CareEdge Global reaffirms Republic of India's rating at 'CareEdge BBB+/Stable'

Issuer rating (Long Term Foreign Currency)	CareEdge BBB+/Stable (Unsolicited)

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Republic of India at **'CareEdge BBB+/ Stable'** (Unsolicited).

Rationale

The reaffirmation reflects India's resilient economic structure, and a credible inflation management. Further, comfortable external position continues to cushion India's credit profile, despite the global headwinds. However, a weak fiscal position due to elevated debt levels and weak debt affordability continues to weigh on the overall credit profile, despite ongoing efforts of the government for fiscal consolidation.

India's macroeconomic position is supported by robust domestic consumption, sustained high investments, led by the government, together with comfortable inflation trajectory. These factors along with a low deflator has led to India's better than expected economic performance with 7.8% growth in Q1 FY2026 and is expected to average around 6.5% for FY2026, despite the global trade uncertainties and tariff-related disruptions.

The country also has comfortable external buffers, including sufficient foreign exchange reserves along with diversified channels of current account inflows, including service exports & remittances. However, India's external profile remains vulnerable to uncertain tariff outlook, especially in a scenario of higher tariffs placed by The United Sates of America (U.S.).

India's fiscal profile continues to remain weak, though there have been ongoing consolidation efforts supported by stronger tax revenues, higher RBI dividend transfers, and disinvestment proceeds. Despite the recent income tax rationalisation and simplification of GST tax structure, CareEdge Global expects that the central government's deficit should remain around the targeted 4.4% of GDP for FY 2026. However, any renewed fiscal support in response to global or trade shocks, or any fiscal slippage at the state government levels could increase the fiscal pressures for the general government profile.

In addition, a relatively high interest burden continues to weigh on the country's debt affordability. Reform-driven fiscal framework and sustained fiscal discipline amid the challenges, will remain key monitorables for India's medium-term fiscal trajectory.

Further, low per-capita income, coupled with high inequality and unemployment, could impact on country's growth potential.

Outlook: Stable

The stable outlook reflects our expectation that India's resilient economic fundamentals and comfortable external buffers will sustain over the near to medium term, despite global trade uncertainties. Additionally, the fiscal consolidation process will continue as envisaged over the medium term.

Upside Scenario

The rating could be upgraded if the stronger economic performance materializes into significant improvement in Government of India's fiscal metrics arising from greater-than expected reduction in debt ratio.

Downside Scenario

Any significant deviation from the current path of fiscal consolidation, resulting in higher-than-expected debt levels relative to our projections, could weigh negatively on India's credit profile. A rating downgrade could also occur if a weaker global external environment dampens India's economic outlook and adversely impacting the country's fiscal and external metrics.

T&C risk assessment

The Transfer & Convertibility (T&C) risk for of India is assessed at two notches above India's sovereign rating of 'CareEdge BBB+'. This reflects CareEdge Global's belief that the risk of Government of India limiting access to foreign exchange for Indian corporates towards their scheduled interest and debt payments is low. This expectation is based on India's comfortable external position, stable institutional framework including independent judicial structure, and a long track record of not restricting foreign currency access for non-sovereign debt service, even during periods of economic crisis.

Key Rating Drivers

Economic Structure & Resilience

India's economic profile benefits from its large scale, strong growth momentum, and sustained investment potential—all of which underpin its credit strength. The country stands as the fourth-largest economy globally, with a size of USD 3.9 trillion in FY 2025. Its share in global GDP (on a purchasing power parity basis) has doubled over the past two decades, rising from around 4.4% in 2004 to nearly 8% in 2024. India's economic performance has remained robust, consistently outpacing regional peers, with average growth of around 6% during FY2015–24. Despite ongoing global trade uncertainties and external headwinds, CareEdge expects that medium-term growth prospects to remain favorable for India compared to peers, with real GDP expected to expand at an average rate of around 6.6% during FY 2026-30. This performance is expected to be supported by robust domestic consumption (around ~58.4% of GDP in 2024). This, combined with a competitive service sector continue to anchor India's long-term economic resilience.

The government's focus on capital formation remains intact, with GFCF standing around 30% of GDP for the last five years (FY 2020-25). This has led to infrastructure development, logistics modernization, and industrial policy initiatives that should help alleviate supply-side bottlenecks, though the benefits are likely to materialize gradually. However, a broader revival in private investment is yet to happen.

India's economic profile continues to be weighed down by its low per capita income levels and moderate export competitiveness. Gaps in physical and social infrastructure remain constraints to realizing the economy's full potential. Moreover, climate-related vulnerabilities pose rising risks to agricultural productivity and overall growth stability.

Fiscal Strength

India's fiscal profile, while improving, continues to remain a key structural weakness in its overall credit assessment. The fiscal position is constrained by high debt levels and weak debt affordability, even as the large share of domestically held debt (around 95%) partially offsets refinancing and currency risks.

