Mizuho Brief: India

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India's Ratings Upgrade – Game Plan, Not Game-Changer

- S&P has cited improved economic fundamentals, fiscal consolidation and political commitment to improving public finances and in upgrading India's sovereign credit ratings by one notch to BBB (Stable Outlook).
- This is upgrade is not just warranted, but arguably, overdue.
- Fact is, India has delivered credibly and impressively on post-pandemic fiscal consolidation alongside encouraging economic lift from both public-sector led capacity expansion and private sector demand pick-up.
- What's more, insofar that the structural improvements have durably subdued inflation, monetary policy is also positioned to be sustainable positive for the underlying growth momentum.
- Nonetheless, this ratings upgrade is part of a well-telegraphed game-plan. Not the decisive game-changer for three reasons.
- First, much of the improvement is arguably priced in given investors have led the optimism, recognizing the aforementioned improvements, running ahead of the ratings upgrade.
- Second, while there will be a technical boost to risk pricing (lowering yield premiums) that feed into positive fiscal/credit dynamics, the one notch buffer from brink IG ratings (of BBB-) will only accentuate pre-existing allocation demand rather than open floodgates of new money based on more distinct level shifts (e.g. high-yield to IG) that invoke demand from higher-grade mandate.
- Finally, the overhang of geoeconomic risks presented by Trump's tariff assault on India dims the credit positive shift. At the very least, it defers demand as investors are restrained by caution ahead of clarity.
- Hence the boost to capital inflows and consequent to the rupee and bonds (lower yields) may be incremental and tentative (on wider geoeconomic outcomes) rather than a significant leg-up with sustained momentum.