MHRI Brief

October 15, 2026

When Will the Burden of Rising Interest Rates on Japanese Corporates Intensify?

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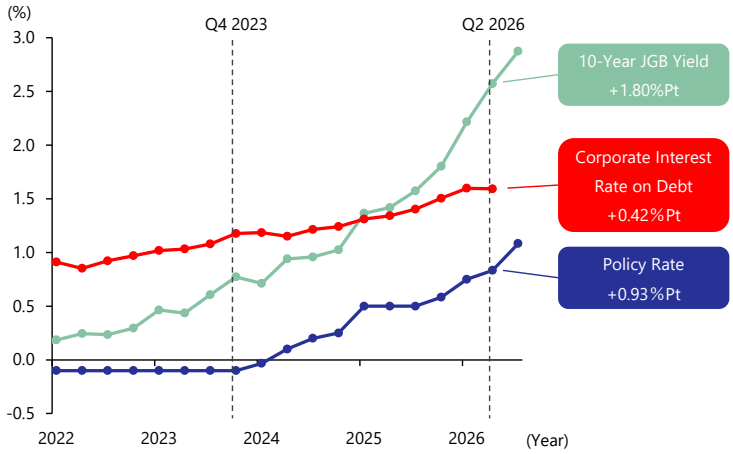
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Corporate Interest Burden Has Yet to Accelerate Despite Rising Policy and Sovereign Rates

At its Monetary Policy Meeting in September 2026, the Bank of Japan raised its policy rate from 1.0% to 1.25%, marking its highest level in 31 years since 1995[1]. Concurrently, the 10-year Japanese government bond (JGB) yield—the benchmark long-term interest rate—surpassed the pivotal 3% mark in September 2026. This also represents a 30-year high since 1996, indicating that both policy and sovereign yields have reached a historic turning point.

Nonetheless, the rise in interest rates actually paid by corporates has remained modest to date. Chart 1 compares corporate interest rates on interest-bearing debt (defined as interest expenses and discount charges divided by outstanding interest-bearing debt) with key benchmark rates—namely, the policy rate and the 10-year JGB yield. Between the fourth quarter of 2023 (prior to the termination of the negative interest rate policy on March 19, 2024) and the second quarter of 2026, the policy rate rose by +0.93%pt and the 10-year JGB yield climbed by +1.80%pt. In contrast, the corporate interest rate on interest-bearing debt rose by just +0.42%pt, indicating that the full impact on corporate interest expenses has yet to materialize.

Chart 1: Corporate Interest Rate on Debt and Benchmark Rates



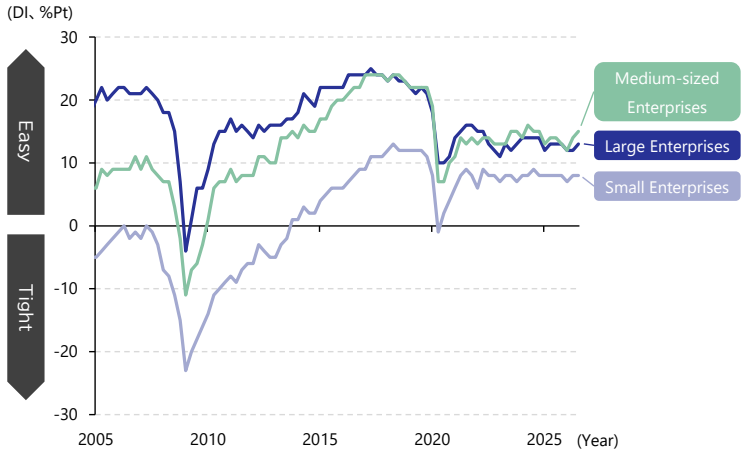
Note: The corporate interest rate on interest-bearing debt is calculated as interest expenses and discount charges divided by the average of beginning- and end-of-period interest-bearing debt (short- and long-term borrowings + corporate bonds + notes discounted). Covers all industries and firm sizes, excluding finance and insurance. Values in the legend represent changes between the pre-negative interest rate exit baseline (Q4 2023) and Q2 2026.

