

The Impact of Rising Interest Rates in Japan on Corporate Earnings

15 October 2026

There are no signs of a deterioration in corporate financial positions

The Bank of Japan (BoJ) continued to raise interest rates even after ending its negative interest rate policy in 2024, increasing the policy rate to 1.25% in September 2026. Looking at corporate perceptions of the financial environment, an increasing number of companies report that borrowing rates have “risen” to levels not seen since the bubble economy of the late 1980s. On the other hand, many companies, including small and medium-sized enterprises, continue to report that their financial positions are “easy” (Figure 1).

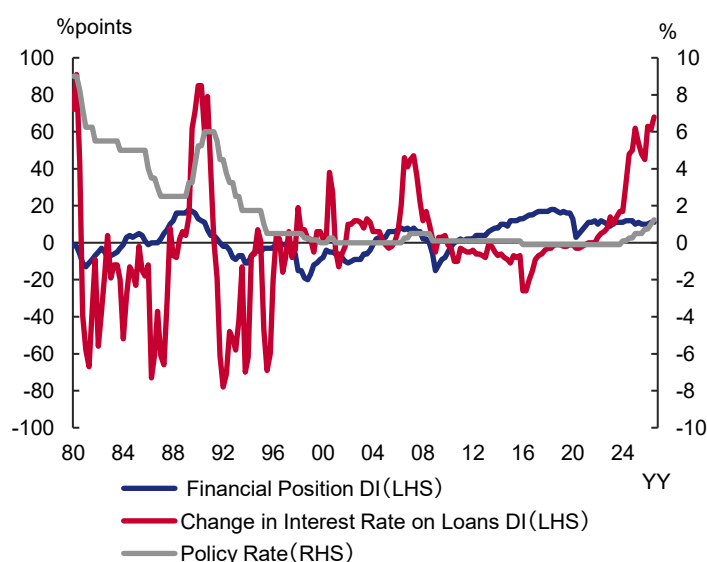
One reason why the impact on financial positions has remained limited is the continued low level of borrowing rates. During the period in which the BoJ maintained its negative interest rates, borrowing rates fell below 1% at times. Even after interest rate hikes, borrowing rates have remained at around 1.6% (as of the April–June 2026 quarter) (Figure 2), and the pace of increase in corporate interest payments has remained moderate (Figure 4 on the next page).

That said, borrowing rates are expected to rise in line with the further anticipated interest rate hikes. Therefore, we will examine below the potential impact this may have on corporate earnings.



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Figure 1: Policy Interest Rates and the Bank of Japan's Tankan Survey on Corporate Financial Conditions



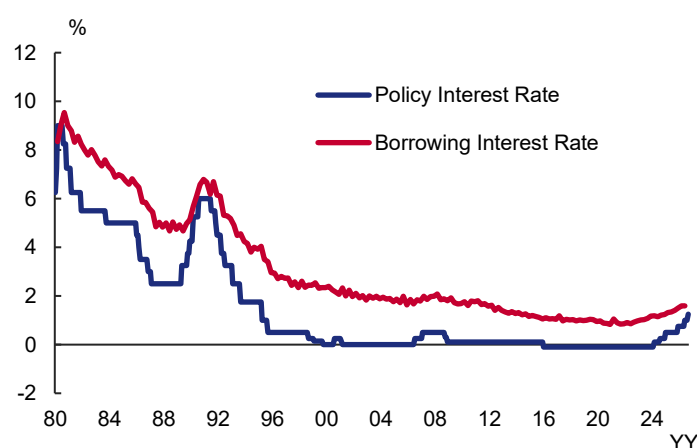
Source: INDB, LSEG Data & Analytics, Asset Management One Co., Ltd.

Note: 1. Quarterly data from Q1 1980 to Q3 2026

2. Financial Position DI and Change in Interest Rate on Loans DI are based on All enterprises, all industries

3. DI ("easy" - "tight") for Financial Position, DI ("rise" - "fall") for Change in Interest Rate on Loans

Figure 2: Policy Interest Rates and Borrowing Interest Rates



Source: INDB, Ministry of Finance Japan, Asset Management One Co., Ltd.

Note: 1. Quarterly data from Q1 1980 to Q2 2026 for borrowing interest rates

2. Monthly data from January 1980 to September 2026 for policy interest rates

3. Borrowing Interest Rates are based on Financial Statements Statistics of Corporations (all enterprises and all industries, excluding Finance and Insurance)

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Decreased Reliance on Borrowings

Looking at corporate reliance on borrowings since 1980 (Figure 3), it has remained high throughout the 1990s, before beginning to decline, and has hovered at around 30 percent since 2010. In addition to lower interest rates, this reduced reliance on borrowing is believed to have contributed to the fact that the increase in interest payments following interest rate hikes has remained moderate.

