

Impact of the Bank of Japan's additional interest rate hike on households and businesses

Households benefit while businesses suffer. Note the differing impacts by attribute

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An additional rate hike to 0.75% is deemed certain — estimating the potential impact on households and businesses

The Bank of Japan is expected to raise its policy interest rate from the current 0.5% to 0.75% at its monetary policy meeting on December 18 and 19. We have calculated the potential impact of this additional rate hike on households and businesses.¹

Chart 1 shows actual and projected interest rates before and after the additional rate hike. While the policy rate increase was 0.25 percentage points (%pt), rising from 0.5% to 0.75%, the long-term interest rate (10-year government bond yield) reflects the recent upward movement, with the post-hike projection set at 2.01% (a 0.49%pt increase).

The deposit interest rate (ordinary) is projected to rise by 0.04%pt based on historical trends following additional rate hikes. This represents a smaller increase compared to the previous rate hike in January 2025 (a 0.1%pt increase). The deposit interest rate (10-year fixed-term deposit) is presumed to rise by 0.25%pt from 0.61% to 0.87%, driven by an increase in long-term interest rates.

For mortgages, we assumed the variable interest rate (for new loans after applying a preferential rate discount) will increase by 0.25%pt, from 0.58% to 0.83% (the rate applied to existing variable-rate mortgage borrowers also rising by the same amount). The fixed interest rate (the minimum rate for Flat 35) was assumed to increase by 0.17%pt, from 1.89% to 2.06%. For fixed-rate mortgages, existing borrowers will not be affected by rising interest rates, with only new borrowers being impacted. In Japan, approximately 80% of new mortgage loans are variable-rate. It was assumed that the share of variable-rate versus fixed-rate loans will not change around the time of the additional rate hike.

In the corporate sector, we assumed an interest rate increase of 0.40%pt on interest-bearing liabilities and an increase of 0.19%pt on interest-bearing assets across all company sizes and industries. Both rates were expected to move in line with long-term interest rates, while reflecting the tendency for liability interest rates to react more strongly to fluctuations in long-term interest rates.

¹ Refer to Hattori and Arita (2024) and Hattori (2025a) for details on the estimation methods

The overall impact on household finances is approximately 0.8 trillion yen annually, amounting to a 15,000-yen increase per household

Based on the assumptions in Chart 1, we first estimated the overall impact on household finances. The results are shown in Chart 2. Note that the impact on household finances was also estimated in the report published on December 8 (Hattori, 2025b), but this report updates the estimates to reflect the most recent trends.

The net impact of the additional interest rate hike on Japanese households was positive at 0.8 trillion yen annually (Chart 2). Our breakdown analysis shows that increased interest income from time deposits significantly boosted the positive effect. The rise in long-term interest rates appears to cause relatively large increases in fixed-term deposit rates. While existing fixed-term deposits are unaffected by rate hikes due to their fixed rates, Japanese fixed-term deposits hold a large share with terms of several months to about one year. This means there is always a certain demand for rollovers, and the data reflect the benefit of higher rates when deposits are rolled over.

Converting the overall impact on household finances to a per-household basis shows an annual increase of 15,000 yen (Chart 3). When broken down by age group of the household head, households aged 50 and above are projected to see a net positive effect from the additional rate hike. Older households tend to have made progress in repaying debts such as mortgages while accumulating substantial financial assets, making them more likely to benefit from rising interest rates. In contrast, households aged 29 and under as well as households in their 30s and 40s will see a net negative impact. Unlike older households, younger households have recently taken on debts such as mortgages and carry significant outstanding balances with few financial assets accumulated. Consequently, the burden of rising interest rates is particularly pronounced for these households.

[Chart 1: Actual interest rates and estimate assumptions]

	Before rate hike (actual)	After rate hike (projected)	Increase
Policy Interest Rate	0.50%	0.75%	0.25%pt
Long-Term Interest Rate (10-Year Government Bond)	1.53%	2.01%	0.49%pt
Deposit Interest Rate (Ordinary)	0.18%	0.23%	0.04%pt
Deposit Interest Rate (10-Year Term)	0.61%	0.87%	0.25%pt
Mortgage Interest Rate (Variable)	0.58%	0.83%	0.25%pt
Mortgage Interest Rate (Fixed)	1.89%	2.06%	0.17%pt
Corporate Interest Rate on Interest-Bearing Liabilities	1.87%	2.27%	0.40%pt
Corporate Interest Rate on Interest-Bearing Assets	2.51%	2.70%	0.19%pt

Note: "Before additional rate hike" represents the average value for the period corresponding to a 0.5% policy rate. "After additional rate hike" represents the author's projected value. Deposit rates are based on Bank of Japan statistics. Variable-rate mortgage rates are based on major city banks' new loan rates (with preferential rate discounts applied). Fixed-rate mortgage rates are based on the lowest Flat 35 rates. Corporate interest-bearing debt and asset interest rates are values for all company sizes and industries (excluding finance and insurance).

