From a "Dead Economy" to a Vibrant Economy

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Standard & Poor's Global (S&P), one of the world's leading credit rating agencies, annually evaluates 30 advanced and emerging economies based on their economic and financial policies, their implementation, and the resulting outcomes (**Table 1** for criteria). These assessments are reflected in economic growth and the strength of the financial sector. S&P provides two types of sovereign credit ratings: long-term and short-term. Long-term ratings range from 'AAA' (highest) to 'D' (in default), while short-term ratings span 'A1+' to 'D'.

In mid-August 2025, S&P released its Annual Report, upgrading India's long-term sovereign credit rating to 'BBB', its first upgrade in 18 years (from 'BBB-' in 2007). **Table 2** gives long term gradings for major developed and emerging economies, The short-term rating for India was also raised to 'A-2'. These upgrades for India after a near two-decade long gap, arriving just on the eve of India's Independence Day, are widely seen as a significant validation of the country's economic progress.

The upgrade reflects India's outstanding performance in recent years:

- Robust post-Covid 19 growth, surpassing growth rates of advanced nations, thereby raising annual average rate of global growth
- Commitment to fiscal consolidation and improved quality of public spending, especially in infrastructure.
- Strong fiscal position and adequate foreign exchange reserves
- Effective inflation management, including anchoring inflation expectations firmly by Reserve Bank of India (RBI).
- Resilience amid global price shocks, maintaining price stability and developing domestic capital markets

S&P projects India's GDP to grow at 6.5% in FY26, with momentum expected to continue over the next three years. Further, S&P notes that India's growth will remain largely insulated from recently imposed US tariffs, thanks to its large domestic consumption base and relatively low dependence on exports to the US (18% of total exports), compared to those of South East Asian economies.

A Timely Boost

The report dominated headlines on August 15. In his Independence Day address, Prime Minister Narendra Modi drew inspiration from it, countering US President Trump's disparaging remark calling India "a dead economy."

Highlighting India's strides in defense manufacturing—particularly drones—PM Modi urged domestic manufacturers to produce high-quality, affordable consumer and semi-durable

TABLE 1 | Standard and Poor's Grading and Grading criteria

Gradings	Criteria
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment-grade by market participants.
BB+	Considered highest speculative-grade by market participants.
BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
CC	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty.
C	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations.
D	Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken. Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source : S&P Website

TABLE 2 | S & P Sovereign Credit Rating: Advanced and Emerging Developing Countries

Gradings	Countries
AAA	Germany, Singapore
AA+	USA
AA	UK, South Korea
AA-	France
A+	China
A-	Malaysia
BBB+	Italy, Philippines
BBB	India, Indonesia
BB	Brazil
BB-	South Africa, Turkiye
B+	Bangladesh
B-	Kenya
CCC+	Pakistan

Source : S&P

goods to reduce dependence on imports from advanced economies. He emphasized that India's vision of self-reliance must extend beyond defense to everyday consumer goods. This stance contrasts sharply with the US's "Make America Great Again" (MAGA) strategy of reshoring investment and manufacturing to reduce its trade deficit (around $918 billion in 2024, 3.9% of GDP). While the US attempts to reclaim economic dominance reminiscent of colonial-era mercantilism, India is pushing for genuine economic independence—production, consumption, and distribution determined by domestic needs rather than external pressures.

A Diwali Gift

PM Modi also announced that the government is considering a Goods and Services Tax (GST) revamp as a possible Diwali gift. The proposal, if approved by the GST Council in September, would simplify the current four-tier structure (5%, 12%, 18%, 28%) into:

- 5% for essential fast-moving manufactured goods
- 18% for semi-durable goods including compact cars
- 40% for goods like tobacco, intoxicants, diamonds, lotteries, and online gaming

Union Bank of Switzerland (UBS) assessment study estimates the fiscal cost of India's GST reform at ₹1.1 trillion annually (0.3% of GDP), with a manageable shortfall of ₹430 billion (0.12% of GDP) in FY26, which can be offset by cess collections and higher RBI dividends. The study also notes that the proposed GST cuts will have a stronger multiplier effect (1.08) on consumption than income tax or corporate tax cuts, since the GST tax rate cuts will directly boost spending at the point of purchase. With inflation at 1.55% in July, below the RBI's 2% target, this move could pave the way for further monetary easing, potentially bringing the repo rate down to 5.0–5.25%, by end of the year.

Looking Ahead

The current challenge posed by US tariffs is not a 1991-style foreign exchange crisis. India's foreign exchange reserves in June 1991 fell to the lowest level, around just $ 1.2 billion which would only cover two to three weeks of India's essential imports at the height of the crisis. On the other hand, India' s foreign exchange reserves for the week ending August 15, 2025. were $ 695.10 billion. The RBI Governor Malhotra addressing the annual banking conference (known as FIBAC) jointly organized by Federation of Indian Chambers of Commerce and Industry and Indian Banks' Association (IBA) in Mumbai, said the country's foreign exchange reserves are strong enough to cover 11 months of merchandise imports, giving the economy a buffer against global shocks.

India today has scale, resilience, and diversity in its economy. However, structural issues still remain:

- Sharp decline in FDI: from $28 billion in 2022–23 to $10.1 billion in 2023–24, and a record low of $353 million in 2024–25 (a 96% drop)
- Stagnant private investment
- Rising unemployment among graduates.
- Their skills mismatch , visible in rural youth
- Notable absence in area in areas of factory floor employment
- Low agricultural productivity
- A widening rural-urban income gap

Need for economic reforms

The 2021 repeal of the Agriculture Reform laws, due to rising domestic divisiveness, aptly described by Nobel Laureate Amartya Sen as symptomatic of India's "argumentative state," underscores the urgency of consensus-driven policymaking. Labour Codes, already passed by Parliament, need early and swift implementation. The National Education Policy, which can transform India's workforce, must be fully executed.

India now stands at a defining moment: to transform an external challenge into an opportunity for deep, sustainable reform. The recent S&P upgrade is not an end, but a signal that the world is watching—and that India has the potential to lead world growth rates and raise the world average annual growth rate by its outstanding performance as it did during the post-Covid-19 recovery years. ■

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