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Here's a four-step policy agenda to help raise India's credit rating

A study of what global rating agencies examine could guide fiscal management in a way that would help deliver upgrades

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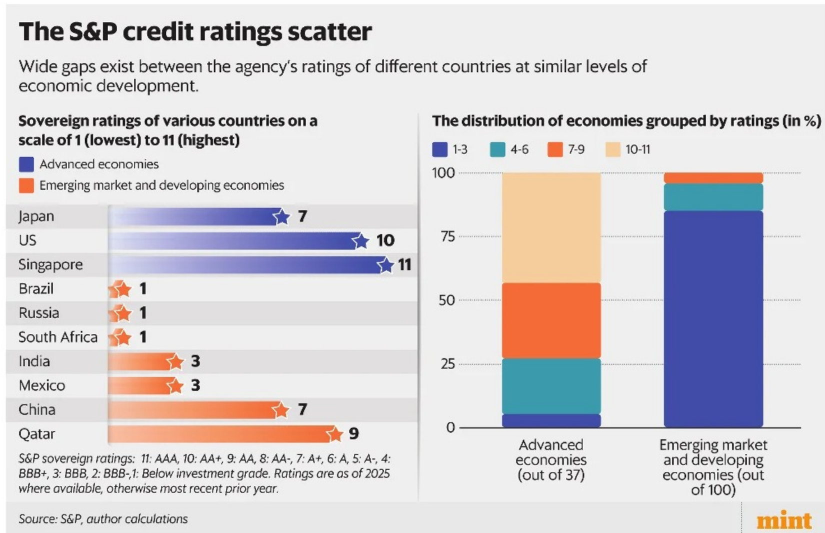

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In August 2025, S&P Global raised India's credit rating to BBB, the first upgrade in 18 years. Morningstar DBRS and Japan's R&I followed suit. Fitch and Moody's held theirs, pointing to the same figure: government debt of around 84% of GDP, against a level closer to 60% for countries in India's rating band.

A sovereign rating is a judgement about whether a government will repay what it owes. Agencies publish the factors they consider, including growth, deficits, debt and institutions, but not how much each counts for. New research by Olivier Blanchard, Daniel Leigh and this author fills that gap. With data from more than 130 countries over 30 years, the study examines what ratings respond to and compares it with what economic theory says should matter. Three findings stand out.

The first is that rating agencies care far more about how much a government owes than what it plans to do. Think of a bank that studies your outstanding loan closely and glances only briefly at your repayment plan. Theory says the plan should count for more than the stock of debt. In the data, the weightage assigned to such a plan is not just small, but nearly zero for emerging markets.

The second finding is on growth. When an economy grows faster than the interest rate its government pays, debt shrinks relative to GDP on its own. It is the fiscal equivalent of a mortgage that gets easier as your salary rises. Our research finds that agencies recognize this, but only faintly: the effect is real and correctly signed, yet counts for little.

The third finding is most striking. Two countries with identical debt and fiscal plans can have their ratings differ widely. On an 11-point scale, the study puts ratings for Qatar at 8, China at 6.7, India at 4.1 and Brazil at 2.6 before fiscal differences are counted. The debt level an emerging market can carry before losing a rating of 2 points ranges from over 160% of GDP for Qatar to under 80% for Mexico, with India in the middle. Most of what separates emerging markets in the eyes of the agencies may not be fiscal arithmetic. It could reflect soft credibility, judgements on institutions, transparency and confidence. That is perhaps where the fastest gains are possible, as institutions and transparency are elements a government can shape.

For India, the combined deficit of the Centre and states has come down from a pandemic peak of 13.1% of GDP to about 7.2%, with the Centre having met its targets every year. India has a wide gap between growth and interest rate. Nominal growth runs near 10% while the effective interest rate on government debt sits between 6.5% and 8.5%. Put simply, the economy is growing faster than the cost of servicing its debt, and that gap alone shrinks the debt ratio, all else equal. That makes India's debt level safer than its headline number may suggest.

Yet, rating agencies have been slow to respond. The research suggests why. It's not just about running a primary surplus (revenues minus non-interest spending). Since India's growth outpaces its borrowing costs, a primary surplus would bring the debt ratio down automatically. Ratings do reward that, just not enough. Country effects matter more. They likely reflect the strength of institutions and transparency, not the numbers themselves. So while primary surpluses help, a better rating depends more on addressing those concerns.

Four steps follow. The *first* is to lower the interest-to-revenue ratio by raising revenues. India spends a quarter of all government revenue on servicing debt, compared with about 9% for emerging markets. Fitch has said explicitly that this ratio is what it watches. The most powerful lever here is also the least used. India's gross tax collection has averaged 19% of GDP, below that of Brazil, China, Russia and South Africa, with an estimated gap of some 7% of GDP between what is collected and what could be. Improving voluntary compliance by simplifying GST would widen India's tax base and improve the metric that rating agencies grade, without cutting the public investment driving economic growth.

The *second* is to bring states fully into the story. The Centre collects 58% of government revenue but accounts for 40% of the spending; states collect the remaining 42% but spend 60%. Ratings judge the government as a whole. Yet, markets discipline only the Centre: sovereign borrowing costs respond clearly to central fiscal performance while state bond spreads barely move across states with varying finances. Deepening the market for state loans could let markets enforce fiscal discipline on states. Doing so would strengthen the general government balance sheet that agencies assess.

The *third* is to bring transparency to what goes unseen. Guarantees, power distribution company arrears, parastatal borrowings and municipal exposures sit in the shadows of emerging-market balance sheets. Because much of a rating rests on judgements outside the visible numbers, transparency is effective. A consolidated statement of contingent liabilities, covering the Centre and states, can turn concerns into measured and bounded ones. A standardized fiscal framework is required given the issues flagged by the Comptroller and Auditor General's latest audit reports on state finances. Disclosure builds confidence, and must move beyond Fiscal Responsibility and Budget Management reports, particularly at the sub-national level.

The *fourth* is to move towards the debt anchor accepted by Parliament in 2017. Under current settings, projections suggest that India's debt will drift down to 80% of GDP by 2031. Under accelerated consolidation, it would fall to about 79%. Under a more ambitious path, it could reach 77%. Rating agencies would reward this compression.

There is a broader conversation that India is well placed to lead. If ratings weigh old debt heavily, discount a growth advantage and load the rest onto judgements, then fast-growing economies with long-maturity, domestically-held debt are perhaps being assessed more harshly than warranted. That matters because ratings shape borrowing costs, and borrowing costs shape how many roads, grids and schools a country can build. Asking agencies for greater clarity on their assessments will help India and every emerging market in need of debt capital. India has shown fiscal prudence, but needs this effort to yield rating gains too.

The Ashoka Isaac Centre for Public Policy team contributed to this piece.