

India's S&P Credit Rating Upgrade Explained: Drivers and Future Outlook

August 18, 2025 • vajiramandravi.com



India S&P Credit Rating Latest News

- Recently, **S&P Global Ratings upgraded India's sovereign rating to BBB from BBB-**, the country's first upgrade in nearly two decades.
- The move is significant not only because of the long gap but also due to its far-reaching implications for India's economic standing, investor confidence, and global credibility.

About S&P Global

- S&P Global, also known as Standard & Poor's Global, is a prominent international credit rating agency.
- It assesses the creditworthiness of governments, corporations, and financial instruments, offering investors independent evaluations of financial risk.

Why Credit Ratings Matter

- Credit ratings assess a **country's creditworthiness** — its ability and willingness to repay borrowed money.
- Just as timely loan repayments improve an individual's credit score, sound financial management enhances a nation's rating.
- Since most governments, including India, borrow annually to cover fiscal deficits (₹15.69 lakh crore in 2025-26), a higher rating lowers borrowing costs by signaling reliability to lenders.
- For India, S&P's recent upgrade means **reduced interest rates on debt** and **easier access to global capital markets**.
- The upgrade can unlock new global funding pools and reduce borrowing costs not only for the government but also for Indian corporates, especially those raising money abroad.

India's Persistent Push for a Ratings Upgrade

- For years, the Indian government has actively lobbied global rating agencies — S&P, Moody's, and Fitch — for higher credit ratings, arguing that their assessments understate India's economic strength.
- New Delhi has often criticised the methodologies as biased against emerging economies.
- It even highlighted the issue in the **2020-21 Economic Survey** with a dedicated chapter titled *"Does India's Sovereign Credit Rating Reflect its Fundamentals? No!"*.

Steady Gains in India's Economic Fundamentals

- India's recent rating upgrade by S&P is rooted in two key improvements — **fiscal discipline and economic growth**.
- After years of missing fiscal deficit targets under the **Fiscal Responsibility and Budget Management Act (2003)**, the government has shown aggressive consolidation since the pandemic.
- The deficit has been cut from 9.2% of GDP in 2020-21 to a projected 4.4% in 2025-26, with plans to bring **debt-to-GDP down from 57.1% to 49-51% by 2030-31**.
- On growth, despite slowing to **6.5% in 2024-25**, India remains among the **world's fastest-growing large economies**, with robust nominal GDP supporting a declining debt ratio.
- S&P has also praised India's inflation management, as the **headline inflation rate fell to 1.55% in July 2025, the lowest since 2017**.
- Low, stable inflation boosts investor confidence by protecting returns, supporting currency stability, and reducing social risks.
- Together, these factors highlight India's fiscal resilience, growth strength, and credibility in economic management, justifying the long-awaited upgrade.

Understanding India's Position on the Rating Scale

- India's credit rating with S&P has improved within the same category, moving from BBB- (the lowest in investment grade) to **BBB**, which is **more stable** but still the entry-level of investment-grade ratings.
- Credit ratings are broadly divided into two classes: investment grade (safer for investors) and speculative grade (riskier, with repayment less predictable).
- Within investment grade, BBB is the lowest rung. According to S&P, a BBB rating reflects an "adequate capacity to meet financial commitments, but more vulnerable to adverse economic conditions."

- The next levels are BBB+, followed by the A, AA, and AAA categories, with AAA denoting the strongest capacity to meet financial obligations.
- Thus, while India's upgrade signals improved financial credibility, it still has ground to cover before reaching stronger rating tiers.

India's Place Among Global Peers

- India shares its **BBB rating** with countries such as Greece, Mexico, and Indonesia.
- At the very top, with the AAA rating, are advanced economies including Australia, Canada, Denmark, and Germany.
- However, the wealthiest countries do not always retain the highest ratings.
- For example, the United States was downgraded to AA+ by S&P in 2011, breaking its AAA streak due to rising debt concerns.

What Lies Ahead for India's Credit Rating

- The upgrade brings immediate benefits, notably lower borrowing costs for the government, reflected in falling bond yields and a stronger rupee.
- However, the next step toward a higher rating will not be easy.
- S&P has indicated that a further upgrade **depends on reducing the combined fiscal deficit of the Centre and states below 6% of GDP on a structural basis.**
- This is challenging, as S&P projects the deficit to narrow only to 6.6% by 2028-29, down from 7.8% in 2024-25.

Source: IE | PIB | MC

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