SOVEREIGN CREDIT RATING: ECONOMY

S&P Upgrades India's Sovereign Rating to 'BBB'

S&P Global Ratings has upgraded India's sovereign credit rating to 'BBB' from 'BBB-', the first such upgrade in 18 years, citing strong economic growth prospects and a commitment to fiscal consolidation. This moves boosts investor confidence and validates India's economic management, reflecting resilience and policy stability. S&P Global Ratings Upgrades India's Sovereign Credit Rating. Recently, Standard & Poor's (S&P) Global Ratings upgraded India's sovereign credit rating, marking the first such enhancement in 18 years.

1. Long-Term Rating: Upgraded to 'BBB' from 'BBB-'.
2. Short-Term Rating: Upgraded to 'A-2' from 'A-3'.
3. Outlook: Maintained as 'Stable'.

Key Highlights of S&P's Assessment on India

S&P's decision was based on several positive indicators of India's economic health and policy direction.

Strong and Buoyant Growth Prospects

The agency projects India's GDP will expand significantly, growing from $3.9 trillion in 2024 to $5.5 trillion by 2028. This is underpinned by an average annual growth rate of approximately 6.8%.

Commitment to Fiscal Consolidation

S&P noted India's dedication to fiscal prudence. It forecasts the general government deficit will decrease from 7.3% of GDP in 2025-26 to 6.6% in 2028-29.

Improved Quality of Public Spending

There is a notable shift towards capital expenditure and infrastructure investment, which enhances the quality of government spending and is expected to boost long-term growth and productivity.

Anchored Inflation and Monetary Stability

The successful implementation of an inflation-targeting monetary policy regime has stabilized inflation expectations, ensuring greater price stability and policy credibility, even amidst global shocks.

Strong External and Financial Position

The rating acknowledges India's deepening domestic capital markets, resilient corporate balance sheets, and strong democratic institutions, which together foster financial stability and ensure long-term policy continuity.

Significance for the Indian Economy

This rating upgrade has several important implications for India's economy.

Strengthened Global Economic Standing

It reaffirms India's status as one of the fastest-growing major economies, boosting international confidence in its resilience and structural reforms.

Encouragement for Investments and Capital Inflows

A higher credit rating improves investor confidence, which can lead to increased Foreign Direct Investment (FDI) and potentially lower borrowing costs for both the government and Indian corporations in international markets.

Recognition of Prudent Fiscal Management

The upgrade validates the government's strategy for consolidating its debt and deficit. S&P projects India's debt-to-GDP ratio will decline from 83% in FY25 to 78% in FY29, moving closer to pre-pandemic levels.

Limited Impact of Global Headwinds

S&P assesses that India is relatively insulated from global economic shocks, such as tariff disputes, due to its low reliance on exports (only 2% of GDP is directed to the US) and a strong domestic consumption base.

Understanding Sovereign Credit Ratings

A Sovereign Credit Rating (SCR) is an independent evaluation of a country's creditworthiness. It indicates the level of risk associated with lending to a government, reflecting the likelihood that it will meet its debt obligations. A favourable rating is critical, particularly for developing countries, as it facilitates access to international bond markets and helps attract Foreign Direct Investment (FDI).

Determinants

1. Debt Service Ratio: A high level of external debt servicing increases default risk.
2. Fiscal and Monetary Discipline: Uncontrolled growth in money supply can signal inflation risk.
3. Trade Performance: Import levels and export revenue stability are key indicators of repayment capacity.
4. Governance and Political Stability: Strong institutions and political stability inspire confidence.
5. Global Economic Environment: External shocks like financial crises or commodity price volatility can impact a country's rating.

Overview of Credit Rating Agencies

Global Agencies

S&P Global Ratings

A division of S&P Global Inc. (USA, founded 1860), it provides credit ratings and analytics. Rating Scale: Uses a letter-based scale from A to D. Ratings of 'BBB-' and above are considered 'investment grade' (safer). Ratings below this are 'speculative' or 'junk grade' (higher risk). Fitch Ratings: Similarly, rates countries with 'BBB-' and above as investment grade. Moody’s: Considers ratings of 'Baa3' or higher to be investment grade.

Indian Credit Agencies

India has six major credit rating agencies registered with the Securities and Exchange Board of India (SEBI):

1. CRISIL (the first, established in 1987)
2. ICRA
3. CARE
4. SMERA
5. Fitch India
6. Brickwork Ratings

Regulation

These agencies are governed by the SEBI (Credit Rating Agencies) Regulations, 1999, under the SEBI Act, 1992.

Long-Term vs. Short-Term Ratings

Aspect	Long-Term Rating	Short-Term Rating
Time Horizon	Assesses creditworthiness for a period exceeding one year, focusing on the ability to meet medium to long-term debt obligations.	Evaluates the capacity to meet financial commitments within one year, relevant for instruments like treasury bills.
Risk Indication	Indicates the overall financial stability and repayment capacity over the long haul (e.g., India's upgrade to BBB).	Reflects short-term liquidity and immediate repayment ability (e.g., India's upgrade to A-2).

Source:https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=155041&ModuleId=3#:~:text=S%26P%20Global%20has%20raised%20India's,fundamentals%20and%20prudent%20policy%20management.