India's general government debt levels peaked during covid to ~89.2% in FY 2021, after averaging 70% in the pre pandemic period (FY 2016-20). The debt levels remain high at ~80% in FY 2025, along with the challenges of weak debt affordability. The Central Government has undertaken steps for fiscal consolidation by transitioning the fiscal anchor from deficit targets to debt levels with the aim of aligning fiscal management with medium-term debt sustainability objectives. Further, India's interest burden (23.8% of revenue in FY25) is one of the highest, across both emerging and advanced economies. This high interest burden reflects both historically higher cost of borrowing and high fiscal gaps.

Another challenge on the fiscal front is the rising indebtedness of state governments, despite consolidation at the central government level, that continues to weigh on India's overall fiscal outlook. States account for roughly one-third of general government debt, and their fiscal pressures have increased due to rising committed expenditures, particularly subsidies, salaries, and social welfare schemes, along with weak revenue flexibility.

Notwithstanding the challenges of high debt affordability and rigid state deficits, sustained nominal GDP growth is expected to facilitate a gradual stabilization of debt ratios, partially offsetting the pressures from a persistent deficit. This should keep India's debt trajectory more stable compared to the global trend of rising debt ratios.

CareEdge Global expects that, with the sustained growth momentum and continued fiscal discipline by the central government, the debt-to-GDP ratio is projected to stabilize around 80% for the medium term (FY 2026-30). However, downside risks remain. The implications of trade-related headwinds on growth moderation or any additional fiscal support against this could delay fiscal consolidation. Additionally, any fiscal slippage at the state government level could offset central government consolidation gains and delay general government debt reduction. The balance between developmental spending and fiscal prudence will remain key monitorable in the sovereign's medium-term credit outlook.

External Position & Linkages

India's external position remains a key anchor of its credit strength, characterized by a robust services sector, low external indebtedness, and adequate foreign exchange reserves, which together provide meaningful buffers against external shocks. These strengths help partially offset the structural trade deficit, underpinned by a high import dependency, particularly on crude oil.

India's external debt remains modest at about 19.1% of GDP in FY2025, well below the median for peers in the same rating category. This low external leverage partially mitigates the risks associated with capital flow volatility and exchange rate pressures. The foreign exchange reserves (USD 695 billion in August 2025, covering ~9 months of imports), continue to provide a strong liquidity buffer against potential external financing shocks and helps maintain confidence in the currency.

India's current account deficit (CAD) stood at around 0.6% of GDP in FY2025 and is projected to widen modestly to ~1.7% of GDP over the next five years (FY 2026-30). The deficit is mainly on account of trade balance which offsets strong service exports and remittances. India's services exports have demonstrated sustained strength, led by information technology and software services, while other business and professional services have gained momentum in recent years. Strong remittance flows also continue to support external sector profile. India's moderate trade openness acts as a partial shield against external demand shocks and has kept the current account deficit relatively less volatile compared to similarly rated economies.

However, India faces uncertain external environment with tariffs placed by the U.S., currently at 50%, that is expected to impact India's competitive advantage in trade, relative to regional peers. If the additional tariffs are placed on trade and if duties are expanded to service exports, this could hold negative implications for its external profile. Further, disruptions in global commodity and supply chains could still have second-order effects on its external and macroeconomic metrics.

On the capital account, foreign portfolio investment (FPI) flows remain volatile, and Foreign direct investment (FDI) net inflows have been moderating. At the same time, rising outward investments by Indian corporates signal the gradual internationalization of domestic firms, a positive for India's credit profile. Nevertheless, India's FDI attractiveness remains relatively weaker compared with similarly rated peers, constrained by regulatory complexities and infrastructure-related bottlenecks, which weigh on external competitiveness.

Monetary & Financial Stability

India's monetary policy framework is defined by credible inflation management. The Reserve Bank of India (RBI) has effectively anchored inflation within its target band, with the inflation moderating from 5.4% in FY2024 to 4.6% in FY2025. Recent price dynamics have been benign, with inflation recorded at 2.2% for the first two quarters of FY2026 and projected to average around 2.4% for the entire fiscal, according to CareEdge Global estimates.

India's exchange rate framework is characterized by a managed floating system, with periodic interventions by the central bank aimed at containing volatility. The Indian Rupee is an actively traded currency as it accounts for about 1.6% of global foreign exchange market turnover. The economy continues to maintain a calibrated approach to capital account convertibility, which supports external resilience by limiting volatility in capital flows and currency shocks.

India's financial system remains broadly stable, supported by the deepening of private credit markets (nearly 96% of GDP for last five years 2020-24), with the expansion predominantly led by the banking sector (which accounts for nearly 56% of total private credit). The banking sector's strong capitalization and improvement in asset quality augurs well for financial stability of the economy. The efforts taken towards addressing the issue of non-performing assets has resulted in a sharp decline in the GNPA ratio to 2.3% of gross advances in FY2025, from a peak of 11.2% in FY2018, reflecting strengthening in the banking system's balance sheets.

