MHRI Brief

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Updated Estimates of the Impact of a BOJ Rate Hike

Naoki Hattori, Chief Japan Economist, Research Department

Mizuho Research Institute

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Expectations Build for an Additional Rate Hike to 1% at the June Meeting

Expectations are mounting that the Bank of Japan (BOJ) will raise its policy rate from the current 0.75% to 1% at the Monetary Policy Meeting scheduled for June 15–16. Against this backdrop, this report estimates the impact of such an additional rate hike on households and corporates. An earlier report published on May 14 by the author and colleagues also estimated the impact of an additional hike to 1%. The present report updates those estimates to reflect the further rise in long-term interest rates observed in recent weeks.[1]

[Chart 1: Actual Values and Assumptions for Various Interest Rates]

	Pre-rate hike (Actual)	Post-rate hike (Estimate)	Increase (ppt)
Policy Rate	0.75%	1.00%	0.25%Pt
Long-term Interest Rate (10-year JGB yield)	2.34%	2.86%	0.52%Pt
Ordinary Deposit Rate	0.25%	0.35%	0.10%Pt
Time Deposit Rate (10-year)	1.57%	2.18%	0.61%Pt
Mortgage Rate (Variable)	0.95%	1.20%	0.25%Pt
Mortgage Rate (Fixed)	2.36%	3.34%	0.98%Pt
Corporate Interest Rate on Interest-bearing Liabilities	2.34%	2.74%	0.39%Pt
Corporate Interest Rate on Interest-bearing Assets	2.85%	3.05%	0.20%Pt

Note: 'Pre-rate hike' figures are averages for the period corresponding to a 0.75% policy rate. 'Post-rate hike' figures are the author's estimates. Deposit rates are from the Bank of Japan. The mortgage rate (variable) is the new lending rate (after preferential discounts) offered by major city banks. The mortgage rate (fixed) is the lowest rate for 'Flat 35' loans. Corporate interest rates on interest-bearing debt and assets cover all industries (excluding finance and insurance) and all firm sizes

Source: Made by Research Department, Mizuho Research Institute based upon Bank of Japan, Ministry of Finance, Japan Housing Finance Agency, various financial institutions

The assumptions underlying the estimates are summarized in Chart 1. Consistent with a 0.25 percentage point increase in the policy rate, the interest rate on ordinary deposits is assumed to rise by 0.1 percentage point, while the variable mortgage rate is assumed to rise by 0.25 percentage point. Long-term interest rates, which are

[1] Because long-term interest rates are determined in financial markets, they do not necessarily move one-for-one with increases in the BOJ's policy rate. In this report, however, both are treated broadly as part of the normalization of monetary conditions, and the rise in long-term rates is therefore included in the assessment of the rate-hike impact.

determined in financial markets, are expected to continue rising gradually. The estimates therefore assume that long-term rates increase by 0.52 percentage point relative to their average level prior to the hike. Interest rates on 10-year time deposits and fixed-rate mortgages, which tend to track long-term rates, are likewise assumed to rise by a relatively large margin.

