual yield on the portfolio exceeded the yield on the benchmark, which stood at 2.44 percent. The difference reflects the contribution of investment decisions, taken by utilizing the degrees of freedom in active management of the reserves, decisions on deviations of the portfolio from the composition of the benchmark. These degrees of freedom are relatively limited and are restricted by a regime of regulations, part of the investment policies of the reserves. The added value of the management of the reserves is expressed in the difference in yield on the reserves portfolio and that of the benchmark, a gap that totaled 0.21 percent in 2005, and was on average 0.07 percent in the past decade.

The yield on the reserves this year was greatly affected by the rising trend of short- and medium-term yields to maturity in the US and euro markets. These trends relate to several factors, including the tight monetary policy of the US, seen in the interest rate of the US Federal Reserve rising by 2 percentage points during the year (in eight steps each of 25 basis points) and a fear of a renewed global outbreak of inflation given the rising prices of goods, in particular oil. The rise in yields on short- and medium-term bonds increased the current interest-income component of the holding-period rate of return, although it was also expressed in the fall of these bonds' prices, which was registered as a capital loss which reduced the holding-period rate of return.

The yield on investing the reserves is measured in terms of the currency component of the reserves' uses (the numeraire), and not in terms of any specific currency. The arbitrariness of measuring yield in terms of any specific currency is highlighted by looking at the yield in dollar terms (-0.3 percent in 2005), and in euro terms (14.9 percent this year), and the high volatility of the yields over the years (Table 4).

[4] From the beginning of 2003 to mid-2005, the duration of the dollar part of the benchmark was temporarily reduced to 11 months due to the very low level of yields to maturity in the US market and the rise in the probability that they would increase. The duration of the non-dollar part of the benchmark remains at 16 months.

Table 3
Composition of Changes in the Monetary Base and Foreign Reserves, 1998–2005
injection (+)/absorbtion(-)

(current prices)									2004	2005			
	1998	1999	2000	2001	2002	2003	2004	2005	IV	I	II	III	IV
NIS million													
1.Change in monetary base (1) = (2 + 3 + 4 + 5)	242	3,927	311	4,364	1,437	3,567	966	7,357	57	-3,927	2,114	4,547	4,623
2. Government and National Institutions	1,901	4,067	-2,729	-2,611	-6,065	3,479	1,601	-1,452	4,229	-8,657	4,371	-1,982	4,816
3. Bank of Israel	-2,664	-365	2,729	7,675	9,265	1,425	1,070	9,920	-3,286	4,914	-1,901	6,771	136
4. Foreign-currency conversions at Bank of Israel	1,746	-	-	-	-	-	-	-	-	-	-	-	-
5. Adjustments[a]	-741	225	311	-700	-1,763	-1,337	-1,705	-1,111	-886	-184	-356	-242	-329
$ million													
Banks' foreign-currency activity with the Bank of Israel													
6.Foreign-currency sales (–) to Bank of Israel (6) = (8 – 9 – 7)	-492	-	-	-	-	-	-	-	-	-	-	-	-
7.Public-sector transfers to banks[b]	-163	-259	-345	-20	183	335	342	-1,003	124	87	7	-1,310	213
8.Change in deposits with Bank of Israel	-369	585	-462	91	-982	-896	-232	-133	-192	27	9	-194	25
9.Transfers to (–)/from (+) rest of world	286	844	-117	111	-1,165	-1,231	-574	870	-316	-60	2	1,116	-188
10.Adjustments[c]	-343	-197	-275	-216	-186	27	-57	156	-83	46	-70	35	145
Contribution to reserves													
11.Private sector[d] (11) = (9 + 10)	-57	647	-392	-105	-1,351	-1,204	-631	1,026	-399	-14	-68	1,151	-43
12.Public sector[e]	2,399	-806	1,041	122	1,840	3,322	1,475	200	1,191	87	-424	-41	578
13.Change in reserves[f] (13) = (11 + 12)	2,342	-159	649	17	489	2,118	844	1,226	792	73	-492	1,110	535

