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With likely flat/lower MTM losses, FY27 RBI dividend could be >Rs3tn

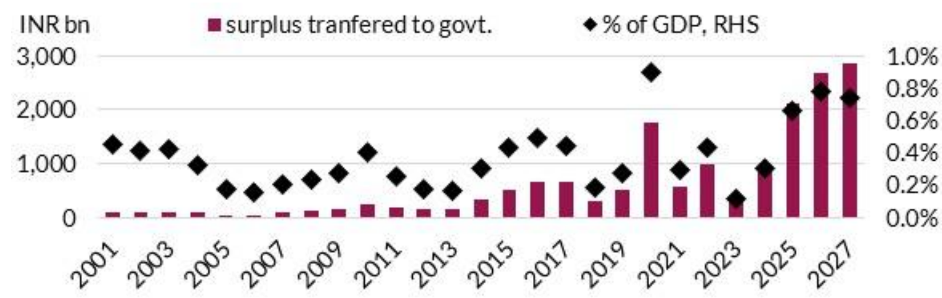
RBI's FY26 annual report helps understand the muted rise in dividend despite a 26% jump in gross income. Gains from FX trades (52% YoY; 65% of incremental gross income) and 12% YoY rise in interest income were offset by larger provisions. This was due to Rs1.1tn of MTM losses on FX forwards, and local and foreign bonds. In FY27, assuming: i) 10% balance sheet (B/S) growth; ii) lower MTM losses (limited to FX, as bonds may offer gains); and iii) 6.5% CRB, we arrive at additional dividend of Rs0.25tn. Gross income should rise, though not substantially, and provisioning need not (CRB at 6.5% and MRB at 23.6%). If CRB instead falls to 6% of B/S, another Rs0.5tn could be paid out.

31 May 2026

Fiscal

RBI Dividend

Exhibit 1 - RBI had announced a Rs. 2.87tn dividend for FY27 (+Rs0.18tn YoY)



Source: RBI, Axis Bank Research

RBI dividend would have been INR835bn higher if not for MTM losses

RBI's FY26 annual report helps understand the muted Rs0.18tn YoY (link) rise in dividend despite gross income being Rs0.9tn higher. Gross income rose 26% YoY due to record FX trading gains (+52% YoY: 39% of gross income in FY26 vs. 33% in FY25, Fig 6) and higher domestic interest income (+Rs0.23tn, due to OMO purchases in FY25 and FY26, Fig 5). However, provisions rose Rs0.65tn YoY to Rs1.1tn (Fig 7, 10): Rs0.26tn added to the Contingent Risk Buffer (CRB) and Rs0.83tn transferred to account for MTM losses in FX forward contracts (Rs.0.43tn), and in securities (domestic Rs0.31tn, foreign Rs0.09tn).

Key variables to watch for in FY27: balance-sheet growth, MTM losses

The reason provisions were transferred to market risk buffer despite it breaching the upper limit is because MTM losses on individual segments can't be offset by gains in others. This remains a key risk in FY27 as well. Following 21% growth in FY26, we expect balance sheet (B/S) expansion to slow in FY27 (Fig 12), reflecting weaker INR depreciation pressures, more subdued gold price appreciation, and a lower likelihood of RBI undertaking OMOs at FY26 scale. If B/S grows at 10%, the current CRB buffer would drop to 5.9% of B/S size. To retain CRB at 6.5%, and if additional MTM losses are Rs0.6tn (FX losses may persist, but gains are possible on bonds), the RBI may need to make a further Rs1.2tn in provisions.

We expect RBI's FY27 dividend to be Rs 3-3.5tn, assuming CRB at 6-6.5%

We therefore expect RBI dividend in FY27 to be ~INR3tn. Three main drivers: i) gross income should grow, given continued FX intervention (sales of foreign currency assets are accounted for first-in-first-out, and with USDINR 80 holding cost, large unrealised FX gains remain on the B/S) and higher interest income; ii) with interest rate risks now more balanced than in FY26, MTM losses on bonds should be lower, with risks limited to FX; and iii) the banking system is healthy, lowering recapitalization risks, allowing the CRB buffer to remain at 6.5% (prescribed range is 4.5%-7.5%). That said, the RBI board could choose to keep the buffer at 6% (mid-point), which would release another Rs0.5tn in dividend.

