S&P upgrades India’s sovereign rating to BBB / Stable: A testament to fiscal prudence and economic resilience

A first upgrade by S&P Global Ratings in 18 years

S&P Global Ratings has upgraded India’s sovereign rating from BBB- with a Positive outlook to BBB with a Stable outlook, marking the first upgrade in 18 years. Among other rating agencies, Fitch maintains a BBB- rating with a stable outlook, while Moody’s stands at Baa3 with a Stable outlook. This upgrade reflects steady improvements in key fundamentals, including the Central Government’s fiscal consolidation strategy, a higher quality of fiscal spending with increased capital expenditure and infrastructure investment, robust economic growth, and a prudent monetary policy that has effectively anchored inflation expectations through a credible inflation-targeting framework.

This upgrade is particularly significant given the recent downgrades of other major economies—Fitch downgraded China in April 2025, and Moody’s downgraded the USA in May 2025.

The timing of the upgrade is opportune, especially amid ongoing U.S. trade tensions that have raised concerns about domestic growth and triggered substantial foreign portfolio investment (FPI’s) outflows in July and August 2025, putting pressure on the INR. According to S&P’s assessment, the impact of U.S. tariffs on India will be manageable, as the country is relatively less dependent on trade, with approximately 60% of its economic growth driven by domestic consumption. Even the fiscal cost of transitioning from Russian crude oil to alternative sources is expected to be manageable, given the narrow price differential between Russian crude and current international benchmarks.

We feel that this is a major step in right direction, any meaningful impact to be visible over the medium term

In our assessment, while it is a major step in right direction, any meaningful impact for Indian debt market will be visible only over a medium term as it helps in reducing the risk premia of domestic market for foreign investors and eventually the lower cost of capital across the markets for government as well as for corporates. This will enable domestic companies to access global funding at more competitive rates. Fundamentally, a lower cost of capital will benefit both the fiscal and current account deficits and provide support to the currency. Over time, this may prompt other rating agencies to reconsider their sovereign ratings for India.

Over the past several months, Indian sovereign bonds have been included in various emerging market-specific global indices—JP Morgan, Bloomberg, and FTSE Russell (from Sep 2025). However, for inclusion in major global bond indices, India would need to achieve an A-category sovereign rating, which remains a longer-term goal.

While the meaningful positives may accrue over a period of time, this upgrade will atleast help in arresting the negative sentiments in debt market that had been prevailing for some time.

Sentiment was initially impacted by the RBI's hawkish monetary policy stance and further exacerbated by U.S. tariff-related tensions. In recent weeks, G-Sec yields surged by approximately 12–15 basis points, as markets feared that a domestic growth slowdown might force the Central Government to compromise on fiscal consolidation, increasing G-Sec supply pressure. This, combined with INR depreciation and a hawkish RBI, disrupted demand even from long-only investors, leading to a sharp rise in market yields with a steepening bias. This rating upgrade validates the Central Government's steadfast commitment to fiscal consolidation and should help alleviate recent market concerns about fiscal slippage. The Currency is also expected to find support as the outflows from equity segment may stem to some extent, thereby giving more room to RBI on monetary policy.

Overall, we view this rating upgrade as a much-needed relief for debt market sentiment, which had been under pressure over the past two months.

This was evident in the immediate market reaction, with yields dropping sharply by 7–8 basis points following the announcement and settled at a 5-8 basis point decline by the end of the day (as at 14 August 2025, Source: Bloomberg).

We continue to believe that fiscal demand-supply dynamics is well under balance and the government will continue with its prudent fiscal policies. On domestic rate cycle, we believe that a small window may open up in October'25 or at the latest in December'25 policy meeting for a possible final rate cut, but for that domestic economic growth has to come under pressure meaningfully. With the recent surge in market yields and the domestic inflation dropping sharply (July CPI at 1.55%, Source: Bloomberg), risk-reward for debt market remains favorable, especially in 5 – 10 yr tenor G-Sec for possible capital gain opportunities and 1 – 5 yr tenor corporate bonds for high accrual.