[a]Adjustments include: transfers from abroad by the National Institutions through the banks, defined as public-sector injection (in row 2). Government and Bank of Israel domestic foreign-curency receipts from and payments to the private sector (e.g., income tax receipts in foreign currency) do not change the monetary base, as they are transferred directly from the private sector to the government: on the one hand they are defined as government absorption and on the other they are defined as the private sector's contribution to the foreign reserves (without going via the Bank of Israel's trading-room floor).
[b] NIS/$ swaps and other domestic foreign-currency payments.
[c] Transfers from abroad by the public sector through the banks, e.g., by the National Institutions.
[d] Including income tax payments in foreign currency by the private sector.
[e] Transfers by the government and the National Institutions, and Bank of Israel income from the foreign reserves (interest income, capital gains and cross-rate differentials).
[f] Including the change in accrued interest on the foreign reserves.

The yield in terms of shekel was 6.5 percent, reflecting, on the one hand, the weakness of the shekel against the dollar—which was partially offset by holding shekel compared to other investment currencies of the reserves—and, on the other hand, the level of yield in terms of the currency composition of the uses, the main components of which are income from interest and capital obtained from the investment of the reserves. In the past decade, the holding-period rate of return in shekel terms was 8.1 percent a year, and discounted for the rise in local prices during this period, was 4.3 percent a year.

Table 4
Foreign Reserves—Total, Income, Exchange-Rate and Cross-Rate Differentials and Yields, 2003–2005

		2003	2004	2005
Total foreign reserves				
$ million				
End of year		25,788	26,632	27,858
Annual average		23,826	25,987	27,035
Income and exchange-rate and cross-rate differentials				
NIS million				
Total		**–276**	**2,224**	**7,584**
Interest and capital gains		3,195	2,100	3,150
NIS/$ exchange-rate differentials		–8,177	–1,906	7,852
Cross-rate differentials ($/other currencies)		4,706	2,030	-3,418
$ million				
Total		**1,740**	**938**	**-76**
Interest and capital gains		707	470	688
Cross-rate differentials ($/other currencies)		1,033	468	-764
***Yields*[a]**				
Percent				
In terms of NIS	Total	–1.3	1.8	6.5
	Interest and capital gains	2.2	1.7	2.6
	Exchange-rate differentials	–3.4	0.1	3.9
In terms of euro	Total	–11.4	–4.1	14.9
In terms of $	Total	6.7	3.5	-0.3
	Interest and capital gains	2.2	1.7	2.6
In terms of use[b] of foreign reserves		2.2	1.7	2.6
Benchmark yield		1.9	1.7	2.4

[a] Yields (annual, compounded daily) refer to income from the foreign reserves, including profit or loss arising from changes in market prices.
[b] See note 2 to the financial statement.

The Bank's financial statements, shown in shekel, give expression to changes in the exchange rate of the shekel against other currencies, changes which are not taken into consideration in managing the portfolio.

Changes in foreign-currency cross rates

In 2005, for the first time since 2000, the dollar strengthened against all major world currencies. The dollar exchange rate vis-à-vis the euro rose 15.3 percent, and against the British pound, went up 11.8 percent. The strengthening of the dollar globally and the small average gap in interest rates between the dollar and the shekel caused the dollar to strengthen by 6.8 percent against the shekel and a rise of 11.8 percent of the shekel value of the reserves, compared to a more modest rise of 4.6 percent in their dollar value. Exchange-rate differentials totaled NIS 3.8 billion in 2005, most of which was due to the dollar part of the foreign currency reserves, but the realized part of the exchange-rate differentials—some NIS 1.9 billion—derived mostly from the euro denominated part of the reserves; and this, despite the weakening of the euro against the shekel during 2005.

Causes of changes in the foreign exchange reserves

Changes in the foreign exchange reserves are caused by the activities of the government and the national institutions, foreign-currency activities of the private sector, and activity of the Bank of Israel. The major contribution to the reserves in 2005 was from the private sector, while the public sector had almost no affect on the reserves at all.

