# 6. The impact of interest rate volatility on Euroclear Bank and BNYM SA

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Central banks around the world maintained low, or even negative, interest rates to boost subdued economic growth during and after the pandemic. These low interest rates affected the net interest income of financial institutions, which saw their interest margins collapse. Soaring inflation linked to the war in Ukraine ushered in successive central bank rate hikes, with policy rates being raised by up to 500 basis points between early 2022 and the end of 2023. This allowed financial institutions to restore normal interest margins and stabilise their net interest income. Financial market infrastructures (FMIs) are less reliant on net interest income due to the specific nature of their business model, which is not focused on attracting client deposits. Such deposits can however remain (overnight) on the books of FMIs due to client cash management inefficiencies or pre-financing needs. In the management of an FMI's balance sheet, client deposits are typically reinvested on the interbank market or with central banks. Institutions such as Euroclear Bank and BNYM now receive a positive interest rate on deposits held at central banks, while this rate was previously negative.

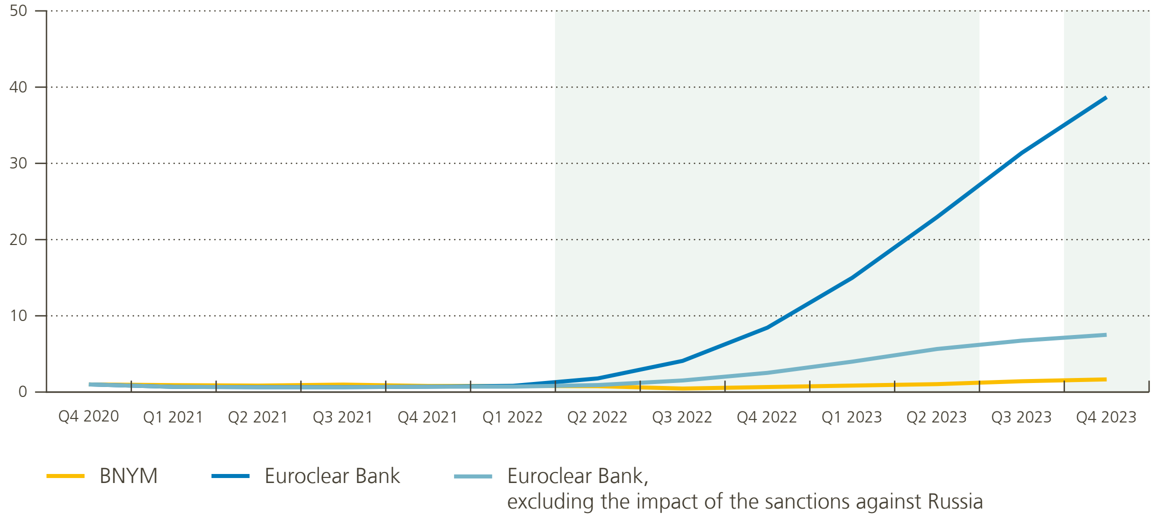
Euroclear Bank, a central securities depository (CSD), has incentives in place for clients not to leave deposits with it (overnight). When central banks applied negative interest rates, the rates Euroclear Bank charged its clients were below those of central banks. After the interest rates hikes, Euroclear Bank is once again applying a zero interest rate. BNYM SA now applies a positive interest rate.

The figures below show the (indexed average) change in the quarterly net interest income of Euroclear Bank and BNYM. For Euroclear Bank, a distinction is made between business-as-usual net interest income, on the one hand, and net interest income including the impact of the sanctions against Russia, on the other hand. Compared with 2020, net interest income increased slightly for BNYM but far more significantly for Euroclear Bank (Figure 8). At BNYM, net interest income accounted for 25 % of operating income on average by the end of 2023 – compared with 10 % to 15 % in 2022 (Figure 9). Euroclear Bank reported a higher ratio of net interest income to net operating income. This was mainly due to reinvestment of the proceeds from frozen Russian assets.

