



INTERNATIONAL FINANCE

Sovereign ratings

How global agencies grade a government as a borrower, what they look at, and where India and the US stand

Ratings as known on 16 October 2026; Budget figures for 2026-27

For training and education only. Not investment advice.

A sovereign rating is an agency's opinion of how likely a government is to pay its lenders in full, on time.

It grades the government as a borrower. It is not a score for the economy, its companies or its stock market, and it is an opinion, not a guarantee.

Reading the scale

S&P and Fitch write AAA, AA, A, BBB and so on; Moody's writes Aaa, Aa, A, Baa. The steps line up.

Band	Written as	What the band means
Highest	AAA / Aaa	Highest quality.
High	AA+, AA, AA- / Aa1, Aa2, Aa3	High quality.
Strong	A+, A, A- / A1, A2, A3	Strong capacity to pay.
Adequate	BBB+, BBB, BBB- / Baa1, Baa2, Baa3	Adequate capacity to pay. BBB- (Baa3) is the lowest investment grade.
Speculative	BB+ (Ba1) and below, down to default	Below investment grade: from ongoing uncertainty, through high risk, to default.

Source: Economic Survey 2020-21, Vol. 1, Chapter 3, Box 1 (rating scale comparison, citing the IMF), Ministry of Finance, Jan 2021.

Four terms to know



Investment grade

BBB- (Baa3) and above. Below that is speculative grade, also called sub-investment grade.



Notch

One step on the scale. BBB- to BBB is one notch up. From AA+ down to BBB is seven notches.



Outlook

The agency's view of the likely direction of the rating over the medium term: positive, stable, negative or developing.



Currency

Debt in the government's own currency and debt in foreign currency are rated separately. The two can differ.

Sources: Economic Survey 2020-21, Vol. 1, Ch. 3; Moody's methodology presentation, 7 Sep 2023 (outlooks).

What agencies look at

Moody's scores four factors. Its scorecard is a starting point; a committee decides the rating.

Factor	The question	Examples of measures
Economic strength	How strong is the economy, and can it absorb shocks?	Growth and how much it swings, size of the economy, income per person.
Institutions and governance	How robust are institutions, and how predictable are policies?	Quality of institutions and how well policy works. Both are judged, not just measured.
Fiscal strength	How heavy is the debt against what the government can raise?	Debt to GDP and to revenue. Interest to GDP and to revenue.
Event risk	Could a sudden event strain public finances?	Political, government liquidity, banking-sector and external risks.

Source: Moody's sovereign methodology presentation, 7 Sep 2023, published by Latvia's Ministry of Finance.

Debt burden and debt affordability

AN INVENTED COUNTRY

For every ₹100 of its GDP:

Government debt is ₹80.

Government revenue is ₹20 a year.

The average interest rate on its debt is 7%. All figures are assumed.

- 1 Debt to GDP = $80 \div 100 = 80\%$. This is the figure most often quoted.
- 2 Debt to revenue = $80 \div 20 = 4$. The debt equals four years of the government's revenue.
- 3 Interest = $7\% \times 80 = 5.6$ per 100 of GDP. Interest to revenue = $5.6 \div 20 = 28\%$.
- 4 If revenue were ₹28 instead of ₹20, the same interest would take $5.6 \div 28 = 20\%$ of revenue.

The same debt weighs more on a government that collects less revenue. Agencies look at both.

Illustration with an invented country and assumed figures. Not a description of any real government.

Where India stands

India's long-term ratings from S&P, Moody's and Fitch, and one measure they watch.

S&P

BBB

Raised from BBB- on
14 Aug 2025. Affirmed,
stable outlook, Aug
2026.

MOODY'S

Baa3

Since June 2020.
Affirmed 29 Sep 2025,
stable outlook.

FITCH

BBB-

Since Aug 2006.
Affirmed 11 Aug 2026,
stable outlook.

INTEREST ÷ REVENUE

39.7%

Centre's interest
payments ÷ revenue
receipts, Budget 2026-
27.