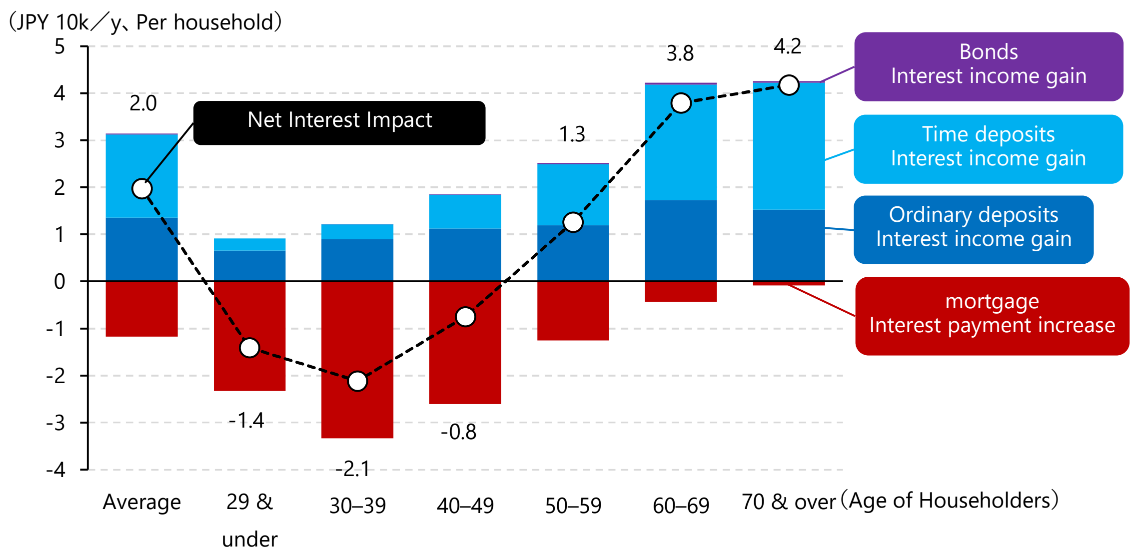
For corporates, the effective interest rate on interest-bearing liabilities across all firm sizes and all industries excluding finance and insurance is assumed to rise by 0.39 percentage point, while the effective interest rate on interest-bearing assets is assumed to increase by 0.20 percentage point. Both are assumed to move in line with long-term rates, though the estimates account for the tendency of liability rates to respond more strongly to changes in long-term rates.

Net Impact on Households Estimated at +¥1.0 Trillion Annually, or +¥20,000 per Household

On these assumptions, the net impact on the household sector is estimated at +¥1.0 trillion per year once positive and negative effects are offset. On the positive side, higher interest income from ordinary deposits contributes +¥0.7 trillion, while higher interest income from time deposits adds +¥0.8 trillion.[2] On the negative side, increased mortgage interest payments reduce household income by ¥0.5 trillion. Japanese households hold more than ¥1,000 trillion in deposits, so the benefits of higher interest rates are substantial. Because the purpose of this exercise is to assess the interest-rate impact of the hike, the estimates exclude any increase in equity dividend income.

[Chart 2: Household Impact of the 1% Rate Hike]

(Average for Two-or-more-person Households by Age of Householders)



Note: Figures show the estimated impact on two-or-more-person households

Source: Made by Research Department, Mizuho Research Institute based upon 'Family Income and Expenditure Survey' and 'Household Structure Survey' (Ministry of Internal Affairs and Communications); 'System of National Accounts (SNA)' (Cabinet Office); and 'Flow of Funds Accounts' (Bank of Japan)

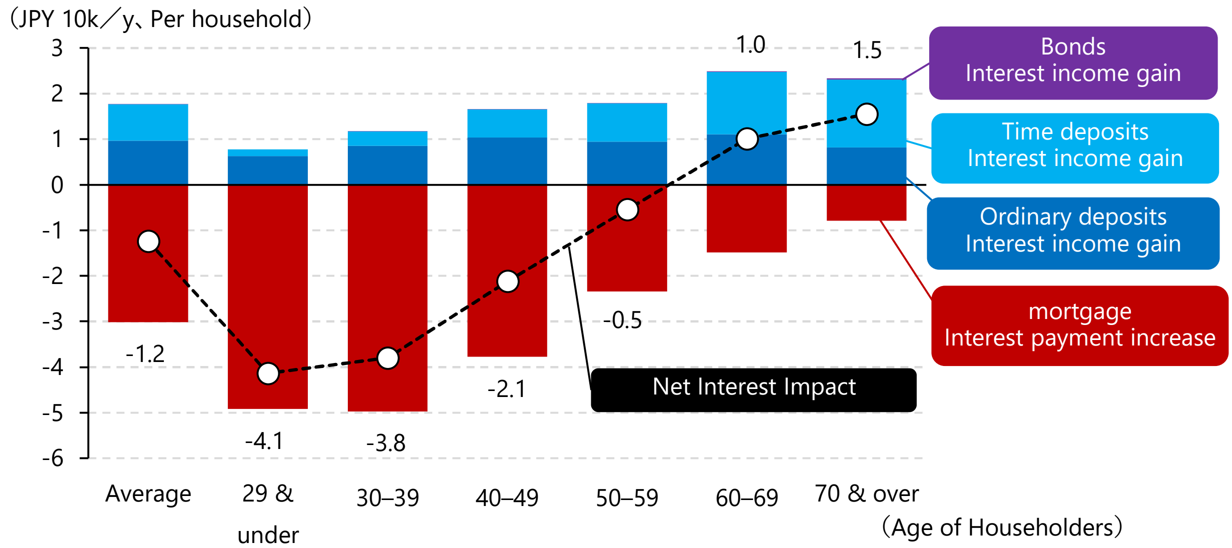
[2] Since time deposits carry fixed rates, higher interest rates do not affect deposits already placed. In Japan, however, time deposits are concentrated in maturities of several months to around one year, generating a steady need for rollovers. The estimates reflect the benefit that accrues when such deposits are rolled over at higher rates.