Source: Prepared by Research Department, Mizuho Research Institute based on data from Bank of Japan, Ministry of Finance.

Indeed, according to the BOJ's Tankan survey, the diffusion index (DI) for corporate financial positions (Chart 2)—calculated by subtracting the share of firms reporting "tight" from those reporting "easy"—has remained largely flat in positive territory since 2021. From the perspective of businesses, consecutive rate hikes and sharp increases in JGB yields have not yet translated into a tangible deterioration in fund-raising conditions.

[1] The current policy rate is the target for the uncollateralized overnight call rate, whereas the official discount rate is used as the policy rate for 1995 in the time-series comparison. Strictly speaking, therefore, the definition of the policy rate differs between the two periods.

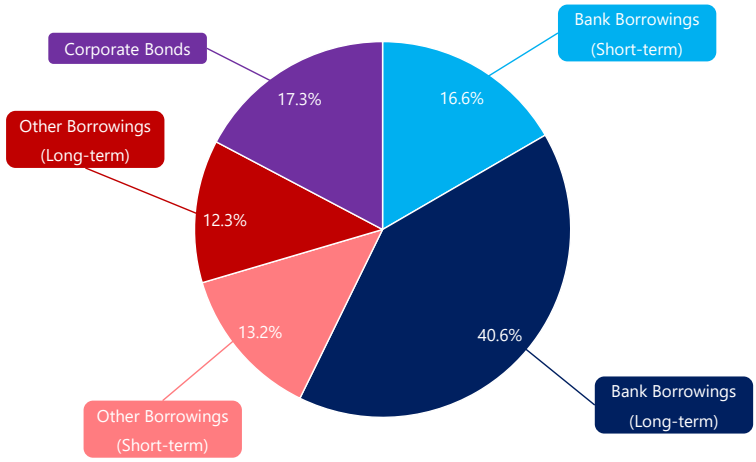
Chart 2: Corporate Financial Position DI



Note: Diffusion index calculated as the percentage share of firms reporting financial positions as "easy" minus those reporting "tight." Covers all industries. Large enterprises: capital of JPY 1 billion or more; Medium-sized enterprises: JPY 100 million to JPY 1 billion; Small enterprises: JPY 20 million to JPY 100 million.
Source: Prepared by Research Department, Mizuho Research Institute based on data from Bank of Japan.

Two primary factors account for this discrepancy. The first factor is the transmission lag from benchmark rates to newly contracted corporate borrowing rates. It takes time for adjustments in the policy rate and other market benchmarks to filter into the interest rates applied when corporates secure new financing. This lag is particularly pronounced in bank loans, which account for more than half of total corporate interest-bearing debt (Chart 3).

Chart 3: Composition of Corporate Interest-Bearing Debt



Note: Average of beginning- and end-of-period balances for FY2025. Covers all industries and firm sizes, excluding finance and insurance. Although interest-bearing liabilities include discounted notes, they are omitted from the chart due to their negligible share (approx. 0.1%).
Source: Prepared by Research Department, Mizuho Research Institute based on data from Ministry of Finance.

The second factor is the structural lag between newly contracted financing rates and the effective interest burden across the entire stock of outstanding debt. Even when marginal borrowing costs rise, they do not immediately reprice the total debt stock. Fixed-rate loans account for roughly 40% to 50% of outstanding corporate bank borrowing[2], and the vast majority of corporate bonds issued primarily by large enterprises carry fixed coupons. Consequently, a substantial volume of debt contracted during the preceding low-interest-rate environment remains

[2] According to Chart III-1-12 of the Bank of Japan's Financial System Report (April 2026), fixed-rate lending accounted for roughly 40% of corporate loans at city banks and between 45% and 50% at regional financial institutions (regional banks, regional banks II, and credit associations) as of end-September 2025.

on corporate balance sheets.