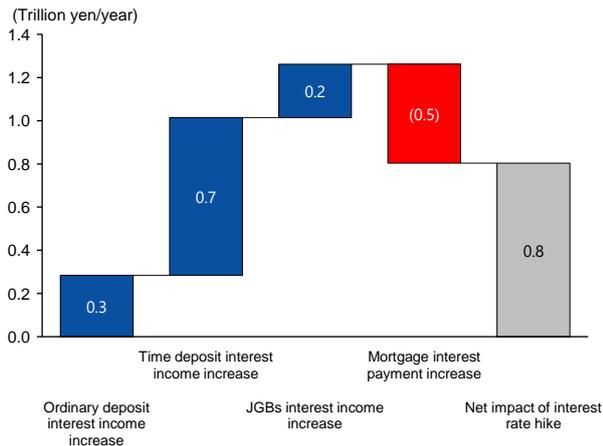
Source: Made by MHRT based on the Bank of Japan, Ministry of Finance, various financial institutions, and Japan Housing Finance Agency.

Indebted households will be negatively impacted by 18,000 yen per household, with younger households facing significant adverse effects

Since the impact on overall household finances includes households without liabilities such as mortgages, we recalculated the figures specifically for households holding liabilities. The result shows that for households with liabilities, the impact of the additional rate hike turned negative, amounting to an annual loss of 18,000 yen per household (Chart 4). The burden of increased interest payments arising from higher interest rates on variable-rate mortgages weighed on the overall figures. The negative impact was particularly significant among younger

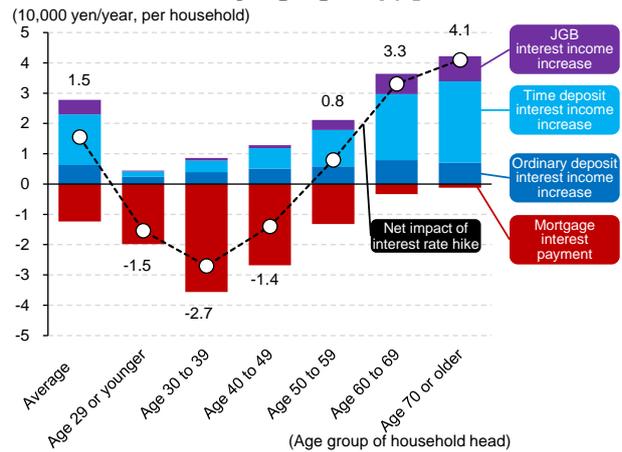
households: those aged 29 and under saw an annual decrease of 50,000 yen, while those in their 30s experienced an annual decrease of 45,000 yen. Given that household heads in their 20s and 30s are the primary homebuyers with large outstanding mortgage balances, and that most recent mortgage borrowing has been variable-rate loans, their balance sheets are structurally vulnerable to rising interest rates.

[Chart 2: Impact of additional interest rate hike on overall household finances]



Note: Interest income from time deposits is accrued pro rata over the term. For mortgages, the 5-year rule for variable-rate loans is taken into account.
 Source: Made by MHRT based on the Ministry of Internal Affairs and Communications, Cabinet Office, and Bank of Japan.

[Chart 3: Impact of additional interest rate hike on households (All households with two or more members, by age group)]

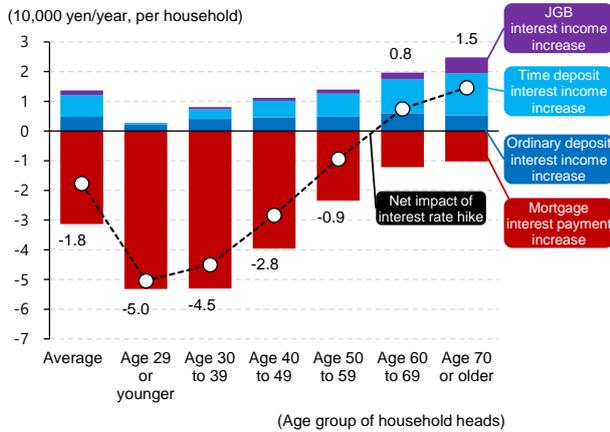


Note: The target is all households with two or more members; figures in the chart represent the total interest rate impact.
 Source: Made by MHRT based on the Ministry of Internal Affairs and Communications, Cabinet Office, and Bank of Japan.

