CareEdge Global assigns 'Stable' outlook to the rating of Republic of India

Reaffirms Long Term Foreign Currency Rating of 'CareEdge BBB+' (Unsolicited)

Issuer rating	CareEdge BBB+/ Stable (Unsolicited)

CareEdge Global has assigned 'Stable' outlook to the rating of Republic of India (India), while reaffirming the Long Term Foreign Currency rating of 'CareEdge BBB+ (unsolicited)'. The rating benefits from its large and diverse economic structure as well as its healthy growth outlook. Additionally, its high foreign exchange reserves and low levels of external debt contribute to a favourable external position, supporting its overall credit profile. However, these positives are balanced against the high general government debt and a weak debt affordability. Despite improvements in recent years, the economy continues to lag in global competitiveness and has a low per capita income.

India has demonstrated a strong reform commitment in recent years with the implementation of several initiatives such as Digital India, the Production Linked Incentive scheme, PM Gati Shakti etc. The government's focus on improving the economy's competitiveness, boosting foreign trade, and promoting capex-led growth are positives. Additionally, the demographic dividend presents a crucial opportunity to harness India's growth potential.

Rating Outlook: Stable

CareEdge has assigned a 'stable' outlook for India. This outlook captures the resilient economic growth outlook arising from continued healthy momentum in the overall economic activity, which is expected to sustain over the medium term. It also factors an expectation of downward trajectory of general government debt to GDP, albeit gradually, aided by continued focus on fiscal consolidation and healthy nominal GDP growth.

Upside scenario

Faster than expected pace of fiscal consolidation and higher growth momentum could result in faster fall in the General government debt to GDP ratio. Continued focus by the government on policy reforms and capital formation could raise India's potential economic growth. This could translate into a possibility of revision of outlook to positive over the medium term.

Downside scenario

We could revise our outlook to negative if there is worsening of country's fiscal position leading to significantly higher than expected indebtedness. Moreover, slower than expected growth for prolonged period could also be a negative as we believe this could further add pressures on the fiscal side. Moreover, any material and sustained deterioration in the external position could also be a negative factor.

Key Rating Drivers

Economic Structure & Resilience

India represents a large economy with a nominal GDP of USD 3.6 trillion (2023) and a diverse economic structure. Economic growth has remained healthy, rising by 8.2% in FY24 and is projected to remain around 6.5-7% over the next five years, among the highest for a large economy. Growth has been supported by strong capex push by the government with gross fixed capital formation rising to 30.8% of GDP in FY24 compared to 29.5% in FY19. The government's continued focus on the development of infrastructure and resolving logistic bottlenecks bodes well for boosting the overall growth potential.

India also enjoys a favourable demographic structure. Going forward, there is a need to increase investment in human capital, skill development, and creation of more employment opportunities to fully reap the demographic dividend. However, India faces challenges from a low per capita income at USD 7638 (constant PPP terms) in 2023.

The emphasis on digitalization and digital infrastructure remains a positive for shaping India's transformation. While India's growing economic stature globally presents an opportunity, challenges persist in the form of lower competitiveness, gaps in physical infrastructure, and climate risks.

Fiscal Strength

India's weak fiscal profile is characterised by a high general government debt and weak debt affordability. India's general government debt remained high at 83.4% of GDP for the fiscal year ending March 2024. Though this represents a notable moderation from a peak of 89.3% in the pandemic year (end of FY21), the debt to GDP levels continue to remain elevated in comparison to the pre-pandemic average of 68.8% (FY15-19). India also fares poorly in terms of debt affordability with the combined interest payments of Centre and State governments averaging at 25.7% of revenue receipts during the last five years, notably higher than the peers.

These risks are partially mitigated by factors such as large reliance on domestic financing of government debt (with ~96% financed domestically). Moreover, India does not have a sovereign default history.

Going ahead, we also project the general government debt to remain on a downward trajectory in the medium-term moderating to 78% of GDP by FY30 and further to 73.5% by FY35. Further, continued focus on fiscal consolidation and healthy economic growth momentum are expected to aid this moderation.

In recent years, there has been an improvement in the quality of government expenditure, with the Centre's capital expenditure budgeted to improve to 3.4% of GDP in FY25, compared to an average of 1.7% seen during FY15-19.

External Position & Linkages

India's favourable external assessment is characterised by an encouraging surplus in services trade, healthy remittances, strong foreign exchange reserves, and low external debt. India's services exports have shown an upbeat performance in recent years with a strong dominance of software service exports and a rising share of other business services.