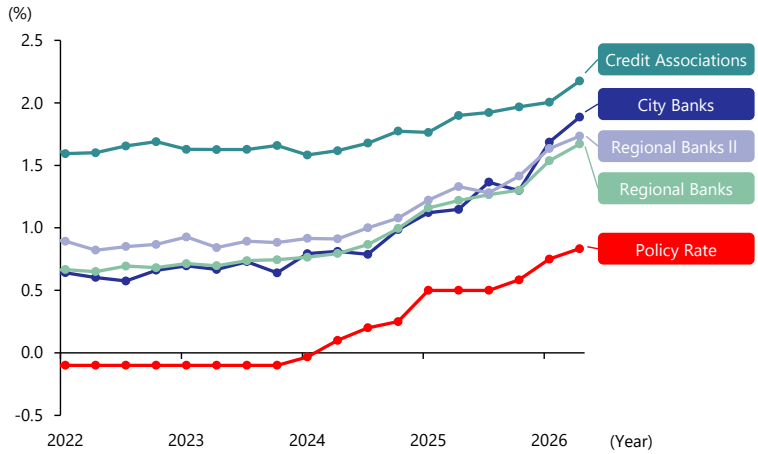
Accounting for these two lags, this report estimates when the corporate interest payment burden will begin to increase in earnest following the rise in policy rates and sovereign bond yields[3].

Slower Uptick in New Loan Rates at Regional Financial Institutions

We first examine the transmission lag from benchmark rates to new corporate borrowing rates. As shown in Chart 3, corporate interest-bearing liabilities consist primarily of borrowings from financial institutions and corporate bonds issued mainly by large enterprises. Among these, newly issued corporate bond yields track JGB yields closely with virtually no lag; therefore, this analysis focuses on the rates applied to new borrowings from financial institutions.

Chart 4 illustrates new bank lending rates by institutional category. While new lending rates at city banks have adjusted rapidly, the pace of increase at regional banks II and credit associations (shinkin banks) has been relatively subdued compared with the rise in the policy rate. This slower repricing among regional financial institutions contributes to the overall lag between benchmark rates and new corporate borrowing costs.

Chart 4: New Lending Rates by Financial Institution Category



Note: Interest rates on new yen-denominated loans extended during the period. Includes loans to individuals, the central government, and local public entities in addition to corporate loans.
Source: Prepared by Research Department, Mizuho Research Institute based on data from Bank of Japan.

Divergent lending rate structures among institutional categories largely explain this gap. At city banks, approximately 60% of corporate loans are floating-rate loans, the vast majority of which are tied directly to market interest rates (market-linked loans). As a result, shifts in financial markets are reflected almost immediately. In contrast, floating-rate loans at regional banks and credit associations have a high share of facilities tied to the short-term prime rate—a benchmark rate established independently by each institution for loans to creditworthy corporate clients. Although the short-term prime rate typically moves in response to policy rate adjustments, the timing and extent of revisions vary according to competitive conditions across institutions[4]. This dynamic tends to make new lending rate increases slower at regional banks II and credit associations than at city banks[5].

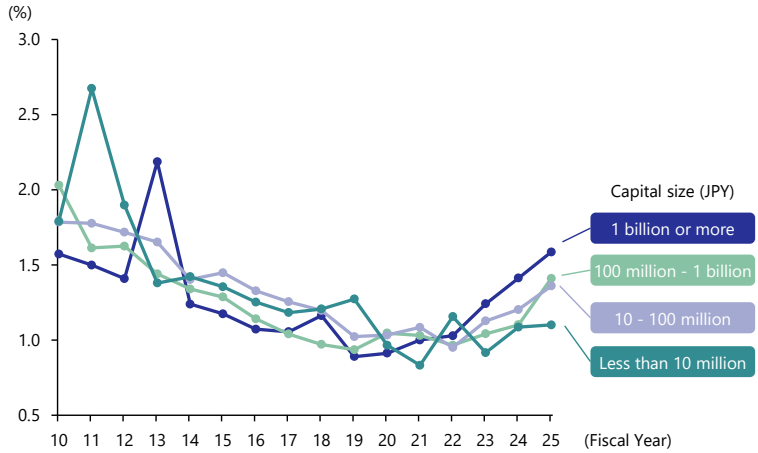
[3] Rising interest rates affect corporates not only through higher interest expense on debt (a headwind) but also through increased interest income on financial assets (a tailwind). This report focuses exclusively on the debt side; the asset-side impact will be addressed in a subsequent study.