Based on the Financial Statements Statistics of Corporations, ordinary income (for all enterprises and industries, excluding Finance and Insurance) reached 124.8 trillion yen in fiscal year 2025, the highest level on record and it is expected to increase further in fiscal year 2026. This growth is driven not only by an increase in operating income but also by a sharp rise in non-operating income, including interest income.

Figure 3: Reliance on Borrowings



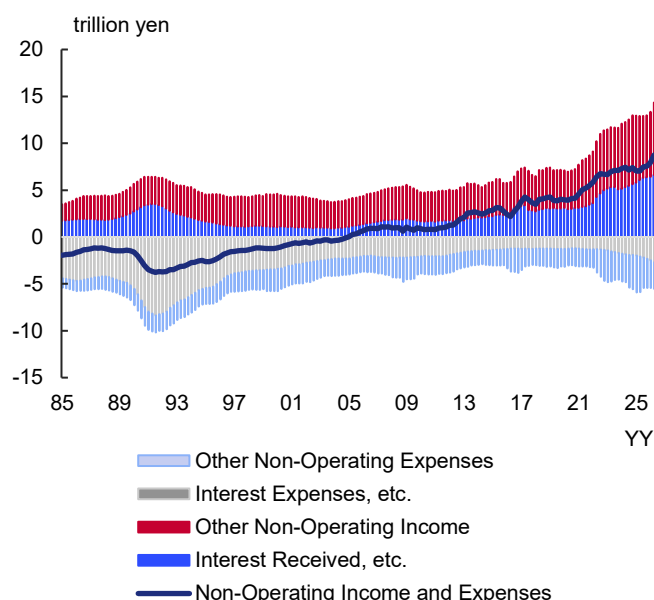
Source: Ministry of Finance Japan, Asset Management One Co., Ltd.

Note: 1. Quarterly data from Q1 1980 to Q2 2026

2. Reliance on Borrowings Ratio = (Borrowings from financial institutions+ Other Borrowings + Bonds) / (Liabilities and net assets)

3. Based on Financial Statements Statistics of Corporations (all enterprises and all industries, excluding Finance and Insurance)

Figure 4: Non-Operating Income and Expenses



Source: Ministry of Finance Japan, Asset Management One Co., Ltd.

Note: 1. 4-quarter moving average data from Q1 1985 to Q2 2026

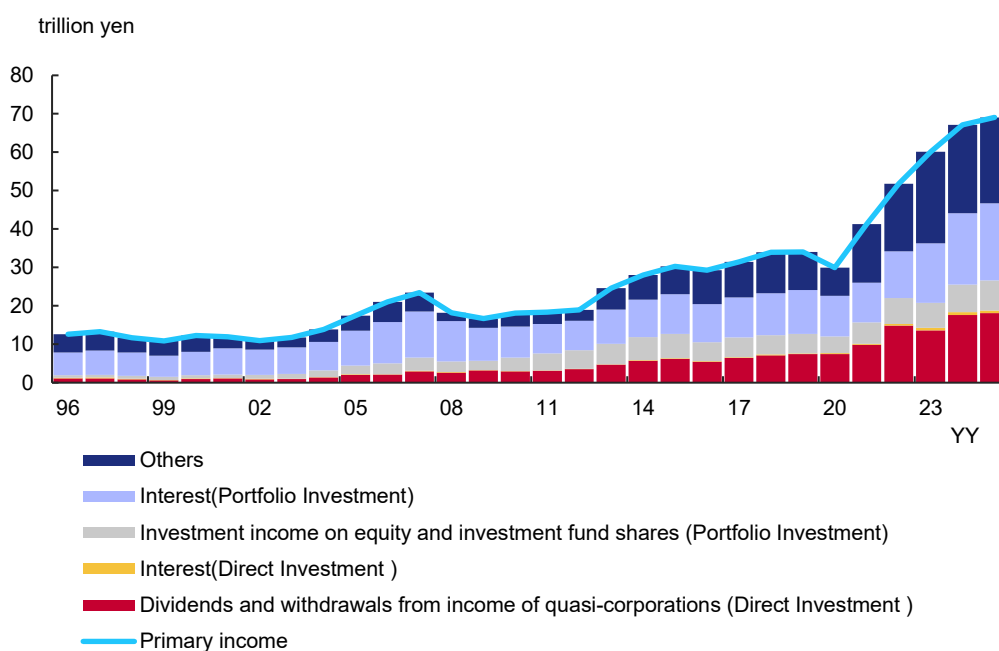
2. Interest Expenses etc. and Other Non-Operating Expenses are shown as negative amounts

3. Based on Financial Statements Statistics of Corporations (all enterprises and all industries, excluding Finance and Insurance)

Increase in Non-Operating Income

Non-operating income, including interest income, has exceeded non-operating expenses, including interest expense, since around fiscal year 2004. The resulting positive balance has continued to widen (Figure 4). The increase in non-operating income appears to be largely driven by factors such as higher dividends from overseas subsidiaries (Figure 5). Combined with the weakening of the yen, this has accelerated the growth in non-operating income since 2022. Although interest expense is expected to increase as interest rates increase, the negative impact on corporate earnings is expected to be mitigated to a certain extent because interest income will also increase simultaneously. Furthermore, in this cycle of interest rate hikes, companies have become more proactive in passing on price increases amid an ongoing economic recovery, contributing to inflation. As a result, while interest expense is expected to rise due to higher borrowing rates, if the upward trend in sales and ordinary income continues alongside the rise in interest rates, it may be possible to offset the increased costs resulting from higher interest rates.

