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

Upgrade Highlights Strong Growth, Fiscal Stability, and Controlled Inflation

Improved Rating to Lower Borrowing Costs, Boost Investor Confidence, and Drive Broad-Based Growth

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Introduction

S&P Global has raised India's long-term sovereign credit rating to 'BBB' from 'BBB-', with the short-term rating upgraded to 'A-2' from 'A-3'.

What is S&P Global?

S&P Global, or Standard & Poor's Global, is a leading international credit rating agency. It evaluates the creditworthiness of governments, corporations, and financial instruments, providing investors with independent assessments of risk.

The stable outlook reflects confidence in India's strong economic fundamentals and prudent policy management. The transfer and convertibility assessment has also been improved to 'A-' from 'BBB+', recognising India's growing financial resilience. S&P last upgraded India in January 2007 to 'BBB-', hence, this rating upgrade comes after an 18-year gap.

What is a 'BBB' Rating and 'A-2' Rating?

A 'BBB' rating is considered investment grade, meaning the country has adequate capacity to meet its financial commitments. However, it is more sensitive to adverse economic conditions compared to higher-rated sovereigns.

A short-term 'A-2' rating indicates that the country's obligations are satisfactory and likely to be met, but are somewhat more sensitive to changes in economic conditions compared to higher-rated short-term obligations.

This upgrade highlights India's robust and sustained economic growth, driven by high infrastructure investment, sound fiscal management, and a strengthened monetary policy framework that keeps inflation under control. It is a testament to the nation's rising global stature and the government's steadfast commitment to long-term prosperity.

Robust Economic Growth Powers India's Rise

S&P Global notes that India remains among the best performing economies in the world, showing strong resilience and sustained growth since the pandemic.

Key highlights from the report:

- Real GDP growth averaged **8.8 per cent** between fiscal 2022 and fiscal 2024, the highest in the Asia-Pacific region.
- S&P projects annual GDP growth of **6.8 per cent** over the next three years, supporting a moderation in the government debt-to-GDP ratio.
- Government spending quality has improved, with a focus on **infrastructure investment**. Union government capital expenditure is expected to reach **INR 11.2 trillion (3.1% of GDP) by fiscal 2026**.
- Total public investment in infrastructure, including state governments, is estimated at **around 5.5 per cent of GDP**, matching or exceeding many peer countries.
- Infrastructure and connectivity investments are expected to **remove bottlenecks** that previously limited long-term economic growth.
- Monetary policy reforms, particularly the **shift to inflation targeting**, have stabilised price expectations.

Strengthening Fiscal Discipline Fuels Growth

S&P Global observes that the Indian government is following a clear and gradual path towards fiscal consolidation, strengthening the country's economic stability and credibility.

Key highlights from the report:

- The **general government deficit**, which measures the gap between total government spending and revenue, is projected to decline from **7.3 per cent of GDP in fiscal 2026** to **6.6 per cent by fiscal 2029**.
- The government has successfully funded large **infrastructure investments** without significantly widening the **current account deficit**, reinforcing fiscal credibility.

- The provisional fiscal deficit of the central government for fiscal 2025 stood at 4.8 per cent of GDP, while the Union Budget has further reduced the target to 4.4 per cent of GDP for fiscal 2026.
- **State government deficits** are expected to average **2.7 per cent of GDP** over the next three to four years.
- Combining central and state deficits, the **general government fiscal deficit** is projected to gradually fall to **6.6 per cent of GDP by fiscal 2029**.
- On a general government basis, S&P estimates the change in net debt at 7.8% of GDP, a marked improvement from increases of 9%–13% of GDP recorded during the pandemic years.

Creditworthiness and Inflation

S&P Global **highlights** that India's strong economic growth and sound policy framework have strengthened the country's credit profile while keeping inflation under control. **As a result, S&P raised India's sovereign credit rating from 'BBB-' to 'BBB'.**

Key highlights from the report:

- Robust economic expansion is improving India's **credit metrics**, providing a solid foundation for sustained growth over the next two to three years.
- Monetary policy settings have become increasingly effective in **managing inflation expectations**.
- India's **external position** remains strong, with a modest **net external asset** balance.
- **Current account deficits** are expected to remain small, supported by stable domestic demand and a moderately weaker rupee, which enhances export competitiveness.
- The **Reserve Bank of India (RBI)** has maintained inflation within its medium-term target band since 2015, strengthening confidence in its monetary management.
- Consumer price index (CPI) growth has averaged **5.5 per cent** over the past three years, despite global energy price volatility.
- Recent inflation has stayed at the lower end of the **Reserve Bank of India's 2–6 per cent target range**.
- Recent data shows **headline CPI inflation** falling to **1.6 per cent in July 2025**, down from 2.1 per cent in June.
- With inflationary pressures contained, the RBI began **monetary easing in February 2025**, cutting the policy repo rate by a cumulative **100 basis points to 5.5 per cent**.

Conclusion

The upgrade of India's sovereign credit rating by S&P Global underscores the nation's strong economic fundamentals, disciplined fiscal management, and effective monetary policies. It reflects confidence in India's ability to sustain growth, manage inflation, and invest in infrastructure while maintaining financial stability. This milestone highlights the government's commitment to long-term prosperity and positions India as a resilient and attractive destination for global investment.

The improved rating is expected to reduce sovereign borrowing costs and strengthen investor confidence, leading to higher inflows of foreign capital. This, in turn, will create a more stable environment for financing public and private sector investments, thereby supporting infrastructure development, employment generation, and broad-based economic growth in the years ahead.

References:

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