[4] Chart VI-1-8 of the Bank of Japan's Financial System Report (April 2025) provides an empirical analysis of regional banks regarding the timing, magnitude, and loan application ratios of short-term prime rate increases following the BOJ's policy rate hike in July 2024.

[5] New lending rates by institutional category in Chart 4 include loans to individuals, the central government, and local public entities, in addition to corporate lending. Thus, differences in the pace of interest rate pass-through reflect not only disparities in corporate lending structures

These institutional disparities appear to have created divergences in the pace of debt-servicing cost increases across corporate size brackets. In the current rate-hiking cycle, the average borrowing cost has climbed rapidly for large enterprises (capitalized at JPY 1 billion or more), which rely heavily on city banks. By contrast, it has risen at a slower pace for small enterprises (capitalized at less than JPY 10 million), which depend primarily on regional financial institutions such as credit associations (Chart 5). While large firms enjoyed lower effective interest rates than small firms during the low-rate environment of the 2010s, this relationship has completely reversed. Although this is not attributable solely to bank lending rates—given that corporate bonds account for approximately one-third of large firms' interest-bearing liabilities—it is noteworthy that differences across banking sectors are affecting financing conditions differently depending on firm size.

Chart 5: Corporate Interest Rate on Debt by Capital Size



Note: Interest rate on interest-bearing debt is calculated as interest expenses and discount charges divided by the average of beginning- and end-of-period interest-bearing debt (short- and long-term borrowings + corporate bonds + notes discounted). Covers all industries, excluding finance and insurance.

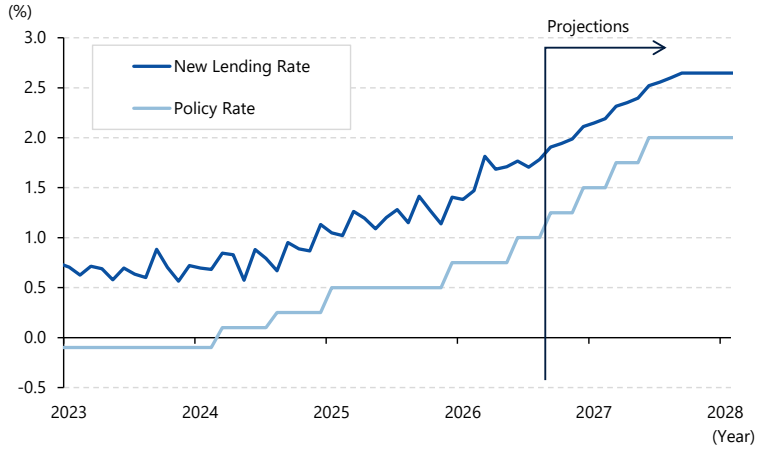
Source: Prepared by Research Department, Mizuho Research Institute based on data from Ministry of Finance.

How fast and how high will new lending rates rise if the BOJ pursues further rate hikes? An empirical analysis of historical relationships between the policy rate and new lending rates indicates that a 1%pt increase in the policy rate lifts new lending rates by 0.31%pt in the initial month, with the cumulative increase reaching 0.85%pt over the subsequent three months. Assuming the BOJ raises its policy rate to 2.0% by mid-2027[6], the average new bank lending rate (1.78% as of August 2026) is projected to climb to around 2.65% by the autumn of 2027 (Chart 6). This represents an increase of just under 2%pt relative to the level observed prior to the termination of the negative interest rate policy.