The private sector contributed $ 1 billion this year, compared to a negative cumulative contribution of $ 3.2 billion in the past three years. The private sector's contribution was concentrated in July and August, when it had to import $ 1.2 billion in order to pay for shekel, due to the non-renewal of four swap auctions that were redeemed at a total sum of $ 1.4 billion. ($ 0.2 billion of this was paid from the banks' foreign-currency deposits at the Bank of Israel; see Banking Institute Accounts). The government contributed a negative contribution of $ 0.2 billion (compared to a positive contribution of $ 0.2 billion in 2004), the national institutions contributed $ 0.3 billion, similar to their contribution in 2004, and the Bank of Israel's contribution from managing the reserves was only $ 125 million (in 2004, $ 1 billion). In total, the public sector contributed $ 0.2 billion (compared to $ 1.5 billion in 2004).

The government's contribution was not uniform throughout the year; in October its contribution totaled $ 1.1 billion, of which around $ 0.9 billion was through raising capital in euros and around $ 0.3 billion was through privatization of companies; for the rest of the year, the government mostly reduced its foreign currency accounts, and sometimes used its foreign currency to reduce its debit balance in its local-currency accounts.

The Bank of Israel's low level of contribution to the reserves was attributable to the weakening against the dollar of the non-dollar part of the reserves, which caused a

drop in dollar value of the reserves. Interest receipts totaled $ 0.6 billion this year (in 2004, $ 0.4 billion), against which were registered exchange-rate differential losses of $ 0.8 billion (in 2004, profits of $ 0.5 billion).

In total, the foreign currency reserves in 2005 grew by $ 1.2 billion (in 2004, by $ 0.8 billion).

Raising capital

In 2005, the government greatly reduced raising capital in the markets both in Israel and abroad in the light of the sharp drop in its expenditures as a result of its economic plans on the one hand, and the sharp rise in revenues from taxes and the privatization of Bank Leumi and Bezeq on the other. In all, the government's deficit totaled NIS 10.75 billion (1.9 percent of GDP) compared to NIS 18.9 billion (3.4 percent of GDP) in the original budget, and this was despite the added budget of NIS 1 billion for the disengagement plan. Overseas, the government raised only a total $ 0.9 billion in euros, compared to $ 2.2 billion in 2004 and $ 3 billion in 2003.

Economic aid from the US

In 2005, $ 0.6 billion in civilian aid was received from the US government. In January $ 0.36 billion was received for 2004, and in December $ 0.24 billion was received for the current year. The aid that is shown in the Bank's books comprises civilian aid, which is reduced by $ 120 million a year and is due to end completely in 2006, and part of the defense aid. Most of the defense aid, around $ 2 billion, is used for direct payment to suppliers for defense imports, and the government therefore deposits with the Bank of Israel only the part intended for domestic uses, which in 2005, as in previous years, totaled about $ 0.5 billion.

State of Israel Bonds

In 2005 the government raised about $ 1 billion from issues of State of Israel Bonds (in 2004, $ 1.3 billion), which is also the sum expected in each of the following years. Part of the money raised via the Bonds is used for payments abroad, and only a small part is deposited in the Bank of Israel. Israel pays a higher rate of interest on the State of Israel Bonds than it pays on other bonds it issues, but continues to issue them mainly to maintain an additional avenue of raising money in times of need.

Government expenditure

The government's foreign-currency expenses of $ 3 billion, mainly on repayment of past debts and interest payments, were offset against the money raised as described above, so that the government's contribution to the foreign exchange reserves in 2005 was a negative $ 0.2 billion, compared to a positive contribution of the same size in 2004.

b. Government accounts

According to Section 57(a) of the Bank of Israel Law, 5714–1954, "The Bank shall be the sole banker and fiscal agent in Israel of the Government." Hence, the government holds all its local-currency accounts and some of its foreign-currency accounts in the Bank of Israel.