Note that for adjustable-rate mortgages, if the “5-year rule” is applied—where the principal and interest repayment amount is reviewed every five years—an increase in interest rates does not necessarily mean an immediate rise in monthly payments. Chart 5 simulates the principal and interest repayment amount under the 5-year rule for a model case: a variable-rate mortgage with a loan amount of 30 million yen and a repayment period of 35 years, initially borrowed at an interest rate of 0.58%, with the rate rising to 0.83% in the second year of repayment. In this case, even if interest rates rise in the second year, the monthly principal and interest repayment amount remains unchanged at 79,000 yen until the fifth year, finally increasing to 83,000 yen in the sixth year. However, even during the period from the second to the fifth year when the monthly repayment amount remains constant, the interest portion of the repayment increases due to the rise in interest rates. Ultimately, the total interest paid over the 35-year period reflecting the higher interest rate amounts to 4.5 million yen, representing an increase of 1.37 million yen compared to the total interest paid if the interest rate remained unchanged at 0.58% (3.13 million yen).

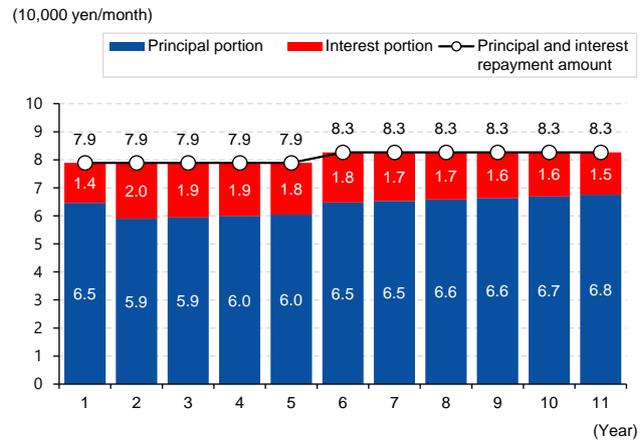
Thus, while the impact of an additional rate hike is positive for households overall, it is important to note that certain households, based on attributes such as debt ownership and age, are more susceptible to negative effects. For these households, the key question is whether factors beyond rising interest rates—such as increased labor income from recent wage hikes, higher dividends from stocks held, or capital gains—can offset the negative effects of an additional rate hike on disposable income.

[Chart 4: Impact of additional interest rate hike on households (Households with two or more members and debt, by age group)]



Note: The scope is households with two or more members and debt; figures in the chart represent the total interest impact.
 Source: Made by MHRT based on the Ministry of Internal Affairs and Communications, Cabinet Office, and Bank of Japan.

[Chart 5: Simulation of repayment amount changes for variable-rate mortgages due to an additional interest rate hike]



Note: Loan amount = ¥30 million, repayment period = 35 years, equal principal and interest payments. Assuming the interest rate rises from 0.58% to 0.83% in the second year of repayment.
 Source: Made by MHRT.

An additional rate hike reduces firms’ ordinary profits by 0.9%. Smaller companies tend to be more significantly affected.

Next we examined the impact of an additional rate hike on corporate earnings. Here, we estimated the effect on ordinary profits from changes in interest paid and interest received by companies (excluding financial and insurance industries) as a direct consequence of rising interest rates. While other potential effects of a rate hike include indirect impacts such as slowing domestic sales growth due to curbing an overheated economy and pressure for a stronger yen through narrower domestic-foreign interest rate differentials, this analysis is a simplified estimate and does not consider such indirect effects.²

Looking at the projected results in Chart 6, an additional interest rate hike will reduce corporate ordinary profits by 0.9% across all company sizes and industries (excluding finance and insurance). Ordinary profits for FY2024 totaled 114.7 trillion yen (Financial Statements Statistics of Corporations by Industry, Annually), meaning this 0.9% reduction equates to 1 trillion yen. By capital size, the downward pressure on ordinary profits is relatively low for “10 billion yen or more” and “100 million to 1 billion yen” at -0.5% each. However, the impact is higher for “10 million to 100 million yen” at -1.6% and “less than 10 million yen” at -5.1%. By industry the decline in ordinary profits was particularly large in some non-manufacturing sectors, such as healthcare and welfare, accommodation and food services, real estate, and electricity and gas (Chart 7).