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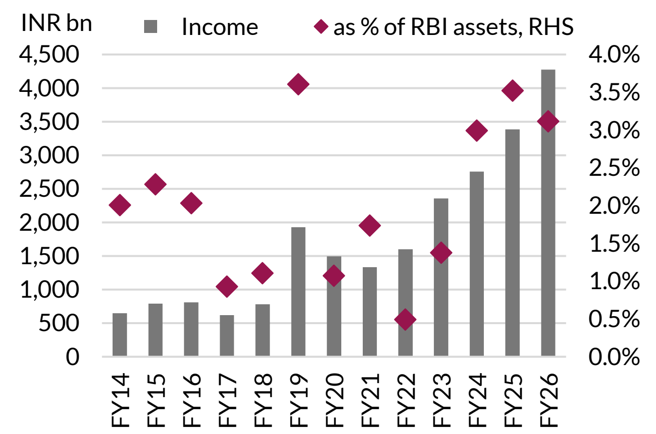
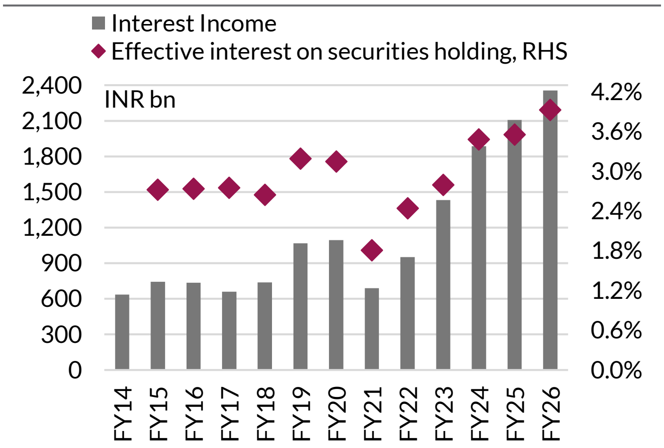
Exhibit 2 – Income rose 26.4% YoY in FY26 vs. 23% in FY25



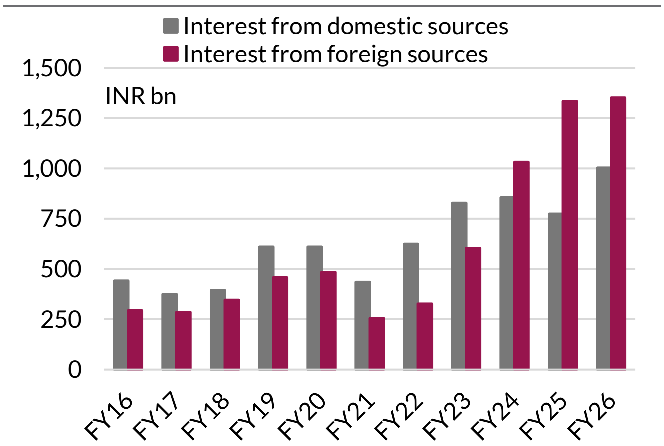
Source: RBI, Axis Bank Research

Exhibit 3 - However, interest income rose only 12% YoY



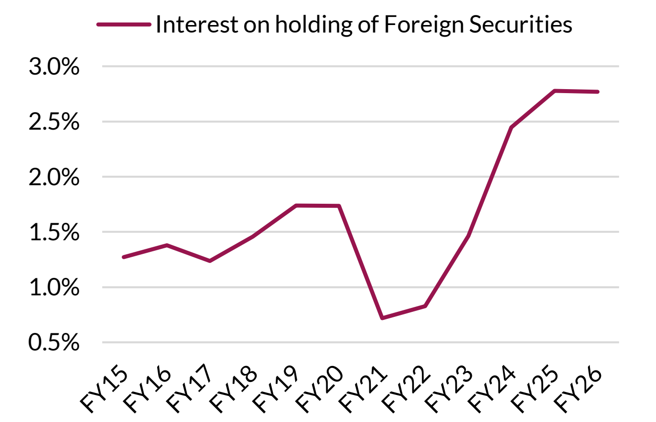
Source: RBI, Axis Bank Research

Exhibit 4 - Interest income via foreign assets high but stagnant as there was no increase in foreign currency assets…