In 2005 the average balance of the government accounts was NIS 11.3 billion (a fall of 4 percent on the 2004 balance), and in end-of-year terms, the balance grew by 6 percent. In the composition of the government's accounts, more significant changes occurred. The average balance of the government's foreign-currency accounts for financing the budget fell by 46 percent (to NIS 9.4 billion in 2005 down from NIS 17.5

Table 5
Government Deposits with the Bank of Israel, 2003–2005

(NIS million, current prices)

	2003	2004	2005
End-year balances			
Government deposits for budget financing			
Local-currency deposits	–12,626	–7,407	-48
Foreign-currency deposits	20,619	13,215	6,680
Total government deposits for budget financing	**7,993**	**5,808**	**6,632**
Other deposits[a]	325	706	295
Total	**8,318**	**6,514**	**6,927**
Net change in government deposits	**166**	**–1,804**	**413**
Sources of change			
Government contribution (+) to foreign reserves[b]	6,686	776	-840
Government absorption (+)	–1,966	–247	2,677
Government–Bank of Israel financial flow[c]	–4,615	–2,384	-1,457
Adjustments[d]	61	51	33

[a] Including the local-currency deposit to stabilize bond prices, another deposit in foreign currency, and interest accrued on government deposits (see note 10 on Deposits of the Government).

[b] Government income and expenses abroad, loans received and loan repayments abroad.

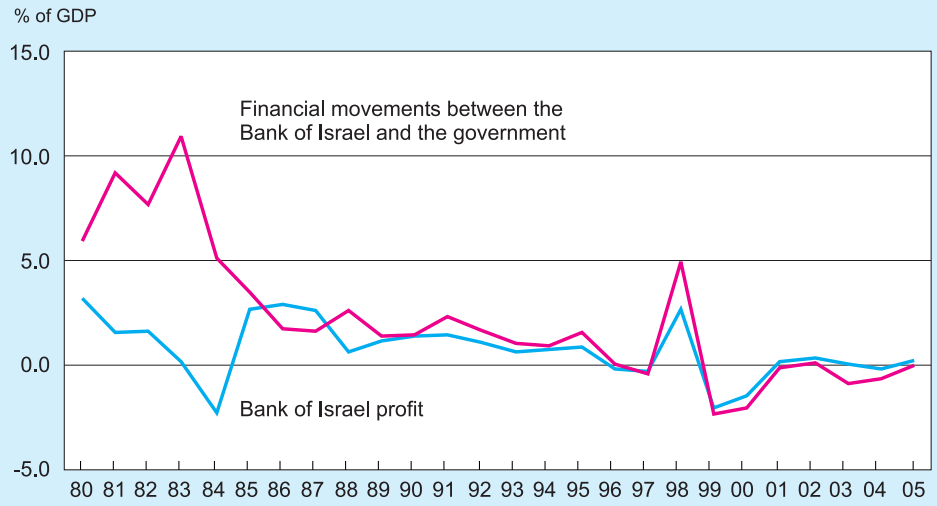
[c] Interest payments and redemption of government bonds held by the Bank of Israel; commission from the government; interest payments, repayment of principal and payment of indexation differentials on credit to the government, and interest payments by the Bank of Israel on government deposits (in local and foreign currency); exchange-rate differentials on government foreign-currency deposits; and transfer to the government of Bank of Israels profit.

[d] Including accrued interest on government deposits to the end of the year; interest payments by the government on credit from the Bank of Israel for binational funds (these payments are included under 'Government injection,' but in this table they are also included under 'Government–Bank of Israel financial flow'); State of Israel Bonds redemptions by tourists in Israel (these redemptions reduce the government's local-currency deposits, but are not included in 'Government injection').

billion in 2004) while the negative average balance of the local-currency account for financing the budget dropped by 81 percent (to NIS -1.1 billion in 2005 from NIS -6.0 billion in 2004). Part of the reduction in the balance of the foreign-currency accounts was used to reduce the negative balance in the shekel accounts, and part was used to pay off government debt abroad. Overall there was a net redemption in foreign currency of $ 0.4 billion.

The change in composition of the accounts together with the reduction in difference between the prime interest rate that the government pays on the debit balances in its local-currency accounts and the interest rate it receives on its foreign-currency accounts (from 3.3 percent in 2004 to 0.9 percent in 2005) resulted in the Bank of Israel recording net interest payments to the government of NIS 0.3 billion, compared to net interest income from the government of NIS 0.1 billion in 2004. On the government's local-currency accounts in debit, the Bank of Israel registered net income of NIS 0.06 billion (compared to NIS 0.35 billion in 2004) while on the foreign-currency accounts, it registered expenses of NIS 0.35 billion (compared to NIS 0.25 billion in 2004).