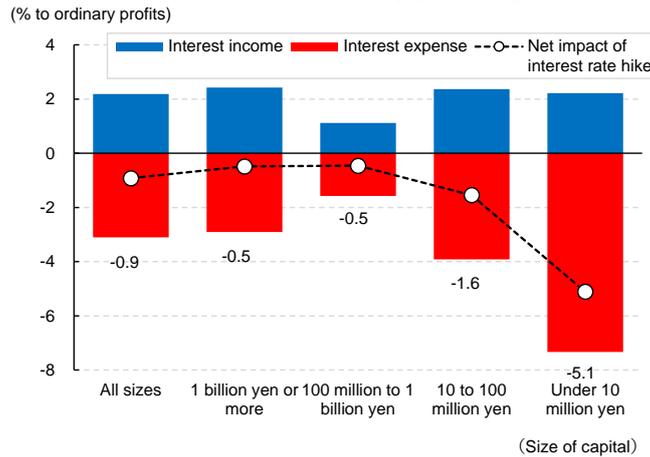
Smaller companies and certain non-manufacturing sectors are particularly vulnerable to downward pressure on ordinary profits from additional rate hikes because of their high interest-bearing debt dependency (interest-bearing debt divided by total assets) and low ROA (ordinary profit divided by total assets). This indicates a financial structure that is fragile to rising interest rates. Given the high likelihood of further interest rate increases, these companies will need to take measures to strengthen their funding and operational efficiency.

The results of this analysis indicate that raising the policy interest rate from the current 0.5% to 0.75% will

² The significance of these indirect effects has been examined in Hattori and Arita (2024) and Hattori (2025a), although their estimation assumptions differ from those in this analysis.

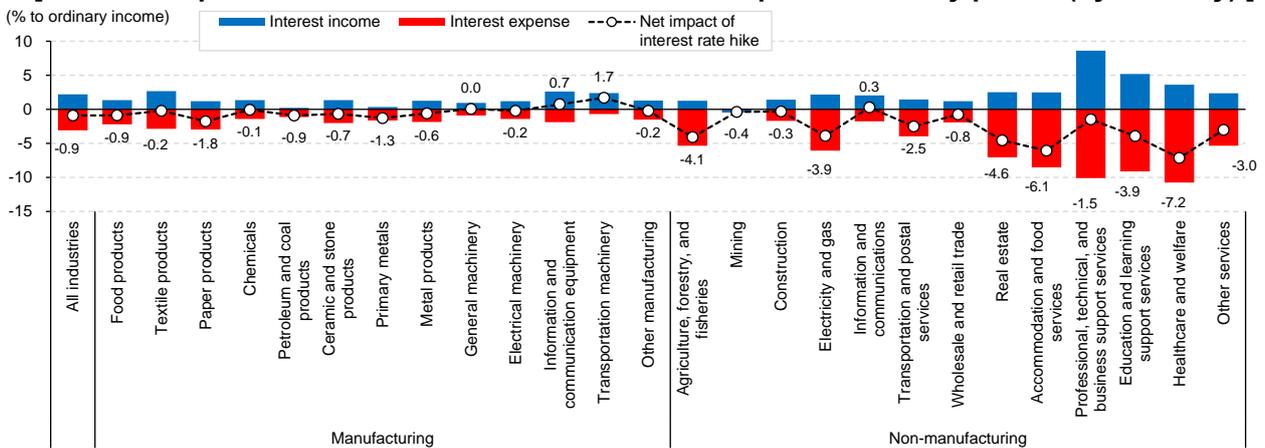
have a positive effect on households (+0.8 trillion yen) and a negative effect on businesses (-1 trillion yen) through the direct impact of higher interest rates.³ However, these are estimates for households and businesses as a whole, and the impact varies significantly depending on household attributes such as debt holding and age, and for businesses, their size and industry. To assess the full impact of an additional rate hike, it is necessary to closely monitor future trends in personal consumption and corporate performance at a more granular level for both households and businesses.

[Chart 6: Impact of additional interest rate hike on corporate ordinary profits]



Note: The scope covers all industries except finance and insurance; figures in the chart represent the total interest rate impact.
 Source: Made by MHRT based on the Ministry of Finance.

[Chart 7: Impact of additional interest rate hike on corporate ordinary profits (by industry)]



Note: Data exclude financial and insurance industries; figures in the chart represent the total interest rate impact.
 Source: Made by MHRT based on the Ministry of Finance.

Reference

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

<https://www.mizuho-rt.co.jp/business/research/report/2025-0153/index.html>

³ Note that this report limits the calculation to households and businesses (excluding financial and insurance institutions) as economic entities, and restricts the transmission channels to the direct impact of rising interest rates. Numerous factors are not included (such as the indirect effects on companies mentioned above, impacts on housing and capital investment, and effects on financial institutions and government). Therefore, the impact on the overall economy cannot be discussed based solely on the calculations presented in this report.

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