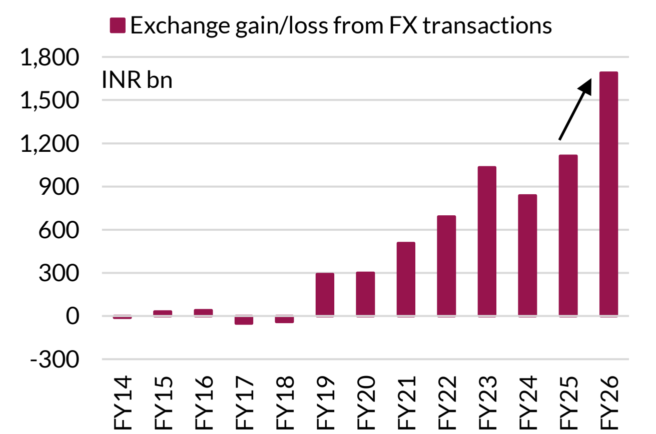
Source: RBI, Axis Bank Research

Exhibit 5 - …and as the yield on foreign securities also didn't move meaningfully (coupons on older purchases were lower)



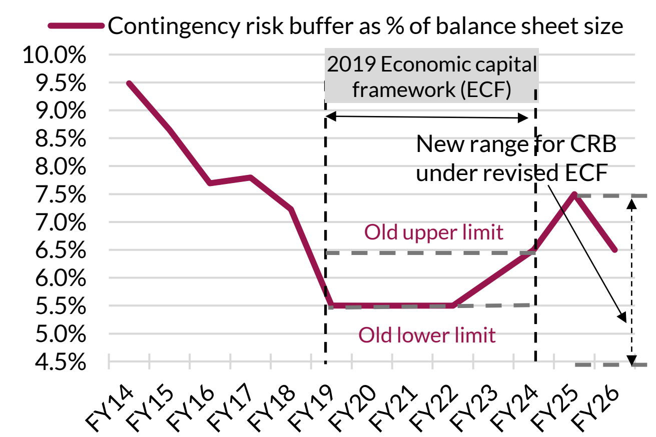
Source: RBI, Axis Bank Research

Exhibit 6 - Other income: Income from FX trades contributed 39% of gross income in FY26 vs. 33% in FY25 (+52% YoY)



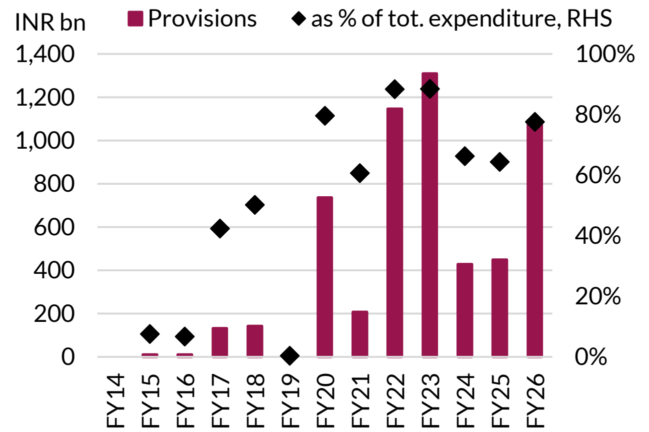
Source: RBI, Axis Bank Research

Exhibit 7 - CRB now at 6.5% of the B/S size (1pp lower vs. FY25) BUT only ~24% of provisions added to CRB



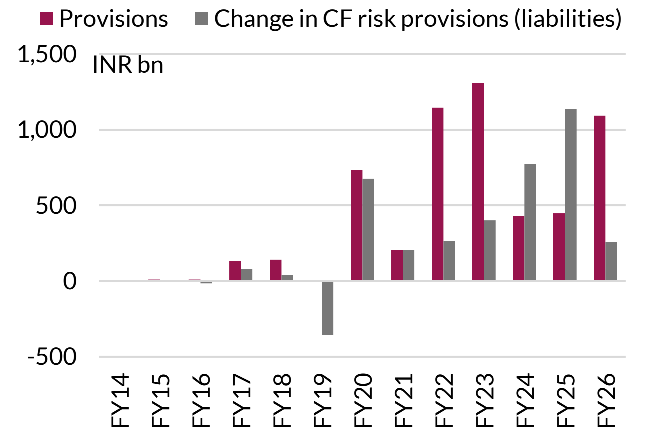
Source: RBI, Axis Bank Research

Exhibit 8 – Higher provisioning (Rs. 1.1tn) comparable to FY22/23 to maintain risk buffers but…