Figure 2
Total Financial Movements between the Bank of Israel and the Government, and the Bank of Israel Profit, 1980-2005
(Percent of GDP, current prices)



Credit to the government

According to Section 45 of the Bank of Israel Law which was valid up to 1985, the Bank was permitted to extend loans to the government in any budgetary year up to 20 percent of the regular budget. At the end of the budgetary year, the government, in agreement with the Bank of Israel, would convert part of the temporary advances

to "long-term advances." In 1985, the Law of Non-Printing was passed, and since then no more advances were extended, except for one exceptional loan given in 1988 to redeem part of the commercial banks' shares. The advances given before 1988 are indexed to the first-currency-basket exchange rate and bear interest of 8 percent, indexed to the same basket, while the 1988 loans bear interest of prime plus 2 percent. The principal of these advances is repaid by annual payments, the last of which will be in 2012. In 2005 the shekel appreciated by 2.7 percent against the first currency basket, so no indexation differentials were paid on the loans. The government paid interest payments of NIS 0.3 billion, and repaid NIS 0.6 billion of principal.

At the end of 2005, the balance of the principal of the indexed advances stood at NIS 2.7 billion while the principal of the unindexed loans stood at NIS 0.6 billion. In total the government repaid most of the credit given to it by the Bank of Israel, and the debit balance at the end of 2005 stood at only 37 percent of the balance of 1988.

Securities portfolio

The Bank of Israel's securities portfolio includes CPI-indexed government bonds that the Bank bought in the past. A considerable portion of the purchase was made in 1996 when the Bank provided a safety net for the government bonds in order to moderate the market's reaction to an atmosphere of crisis that then pervaded it. At the time, the Bank of Israel bought NIS 1.5 billion of bonds and it was agreed that the ceiling on the issue of *makam* would be raised so that it would be possible to soak up the flow created by the purchase of the bonds. Moreover up to 2002 the Bank of Israel bought securities from the public in two ways; the substitution of *makam* for securities and monthly tenders for the purchase of particular series of bonds. Around one half of the redemptions in 2005 were of the bonds bought during this crisis of 1996. The accounting record in the securities portfolio in shekel is on a cash basis, and therefore the interest on the securities in local currency is recorded once a year, at the time of receipt, while the indexation included from the time of the securities' purchase up to redemption is registered at the time of redemption. In 2005 income from indexation differentials was registered of NIS 0.4 billion and interest income of NIS 0.2 billion (compared to NIS 0.2 billion and NIS 0.25 billion in 2004 respectively), interest payments fell because the securities portfolio in 2005 was smaller than in 2004. In total the income from the securities portfolio increased by 30 percent (NIS 0.62 billion in 2005 compared to NIS 0.47 billion the previous year).

c. Monetary instruments

The Bank of Israel employs various instruments to implement its monetary policy. In the last few years *makam* have become the major monetary instrument,[5] and every

[5] Formally, *makam* are issued by the Government of Israel, but to all intents and purposes they are a Bank of Israel monetary instrument.

year their share in the aggregate of monetary instruments has increased at the expense of time deposits. At the end of 2005 this share reached 96 percent of the aggregate (NIS 84 billion in *makam* compared to NIS 3.5 billion in time deposits). At the end of 2005 the Bank of Israel continued to sell an average of NIS 1 billion of *makam* a month to the public above the redeemed part of the debt that was recycled, at the same time reducing the balance of time deposits. In total the average balance of *makam* rose by NIS 12 billion, while time deposits dropped on average by about the same amount. The average balance of all monetary instruments, at fixed prices, dropped in 2005 by 4 percent, mostly due to not renewing swap auctions. The interest rate continued to fall, and was lower by half a percentage point on average than in 2004. For these reasons, the cost of using *makam* and time deposits fell by NIS 0.8 billion (a cut of 17 percent) from NIS 4.6 billion in 2004 to NIS 3.8 billion in 2005.