Since September 2024, credit growth has moderated, partly due to elevated policy rates and tighter lending standards imposed by the monetary authority. The build-up of sectoral imbalances, particularly in unsecured retail lending, warrants close monitoring as these could pose localized stability risks. Additionally, the increasing shift of household savings toward non-financial assets remains a monitorable trend, reflecting evolving credit and savings dynamics in the economy.

Institutions & Quality of Governance

India's assessment of this pillar is characterised by its healthy legislative and executive institutions which represent its key credit strengths. Furthermore, most large sectors of the economy are governed by independent regulatory bodies. The autonomous functioning of these entities boosts transparency and objectivity in decision-making. This aspect is a key positive for regulatory stability and investor confidence.

The economy has demonstrated a strong commitment to reforms in recent years. The government's focus on rationalization of tax structure, push towards digitalization and e-governance initiatives are positives for improving governance and promoting transparency. Given this background, continued commitment towards reforms and its efficient implementation remains critical for improving India's performance on this pillar.

India has a coalition government formed in 2024 with a relatively weaker majority. However, the political environment remains stable, with limited risks to policy continuity. Nonetheless, political cohesion and policy execution will remain key monitorables. Challenges persist in the form of geopolitical risks and tensions with the neighbouring countries. Furthermore, the timely justice delivery remains a challenge in India given the large backlog of legal cases.

India – Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	2,835.6	2,674.9	3,167.3	3,346.1	3,638.5	3,909.9	4,125.2	4,505.6
GDP Per Capita (Constant-PPP)	USD	7,930.1	7,399.5	8,050.0	8,594.4	9,301.8	9,818.0	10,378.0	10,922.1
Real GDP Growth	%	3.9	-5.8	9.7	7.6	9.2	6.5	6.5	6.5
GFCF/GDP	%	28.5	27.3	29.6	31.2	30.4	29.9	-	-
Gross Domestic Savings/GDP*	%	28.1	27.3	28.6	28.3	29.5	28.4	-	-
Exports (G&S)/GDP	%	18.6	18.6	21.4	23.2	21.4	21.1	-	-
Working-Age (15-64) Population (% Share in Total)*	%	66.9	67.2	67.5	67.8	68.0	68.2	68.4	68.6
Old-Age (65+) Population (% Share in Total)*	%	6.2	6.4	6.5	6.7	6.9	7.1	7.4	7.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-7.2	-13.1	-9.5	-9.2	-8.4	-8.0	-7.7	-7.3
Revenue/GDP	%	19.2	18.2	20.4	20.1	20.5	20.5	20.2	20.2
Expenditure/GDP	%	26.8	31.0	29.9	29.1	27.9	28.4	27.3	27.4
GG Gross Debt/GDP	%	75.1	89.2	84.2	82.9	81.8	80.8	82.4	81.8
GG External Debt (by Creditor)/GG Gross Debt	%	3.6	3.5	3.3	3.4	3.2	3.0	-	-
Interest/Revenue	%	24.8	28.8	25.4	24.6	25.1	23.7	-	-
External Indicators									
Current Account Balance/GDP	%	-0.9	0.9	-1.2	-2.0	-0.7	-0.6	-0.9	-1.4
FDI, Net Inflows/GDP	%	2.0	2.1	1.8	1.3	0.7	0.7	-	-
Net FDI Inflows/GDP	%	1.5	1.6	1.2	0.8	0.3	0.02	-	-
Outstanding FII Liabilities/GDP	%	8.2	10.6	8.5	7.3	7.6	7.0	-	-
NIIP/GDP	%	-13.2	-13.3	-11.3	-11.0	-9.9	-8.4	-	-
Foreign Exchange Reserves	USD Billions	477.8	577.0	607.3	578.4	646.4	668.3	-	-
Import Cover	Months	9.5	13.4	9.5	7.7	9.0	8.6	-	-
External Debt/GDP	%	20.9	21.1	19.9	19.1	18.5	19.1	-	-
Monetary and Financial Indicators									
CPI Inflation	%	4.8	6.2	5.5	6.7	5.4	4.6	2.7	4.5
Exchange Rate (Average)*	LC per USD	70.9	74.2	74.5	80.4	82.8	84.6	-	-
Non-Performing Loans/Total Gross Loans	%	8.2	7.3	5.8	3.9	2.8	2.3	-	-
Private debt, loans and debt securities/GDP*	%	94.5	101.6	90.6	93.8	98.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to Fiscal year (*Data refers to Calendar year) and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited, but with issuer participation, including interaction with relevant ministries of the Government of India.

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	October 20, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+/Stable	October 23, 2024
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB+	October 03, 2024

Criteria Applied

CareEdge Global Sovereign Rating Methodology
CareEdge Global Transfer and Convertibility Risk Methodology

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