On a per-household basis, the net impact is estimated at +¥20,000 per year (Chart 2). By age group, the positive impact is particularly large for elderly households in their 60s and those aged 70 or above, at around +¥40,000 per year. This reflects not only the accumulation of financial assets among elderly households, but also their relatively high share of time deposits within total deposits. The current environment, in which time deposit rates have risen more sharply than ordinary deposit rates, therefore works to their advantage.

Households with Debt Face a Negative Impact of ¥12,000 per Year

By contrast, households carrying liabilities such as housing loans are estimated to face a negative impact of ¥12,000 per household per year (Chart 3). As in the author's earlier estimates, this negative impact is especially pronounced for younger households in their 20s and 30s, at roughly ¥40,000 per year. In recent years, most new mortgage borrowing has been on variable-rate terms. As rate hikes feed through to existing borrowers, younger households with large outstanding balances are more exposed to the adverse effect. Although fixed-rate mortgages account for a smaller share, their rates have also risen sharply, so households newly taking out fixed-rate loans will likewise face a higher debt-service burden.

[Chart 3: Household Impact of the 1% Rate Hike]
(Average for Two-or-more-person Households with Debt by Age of Householders)



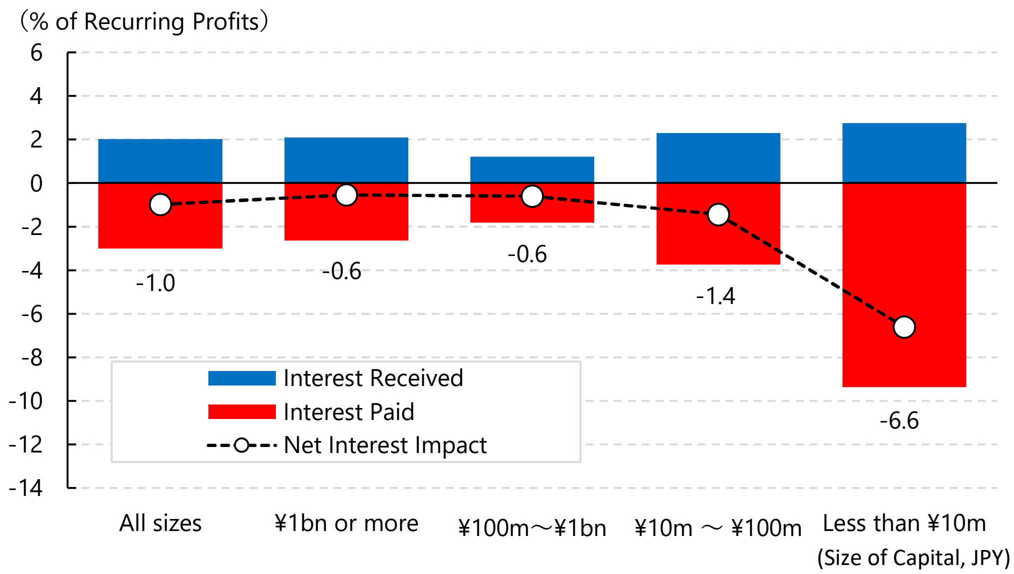
Note: Figures show the estimated impact on two-or-more-person households with Debt