As described above, the average balance of all monetary instruments, at fixed prices, fell this year by 4 percent compared to 2004. (In end-of-year terms, the drop was greater – 8 percent). This fact has great importance in the development of the central bank's balance sheet. Since the mid-1990s, the Bank of Israel, as mentioned, has been a net borrower from the banking system, in contrast to other central banks around the world. The loans, conducted through the monetary instruments and principally through *makam*, continuously grew and the interest payments on them, at fixed prices, reached a peak of NIS 9.2 billion in 1999. In 2002, the aggregate contracted following a significant soaking up of NIS 6 billion by the government, although afterwards it grew again. In 2005 the Bank of Israel injected NIS 10 billion, of which NIS 7.4 billion was for reducing the balance of the monetary instruments—mostly through non-renewal of NIS/$ swap auctions of NIS 6.2 billion—and NIS 2.5 billion was on expenses of operating the monetary instruments.

In 2005 the Bank of Israel implemented a number of significant changes in the use of loans and deposits that it manages for the commercial banks:

1) Up to 2005 the Bank of Israel allowed the commercial banks monetary loans under a quota system. These loans were granted at several interest graduations and for each bank there was a quota, which it could utilize. The banks made use only of the loans available at interest rates lower than they could obtain from other sources of credit, such that this arrangement was a financial benefit for the commercial banks. In September of this year, the Bank of Israel stopped granting monetary loans under the quota system and instead created an interest rate corridor of 2 percent-width, via which the banks could borrow and lend overnight. The banks may borrow unlimited sums securely at interest rates 1 percentage point higher than the Bank of Israel's interest rate and may deposit surplus liquid funds at the Bank of Israel at interest rates 1 percentage point lower than the Bank of Israel's rate. (Liquid funds that are not deposited in this way do not bear interest). The interest on these loans and deposits are not attractive, as they are intended only to assist a bank encountering a liquidity surplus or shortage. In practice a little use was made of these loans for a few days in November and December, and their balance at the end of the year stood at only NIS 30 million. (In previous years, the average balance of the monetary loans stood at a fixed

sum of NIS 0.8 billion). The use of overnight deposits was far greater, though this too was concentrated in only a few days.

2) In May 2005 the Bank of Israel began extending monetary loans through tender. These loans were intended to be used, in addition to time deposits, for managing daily liquidity, and in this way the Bank of Israel is returning to its role as lender.

During the year there were a number of days in which the balance of time deposits was zero, and these loans were used to inject money into the economy. In January 2006 there was an additional use, as in the absence of a budget, government injection was particularly low, while its absorption of money from the economy was high, as a result of tax revenues on the theoretical sale of securities (for tax purposes) at the end of 2005. The average interest rate on the loans through tender stood this year at 3.6 percent (compared to 3.2 percent on the quota loans and 5.4 percent on overnight loans).

d. The banking corporations' deposits

The banking corporations' foreign-currency deposits fell in 2005 by $ 130 million, while their local-currency deposits increased by NIS 3.7 billion. The major explanation for these changes was the non-renewal of swap auctions, as mentioned above. The balance of foreign-currency deposits stood at $ 0.24 billion at the end of 2005, most of which was to meet the reserve requirement.

e. Banknotes and coins in circulation

By law the Bank of Israel has the exclusive authority to issue currency in Israel, and it does so to meet the public's demand for cash. Banknotes and coins in circulation grew this year by 17 percent (to NIS 24.4 billion in 2005 compared to NIS 20.8 billion in 2004). The rate of growth of money in circulation was higher than the average in recent years (at 6-9 percent for each of the three previous years). It also reflected the fast pace of growth in the Israeli economy, the reduction in concern about the erosion of value of money given the low levels of inflation, and the falling attractiveness of saving given the low interest rate. Since 1998, the rate of banknotes and coins in circulation as a ratio of the total money base has been stable at around 70 percent.