India's assessment benefits from its low external debt at 18.7% of GDP as of FY24. Furthermore, India has a comfortable external funding ratio estimated at 1.3 (2023), which is broadly in line with its peers. This is a ratio of the country's current account payments and short-term external debt by residual maturity to current account receipts and FDI net inflows. It captures the sufficiency of a country's inflows in meeting its near-term external payment obligations.

These positives are partially offset by risks from a current account deficit observed in most years. India's current account deficit was seen at 0.7% of GDP in FY24 and is projected to average at 1.8% of GDP over the next five years. Furthermore, India's oil import dependency is high at around 85% which exposes it to vulnerabilities emerging from global oil price shocks.

Monetary & Financial Stability

The Indian Rupee is an actively traded currency as it accounts for about 1.6% of global foreign exchange market turnover.

The central bank, Reserve Bank of India (RBI), has demonstrated efforts towards lowering the inflation levels. The CPI inflation was recorded at 3.7% in August 2024, staying within the RBI's target range for the 12th successive month and moderating from a peak of 7.4% witnessed in July 2023. However, the volatile nature of food inflation, particularly given its higher weightage in the overall CPI, poses a challenge for inflation management in India.

In terms of financial stability, the efforts taken towards addressing the issue of non-performing assets have translated into a significant moderation in bank GNPAs to a multi-year low of 2.8% of gross advances in FY24 from 11.2% in FY18. Overall, the improvement witnessed in banks' asset quality and growing financial system bodes well for India's assessment of this parameter. Furthermore, India's increased financialization of savings and strong capital markets also bode well for the country's monetary assessment.

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. However, 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.

The economy has demonstrated a strong commitment to reforms in recent years. The government's focus on digitalization and e-governance initiatives is a positive 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 – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	2702.9	2835.6	2674.9	3167.3	3353.5	3572.1	3937.0	4339.8
GDP Per Capita (Constant-PPP)	USD	6436.2	6617.1	6175.5	6720.1	7140.9	7638.1	8084.0	8529.8
Real GDP Growth	%	6.5	3.9	-5.8	9.7	7.0	8.2	7.0	7.0
GFCF/GDP	%	29.5	28.5	27.3	29.6	30.8	30.8	-	-
Gross Domestic Savings/GDP	%	29.9	28.1	27.3	28.6	28.4	29.2	-	-
Exports (G&S)/GDP	%	19.9	18.7	18.7	21.4	23.2	21.9	-	-
Working-Age (15-64) Population (% Share in Total)	%	66.7	66.9	67.2	67.5	67.8	68.0	68.2	68.4
Old-Age (65+) Population (% Share in Total)	%	6.3	6.5	6.7	6.8	6.9	7.1	7.3	7.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-5.8	-7.2	-13.1	-9.5	-9.6	-8.4	-7.9	-7.5
Revenue/GDP	%	20.0	19.2	18.2	20.4	19.8	20.2	20.1	20.2
Expenditure/GDP	%	26.3	26.8	31.0	29.0	29.0	28.8	28.0	27.8
GG Gross Debt/GDP	%	70.5	75.2	89.3	84.3	82.5	83.4	82.8	81.8
GG External Debt (by Creditor)/GG Gross Debt	%	3.6	3.6	3.5	3.3	3.4	3.1	-	-
Interest/Revenue	%	23.6	24.8	28.8	25.4	24.6	25.1	-	-
External Indicators									
Current Account Balance/GDP	%	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-1.4	-1.6
FDI, Net Inflows/GDP	%	1.6	1.8	2.4	1.4	1.5	0.8	-	-
Outstanding FII Liabilities/GDP	%	8.4	8.8	10.3	9.0	7.3	7.5	-	-
NIIP/GDP	%	-16.1	-15.2	-13.2	-11.9	-11.2	-10.4	-	-
Foreign Exchange Reserves	USD Billion	411.9	475.6	579.3	617.6	578.4	645.6	-	-
Import Cover	Months	7.7	9.4	13.5	9.7	7.7	9.0	-	-
External Debt/GDP	%	19.9	20.9	21.1	19.9	19.0	18.7	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.4	4.8	6.2	5.5	6.7	5.4	4.8	4.7
Exchange Rate (Average)	LC per USD	69.9	70.9	74.2	74.5	80.4	82.8	-	-
Non-Performing Loans/Total Gross Loans	%	9.1	8.2	7.3	5.8	3.9	2.8	-	-
Private debt, loans and debt securities/GDP	%	82.8	89.9	96.3	86.3	87.9	-	-	-

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/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 2023

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	BBB+ / Stable	October 23, 2024
Issuer Rating (Long Term Foreign Currency)	Unsolicited	BBB+	October 3, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

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