Source: Made by Research Department, Mizuho Research Institute based upon 'Family Income and Expenditure Survey' and 'Household Structure Survey' (Ministry of Internal Affairs and Communications); 'System of National Accounts (SNA)' (Cabinet Office); and 'Flow of Funds Accounts' (Bank of Japan)

As a model case, we simulate a variable-rate mortgage with an initial loan amount of ¥40 million and a 35-year repayment period. Using interest rate levels before and after the latest hike as a reference, the loan is assumed to be taken out initially at 0.95%, with the rate rising to 1.20%—an increase of 0.25 percentage point—in the second year of repayment. Under the so-called five-year rule, monthly repayments remain unchanged at ¥112,000 from the first through the fifth year, before rising to ¥117,000 in the sixth year. Even during the first five years, however, when the repayment amount is fixed, the interest component of each monthly payment rises, slowing the pace of principal repayment. Over the full 35-year term, total repayments increase by ¥1.91 million relative to a scenario in which the interest rate does not rise. Borrowers should therefore not take undue comfort from the fact that monthly repayments remain unchanged under the five-year rule; they should instead examine how the composition and total amount of their repayments will change.

A robust increase in wages is needed to offset the impact of rising interest rates. This year's shunto wage negotiations have again delivered a high wage increase of around 5%, including regular pay increases. Yet, alongside the prospect of higher inflation driven by developments in the Middle East, younger households are likely to find it harder to feel the benefits of wage growth, given their higher mortgage interest payments. In an era of rising inflation and interest rates, lifting labor income further through active investment in skills is becoming increasingly important.

[Chart 4: Corporate Impact of the 1% Rate Hike]
(Effect of Interest Balance on Recurring Profits, by Size of Capital)



Note: All industries excluding the finance and insurance. The figures in the chart represent the values for the Net Interest Impact

Source: Made by Research Department, Mizuho Research Institute based upon 'Financial Statements Statistics of Corporations by Industry' (Ministry of Finance)

Additional Rate Hike Expected to Reduce Corporate Recurring Profits by 1.0%, Creating ¥1.1 Trillion in Profit Pressure

For corporates, the rise in interest rates associated with the additional hike is expected to reduce recurring profits by 1.0% across all firm sizes and all industries excluding finance and insurance (Chart 4).[3] In monetary terms, this

[3] The impact of the rate hike on corporate profits may also operate through indirect channels—for example, slower growth in domestic sales as economic overheating is restrained, or reduced downward pressure on the yen as the interest rate differential between Japan and abroad narrows. As this report presents only a simplified set of estimates, however, such indirect effects are not taken into account.

corresponds to a ¥1.1 trillion drag on profits. By capital size, the profit impact is relatively limited for firms with capital of ¥1 billion or more and for those with capital of ¥100 million to ¥1 billion, at –0.6% in each case. By contrast, the drag is larger for firms with capital of ¥10 million to ¥100 million, at –1.4%, and for those with capital of less than ¥10 million, at –6.6%. Smaller firms tend to generate less profit relative to their interest-bearing liabilities, leaving their earnings more sensitive to higher interest rates. Going forward, rising costs stemming from heightened tensions in the Middle East, together with the drag from higher interest rates, are likely to weigh on the management of small and micro enterprises.

In sum, raising the policy rate from 0.75% to 1% is estimated to have a direct interest-rate impact of +¥1.0 trillion per year on households and –¥1.1 trillion per year on corporates. These estimates, however, are aggregate figures for the household and corporate sectors as a whole. Importantly, the negative impact is likely to be concentrated in specific segments—young households with debt in the household sector, and small and micro enterprises in the corporate sector. Given the current economic and financial environment, a 1% policy rate should be regarded as no more than a waypoint. With further increases in interest rates in prospect, the central policy challenge is how to support these vulnerable segments in a manner consistent with the broader growth of the Japanese economy and the normalization of monetary conditions.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.

https://www.mizuhobank.co.jp/corporate/mhri/research/report/2026-0057/index.html