(market-linked vs. short-term prime rate-linked) but also differences in loan portfolio composition across types of financial institutions, such as the share of housing loans.

[6] Based on macroeconomic projections by Research Department, Mizuho Research Institute as of October 2026.

Chart 6: Projection of Financial Institutions' New Lending Rates



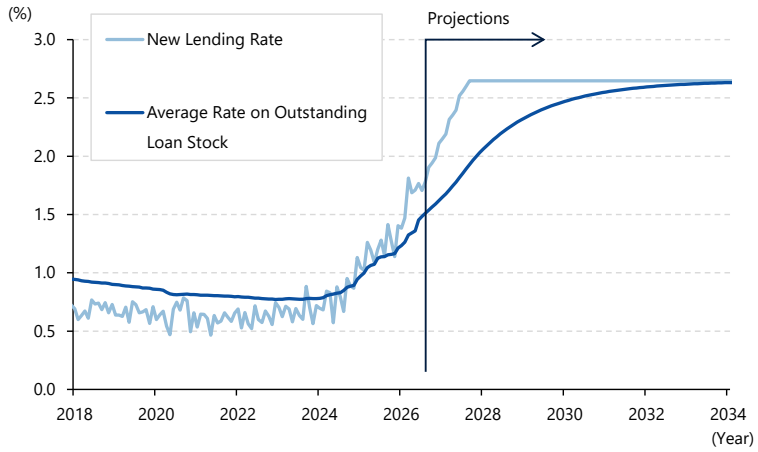
Note: Figures are for domestically licensed banks (excluding credit associations) and include non-corporate lending. Estimated using a distributed lag model in which the dependent variable is the first difference of the new lending rate and independent variables are lagged first differences of the policy rate (current month through 3 months prior).
Source: Prepared by Research Department, Mizuho Research Institute based on data from Bank of Japan.

Corporate Interest Burden Set to Accelerate Through FY2028, Weighing on Profits by JPY 3 Trillion Annually

Next, we evaluate the second factor: the lag between new financing costs and the repricing of the total outstanding debt stock. We assess how quickly increases in new lending rates and primary corporate bond yields pass through to their respective outstanding balances, and estimate when the rise in corporate debt service burdens will fully take hold.

A comparison between new lending rates and average rates on outstanding loan balances shows that, in the current tightening phase, the rise in rates on the total loan stock has lagged behind that of newly contracted loans (Chart 7). This is because a certain share of bank lending is fixed-rate, meaning that higher marginal rates only affect the broader balance sheet as loans mature, roll over, or expand.

Chart 7: Projection of Bank Lending Rates

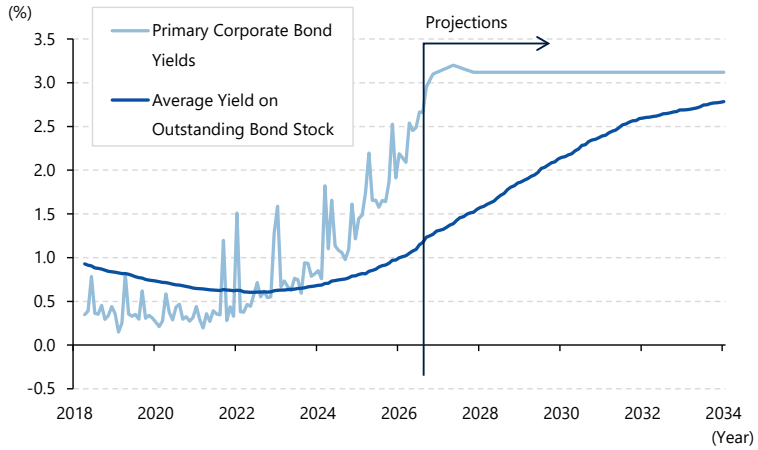


Note: Figures are for domestically licensed banks (excluding credit associations) and include non-corporate lending. Forward-looking projections model new lending rates using a distributed lag specification based on the policy rate, and the average rate on outstanding loans using a dynamic error-correction model based on its own lag and new lending rates.
Source: Prepared by Research Department, Mizuho Research Institute based on data from Bank of Japan.