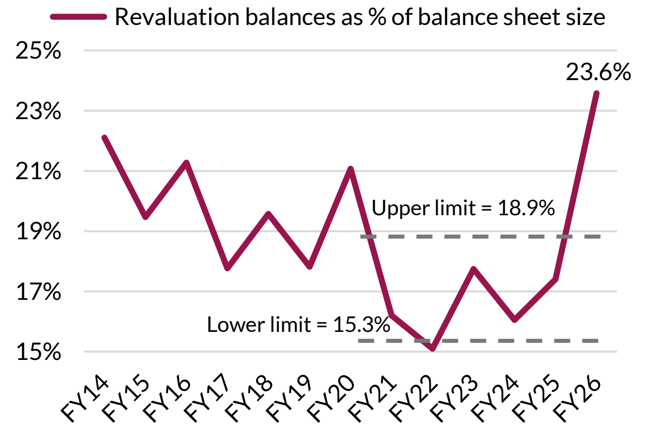
Source: RBI, Axis Bank Research

Exhibit 9 - …only 24% of it used to maintain contingent risk buffer and the rest was used to maintain market risk buffer



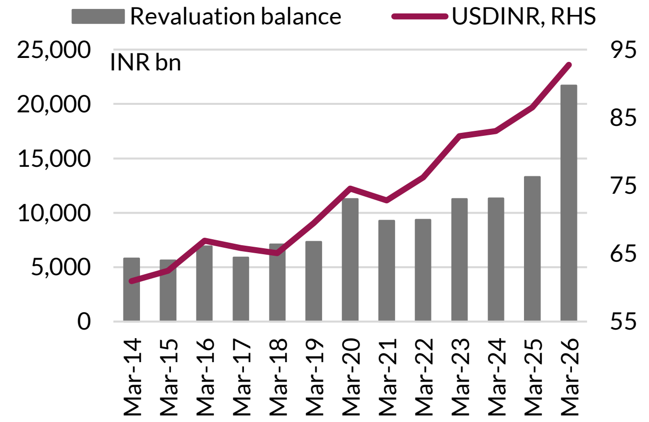
Source: RBI, Axis Bank Research

Exhibit 10 - Marker risk buffers rose to 23.6% in FY26 from 17.4% in FY25, despite B/S growing at 20.6% YoY



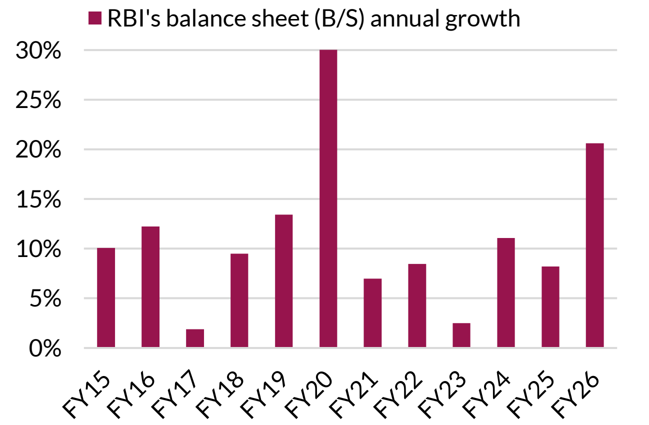
Source: RBI, Axis Bank Research

Exhibit 11 –INR depreciation but more importantly higher gold prices pushed revaluation balances to a record high



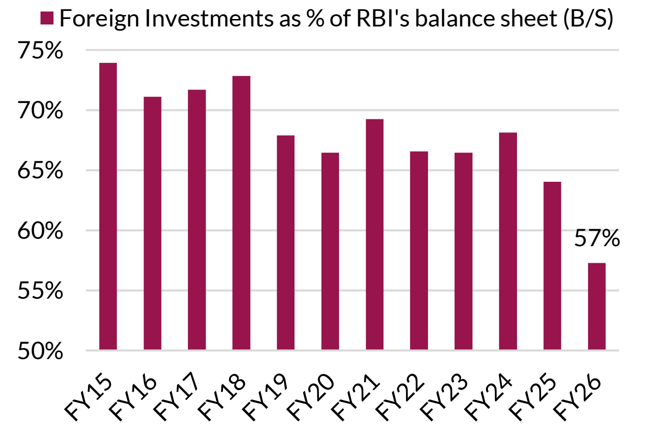
Source: RBI, Axis Bank Research

Exhibit 12 - RBI B/S growth likely to be weaker in FY27



Source: RBI, Axis Bank Research

Exhibit 13 - Foreign investments as share of RBI's B/S falls



Source: RBI, Axis Bank Research

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