## Figure 8

**Average quarterly net interest income**

(indices, December 2020 = 1, ECB rate hike periods are shaded)

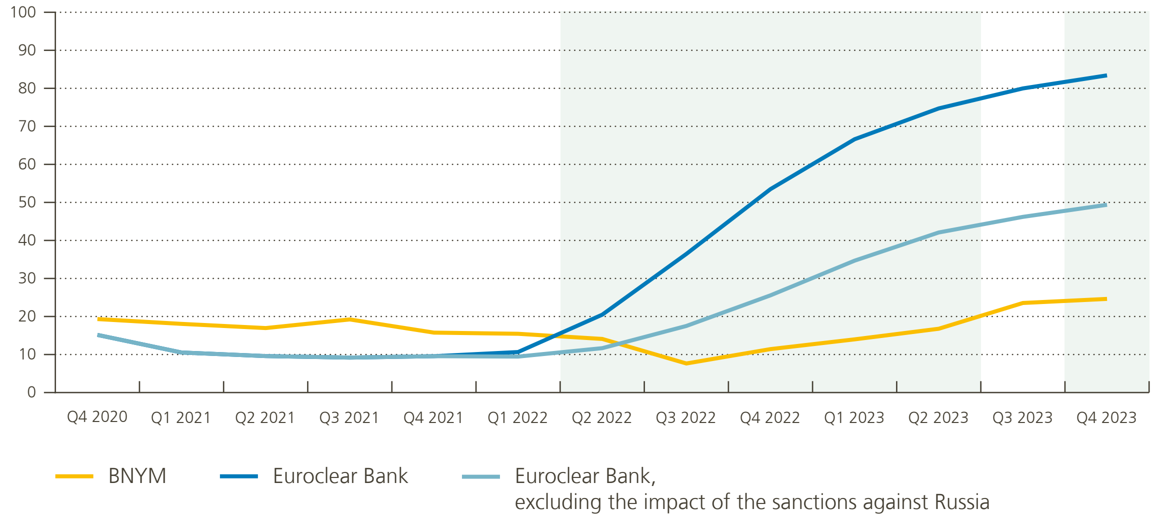



Source: NBB.

## Figure 9

**Ratio of average quarterly net interest income to average quarterly operating income**

(in %, ECB rate hike periods are shaded)



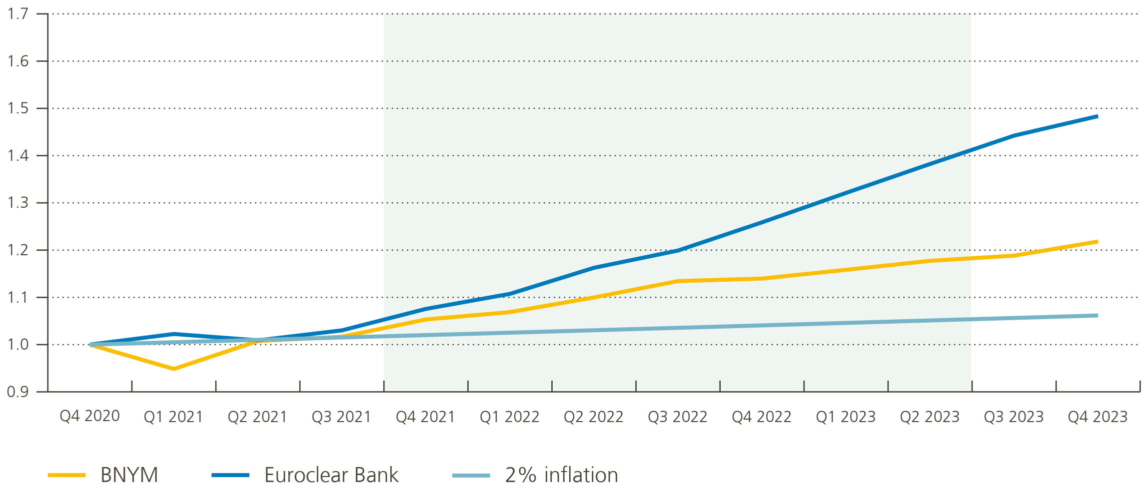

Source: NBB.

Inflation caused interest rates to rise, with both interest margins and net interest income increasing, and also caused expenses to spiral upwards, due to rising prices and wages. The increase in net interest income helped to cover higher administrative costs. As shown in Figure 10 below, such costs rose at a faster pace for Euroclear Bank than for BNYM – 50 % for Euroclear over three years compared with 22 % for BNYM – due, among other factors, to costs related to the management of frozen Russian assets.

Figure 10

**Average quarterly administrative expenses**

(indices, December 2020 = 1, periods of high inflation, i.e. above 5%, are shaded)




Source : NBB.

By the end of June 2023, inflation had returned to lower levels and rate hikes were taken off the agenda of central bank monetary policy meetings. The ECB hinted at rate cuts. Indeed, while lower inflation helps stabilise costs, lower interest rates squeeze interest margins on reinvestments and central bank deposits.