Table 6
Deposits of the Banking Corporations with the Bank of Israel, 2003–2005

(NIS million, current prices)

	2003			2004			2005		
	In NIS	In foreign currency	Total	In NIS	In foreign currency	Total	In NIS	In foreign currency	Total
Change in banking corporations' deposits[a]	2,439	(4,442)	(2,003)	(680)	(1,033)	(1,713)	3,725	(488)	3,237
Activity with the government[b]	10,177	1,482	11,659	8,553	1,504	10,057	6,382	1,796	8,178
Withdrawal (–) of banknotes from Bank of Israel	(9,057)	-	(9,057)	(10,230)	-	(10,230)	(12,457)	-	(12,457)
Activity with Bank of Israel[c]	1,243	(95)	1,148	890	(29)	861	9,747	(6,200)	3,547
Transfers from (+) and to (–) abroad	-	(5,852)	(5,852)	-	(2,534)	(2,534)	-	3,907	3,907
Foreign-currency conversions at Bank of Israel	-	-	-	-	-	-	-	-	-
Adjustments	76	23	99	107	26	133	53	9	62
Deposit of banknotes by Post Office Bank in Bank of Israel[d]	7,888	-	7,888	8,539	-	8,539	8,767	-	8,767

[a] This does not include the change in time deposits.
[b] Government injection via the banking corporations' demand deposits.
[c] Depositing time deposits, the purchase of Treasury bills, the sale of government bonds, and various interest payments.
[d] Deposits of banknotes mainly by the Post Office Bank; these deposits are a government absorption, and are included under 'Government injection.'

Table 7
Accounts of the Banking Corporations with the Bank of Israel, 1998–2005
(daily average, current prices)

	1998	1999	2000	2001	2002	2003	2004	2005	2004 IV	2005 I	2005 II	2005 III	2005 IV
Local-currency deposits and credit[a]													
NIS billion													
1. Demand deposits	4.5	5.5	6.6	7.8	8.3	8.3	9.0	9.9	9.1	9.6	9.7	10.2	9.9
2. Time deposits	36.9	44.1	46.0	46.5	33.5	30.5	21.0	9.3	17.0	12.6	8.3	9.9	6.4
3. Loans													
3.1 Monetary	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.8	0.8	1.1	0.5	0.0
3.2 Other	-	-	-	-	0.6	2.1	1.7	1.2	1.5	1.3	1.2	1.1	1.0
4. Net deposits (= 1 + 2 – 3)	40.6	48.8	51.8	53.4	40.4	36.0	27.5	17.4	23.8	20.1	15.7	18.5	15.3
5. Net deposits *plus* swaps	45.9	54.6	57.5	59.3	47.0	42.4	33.8	21.0	30.1	26.3	22.0	20.6	15.3
6. Net deposits *plus* swaps and *makam*[b]	67.1	78.6	83.3	89.8	85.3	91.4	97.8	97.5	98.1	98.4	96.5	98.6	96.6
Foreign-currency deposits and credit[a]													
$ billion													
7. Deposits	1.9	2.0	2.2	2.4	2.1	0.5	0.4	0.3	0.4	0.4	0.4	0.3	0.2
8. Net deposits *minus* swaps[c]	0.5	0.6	0.8	1.0	0.7	-0.9	-1.1	-0.5	-1.0	-1.0	-1.0	-0.2	0.2
NIS billion													
9. Net deposits minus swaps[c]	1.8	2.4	3.3	4.0	3.5	-4.1	-4.7	-2.1	-4.4	-4.4	-4.4	-0.9	1.1
10. Total net deposits *plus* swaps and *makam* (= 6 + 9)	68.8	81.0	86.5	93.8	88.8	87.3	93.1	95.4	93.8	94.0	92.1	97.7	97.7
Rates of interest (percent)[d,e]													
11. Monetary loans	11.5	11.8	8.9	6.5	6.6	7.1	3.8	3.2	3.7	3.2	3.3	3.1	5.5
12. Time deposits	11.9	12.2	9.4	6.9	7.0	7.5	4.3	3.7	4.1	3.6	3.6	3.5	4.1

[a] Items 1–10 include accrued interest.
[b] Net deposits plus NIS swaps for remittance and *makam* deposit (excluding the part of the deposit arising from the replacement of government bonds by *makam*).
[c] Deposits *minus* loans and *minus* dollar swaps to be received.
[d] Annual rate, based on quarterly and yearly calculations respectively.
[e] In 2005 various types of monetary loans and time deposits were introduced. The interest rates shown in this table are the weighted rates of all the monetary loans and all the time deposits.