An empirical analysis of historical data reveals that it takes roughly five years for an increase in new lending rates to fully pass through to the average rate on the outstanding stock. Assuming that new lending rates reach approximately 2.65% by autumn 2027, as projected in Chart 6, the average rate on outstanding bank loans (1.51% as of August 2026) is projected to rise gradually to around 2.0% by year-end 2027 and 2.3% by year-end 2028, eventually converging toward the new lending rate level of 2.65% in the early 2030s.

A similar dynamic applies to corporate bonds. Chart 8 compares newly issued bond yields with average yields on outstanding bonds. While newly issued yields have risen since around 2022 and are currently in the upper 2% range, the average coupon on outstanding bonds remains just above 1%. This indicates that repricing the existing stock of debt takes longer for corporate bonds than for bank loans. In Japan, newly issued corporate bonds carry an average maturity of five to six years, and primary yields move broadly in tandem with 5-year JGB yields; thus, there is virtually no lag between sovereign benchmarks and new corporate bond issuance yields.

Chart 8: Projection of Corporate Bond Yields



Note: Weighted average yield at issuance, excluding bonds with interest deferral clauses and perpetual bonds. Historical data compiled by Mizuho Research Institute based on individual bond issues. Forward-looking primary bond yields are projected as forecasted 5-year JGB yields plus historical average spreads; outstanding yields are modeled based on refinancing and new issuance dynamics.

Source: Prepared by Research Department, Mizuho Research Institute based on data from Japan Securities Dealers Association.

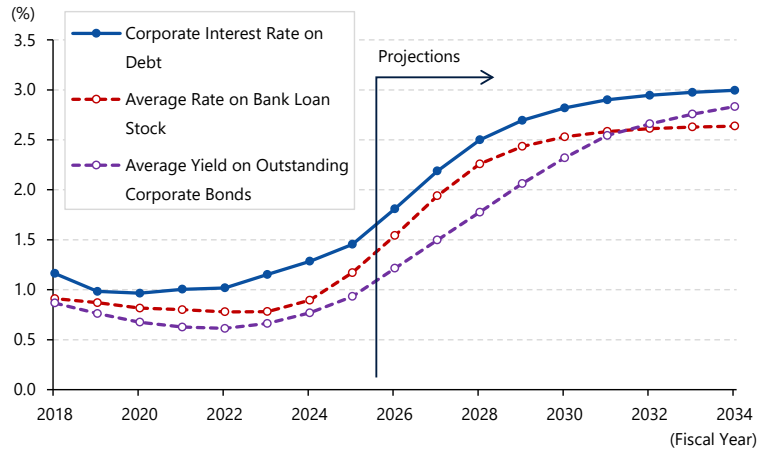
Assuming that the stock of outstanding corporate bonds expands at an annual rate of +2% in line with inflation, and that maturing debt is refinanced alongside additional new issuance, the average yield on outstanding corporate bonds is estimated to climb at a moderate pace of approximately +0.3%pt per year through the early 2030s (assuming primary yields track projected 5-year JGB yields). Because longer-dated maturities, such as 7- and 10-year bonds, represent a non-trivial share of the market, higher issuance costs require considerable time to fully reflect across the outstanding stock.

Finally, by combining our projections for bank lending rates (corporate borrowing rates[7]) and corporate bond yields, we evaluate their combined impact on corporate effective cost of debt. Chart 9 shows the projected corporate interest rate on debt, assuming that the respective shares of bank borrowings and corporate bonds within total interest-bearing debt remain constant. Between FY2023 and FY2025, the corporate interest rate on interest-bearing debt rose modestly by +0.1%pt to +0.2%pt per year. However, this pace is projected to accelerate to +0.3%pt to

[7] While data on bank lending rates include non-corporate borrowers, for analytical simplicity this report assumes that corporate borrowing rates move in tandem with overall bank lending rates.