Figure 5: Primary income in Japan's Balance of Payments



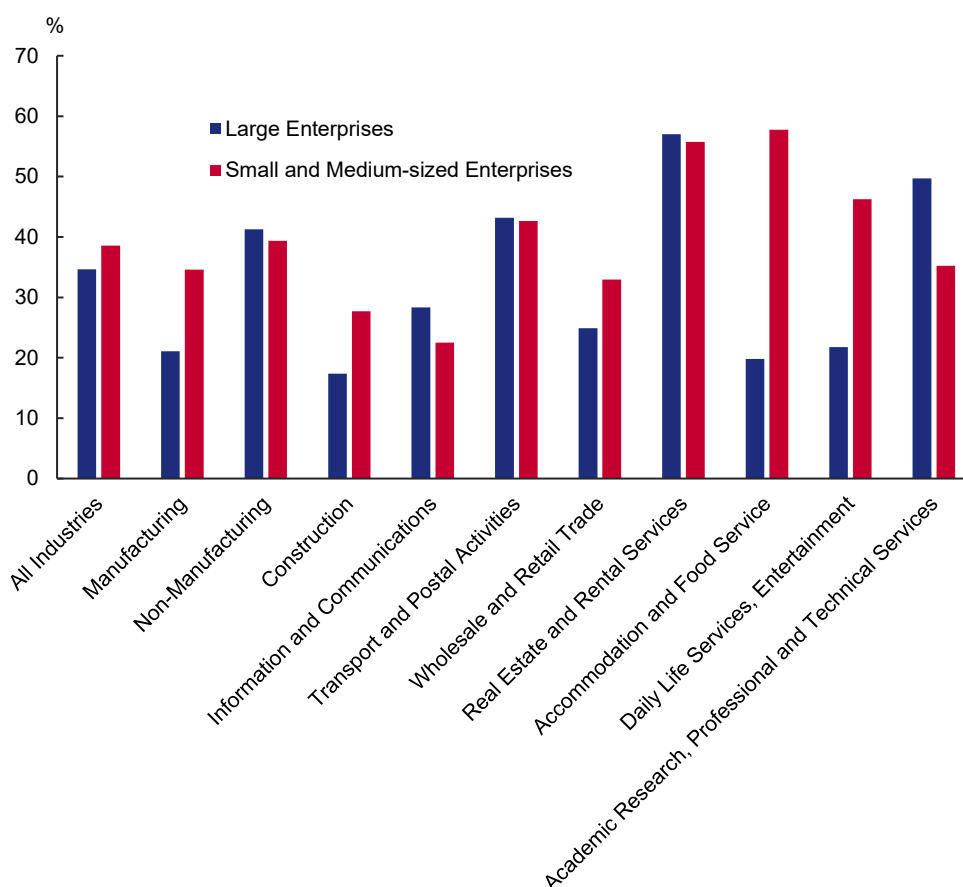
Source: INDB, Asset Management One Co., Ltd.
Note: Annual data from FY1996 to FY2025

Widening Disparities in Corporate Performance

Figure 6 shows companies' reliance on borrowings by size and industry. Across all industries, small and medium-sized enterprises rely more heavily on borrowing than large enterprises. By industry, the non-manufacturing sector shows a higher degree of reliance on borrowings than in the manufacturing sector. In particular, the "Real Estate and Rental Services" sector, as well as the "Accommodation and Food Service" sector among small and medium-sized enterprises, have levels of reliance on borrowing approaching 60 percent.

In these sectors, rising borrowing rates are likely to put downward pressure on ordinary income through increased interest payments. During periods of rising interest rates, disparities in corporate performance are likely to become more pronounced. This is a phase in which companies' ability to pass on costs and their efforts to improve profit margins through high-value-added strategies will once again be put to the test.

Figure 6: Reliance on Borrowings (by Size and Industry)



Source: Ministry of Finance Japan, Asset Management One Co., Ltd.

Note: 1. As of FY2025

2. Corporations with capital of 1 billion yen or over for large enterprises. Corporations with capital of under 100 million yen for small and medium-sized enterprises.

3. Reliance on Borrowings Ratio =
$$\frac{\text{Borrowings from financial institutions} + \text{Other Borrowings} + \text{Bonds}}{\text{Liabilities and net assets}}$$

4. Based on Financial Statements Statistics of Corporations (all industries, excluding Finance and Insurance)

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