Sources: Ministry of Finance (PIB), 14 Aug 2025, 1 Sep 2026; Moody's, 29 Sep 2025; All India Radio and IANS, 11 Aug 2026; Economic Survey 2020-21; Budget at a Glance 2026-27.

How India got here

When	What changed
January 2004	Moody's raised India to Baa3, investment grade.
August 2006	Fitch raised India to BBB-, investment grade.
January 2007	S&P raised India to BBB-, investment grade.
Nov 2017; June 2020	Moody's raised India to Baa2 in 2017, then lowered it back to Baa3 in 2020.
August 2025	S&P raised India to BBB, its first upgrade of India in 18 years.

Sources: Economic Survey 2020-21, Vol. 1, Ch. 3, Table 1; Ministry of Finance (PIB) release, 14 Aug 2025.

Why a rating matters



Who can buy

Many institutional investors can hold only investment-grade debt. Crossing the BBB-/BB+ line can change who is able to buy a government's bonds.



The sovereign ceiling

When a government is downgraded, banks and companies in that country may be downgraded too, which can raise what they pay to borrow abroad.



India's borrowing

The Centre budgets ₹15,385 crore of net external debt in 2026-27, about 0.9% of its ₹16,95,768 crore fiscal deficit. Most of the rest is raised in India.

Sources: Economic Survey 2020-21, Vol. 1, Ch. 3 (quoting published research); Budget at a Glance 2026-27, sources of financing the fiscal deficit.

If you learnt this from older material

What older decks say

- The US is rated AAA.
- India is rated BBB-, the lowest investment grade.
- One agency's five criteria explain how countries are rated.

What holds now

- None of S&P, Moody's, Fitch rates the US at the top. Cuts: Aug 2011, Aug 2023, May 2025.
- Since Aug 2025 S&P rates India BBB; Moody's and Fitch keep it at the lowest investment grade.
- Each agency publishes its own framework. Check whose rating is being quoted.

The US is now AA+ with S&P and Fitch and Aa1 with Moody's, each one notch below the top.

Sources: US CRS, R48209, 4 Oct 2024; Moody's, 16 May 2025; Fortune, 27 Jun 2026; Reuters, 14 Aug 2026; PIB, 14 Aug 2025.

Four things people get wrong



'A rating is a verdict on the economy.'

It grades the government as a borrower. Growth helps, but debt, revenue and institutions count as much.



'A downgrade sinks Indian markets.'

Economic Survey 2020-21: past rating changes for India had no or weak correlation with Sensex returns, the rupee and G-sec yields.



'All agencies give the same rating.'

They need not. In October 2026 S&P rated India BBB, while Moody's and Fitch rated it a notch lower, at Baa3 and BBB-.



'An upgrade means bond funds will gain.'

A rating is one input among many for bond prices. We describe rating actions; we do not draw conclusions for any fund.

Check yourself

Q1

Which rating is the lowest investment grade on each scale, and what is the step just below it called?

Q2

An invented government has debt of 60 and revenue of 15 for every 100 of GDP, and pays 8% interest on its debt. What share of its revenue goes on interest?

Q3

A client says one agency has just changed India's rating and asks whether to sell a bond fund. What do we say?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- India, S&P: Ministry of Finance (PIB) release, 14 Aug 2025; PIB factsheet on Q1 2026-27 GDP, 1 Sep 2026 (affirmation, Aug 2026).
- India, Moody's and Fitch: Moody's rating action, 29 Sep 2025; Fitch affirmation as reported by All India Radio ([newsonair.gov.in](https://www.newsonair.gov.in)), 11 Aug 2026.
- Rating scales, India's rating history and market correlations: Economic Survey 2020-21, Vol. 1, Chapter 3, Ministry of Finance, Jan 2021.
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- US: CRS report R48209, 4 Oct 2024 (2011, 2023 cuts); Moody's, 16 May 2025; Fortune, 27 Jun 2026; Reuters, 14 Aug 2026.
- Interest, revenue receipts and financing of the deficit: Budget at a Glance 2026-27, Ministry of Finance, 1 Feb 2026.

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