+0.4%pt per year between FY2026 and FY2028, driven primarily by rising costs on bank borrowings, which constitute the bulk of corporate debt. After 2029, as bank borrowing costs stabilize, continued repricing of corporate bonds is expected to push the overall rate on interest-bearing liabilities gradually toward approximately 3% into the 2030s.

Chart 9: Projection of Effective Corporate Interest Rate on Debt



Note: Covers all industries and firm sizes, excluding finance and insurance. Forward-looking estimates assume constant portfolio shares for bank borrowings and corporate bonds based on the Financial Statements Statistics of Corporations by Industry.

Source: Prepared by Research Department, Mizuho Research Institute based on data from Ministry of Finance, Bank of Japan, Japan Securities Dealers Association.

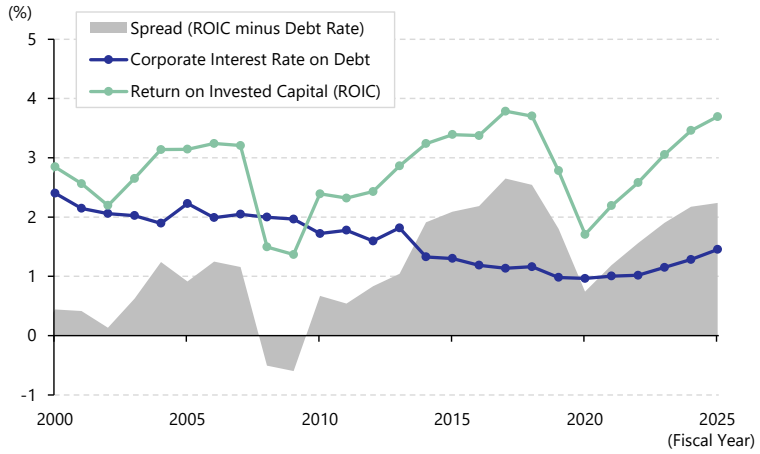
Consequently, the burden of higher interest payments on Japanese corporates is projected to intensify through FY2028. Assuming that the corporate sector's total interest-bearing liabilities expand by +2% annually, corporate interest expenses would rise by approximately JPY 3 trillion per year. This represents an annual drag of 2.4% on recurring profits (which stood at JPY 124.8 trillion in FY2025, excluding financial and insurance sectors)[8].

As borrowing costs rise, corporate management will be challenged to deliver returns that sufficiently exceed their funding costs. In FY2025, the corporate return on invested capital (ROIC) of 3.70% maintained a spread of more than 2%pt over the effective interest rate on interest-bearing debt (1.45%), indicating that corporate capital efficiency was sufficient to absorb external funding costs (Chart 10)[9]. However, if the effective debt interest rate advances toward 3% while ROIC remains at current levels, this spread would compress to levels seen during the onset of the COVID-19 pandemic in FY2020, diminishing the financial buffer between operating earnings and debt service obligations. As interest rates in Japan rise further and debt-servicing burdens increase in earnest, companies will increasingly need to place greater emphasis on capital efficiency in their management practices.

[8] Because this calculation considers only the increase in gross interest expenses, the net drag on recurring profits would be somewhat mitigated if higher interest income were taken into account.

[9] While ROIC should theoretically be evaluated against the weighted average cost of capital (WACC), which accounts for equity as well as debt costs, this report compares ROIC directly with the interest rate on interest-bearing debt to assess the direct impact of rising interest rates.

Chart 10: Corporate Interest Rate on Debt and Return on Invested Capital (ROIC)



Note: Covers all industries and firm sizes, excluding finance and insurance. ROIC is calculated as net operating profit after tax (NOPAT) divided by the average of beginning- and end-of-period invested capital (interest-bearing debt + shareholders' equity).

Source: Prepared by Research Department, Mizuho Research Institute based on data from Ministry of Finance.

The original Japanese report is available at the link below.

https://www.mizuhobank.co.jp/corporate/mhri/research/report/2026-0135/index.html

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