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Pathways for Financial and Capital Markets to Foster a “Virtuous Cycle of Asset Formation and Growth”

Activating the Corporate Bond Market and Shifting Household Asset Allocation have key roles to play

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Summary

- To activate domestic investment by corporations, it is essential to realize a “virtuous cycle of asset formation and growth,” in which household financial assets are channeled into corporate investment, and the benefits of corporate growth flow back to households. In Japan, a bank lending–centered financial system has been maintained; however, excessive reliance on borrowing has drawbacks, such as suppressing corporate risk-taking. Therefore, activation of the corporate bond market is indispensable for achieving this virtuous cycle.
- As corporations step up investment, the leverage ratio is expected to rise, and if the share of corporate bonds in total liabilities increases to an optimal level, the outstanding amount of corporate bond financing could reach approximately 620 tril yen by FY2040 (about five times the level in FY2024). However, achieving this will require addressing bottlenecks in the corporate bond market, including diversification of the investor base and stimulation of demand for lower-rated bonds.
- In addition, if households continue to rebalance their asset portfolios and the proportion of risky assets (such as stocks, mutual funds, and corporate bonds) rises from the current level in the low 20% range to 35% or higher, there is a high likelihood that household financial assets will expand to approximately 4,600 tril yen by FY2040 (about 1.9 times that of 2025). It is important to maintain the momentum of the shift “from savings to investment”.