

EXPLORATION ON UPGRADATION OF INDIA'S LONG-TERM FOREIGN AND LOCAL CURRENCY

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Abstract—The sovereign credit rating of India was recently upgraded to 'BBB' from 'BBB (low)' by the International Credit agency called Morningstar DBRS. A sovereign credit rating is a standard, assigned to different countries across the globe by different global credit rating agencies like Moody's, Standard & Poor's (S&P), DBRS, Fitch etc. The credit rating standards are assigned by these global credit rating agencies to different country's governments, evaluating its ability and willingness to repay its debts. Also, the ratings help the investors in getting an idea about a nation's ability and willingness to repay its debt obligation. The creditworthiness of a country relies upon various economic and financial factors like structural reforms, infrastructure investments, and fiscal consolidations. Recently (on 9th May 2025), Morningstar DBRS (the global sovereign credit rating agency), has upgraded India's long-term foreign and local currency – issuer ratings from BBB (low) to BBB with a stable trend. We implement the 'CLO Insight Model' (Collateralized Loan Obligation) to study the various attributes like 'Fiscal Management & Policy', 'Debt & Liquidity', 'Economic Structure & Performance', 'Monetary Policy & Financial Stability' & 'Political Environment' setting-up India's Long-Term Foreign and Local Currency – credit ratings. We rely upon secondary data collected from 'Morningstar DBRS' journal to carry out the descriptive research. The exploratory research has been carried out by going through the various published research papers. Finally in this research paper; we conclude that as the external risks due to the imposition of U.S. tariffs could have an impact on the global growth in the coming quarters; the Indian economy is expected to remain stable as the health of Indian economy has reduced dependency on trade with the United States.

Keywords: Sovereign Credit Rating, Creditworthiness, Structural Reforms, Tariffs, Debt & Liquidity.

Introduction

Today's business has gone global and businesses run on 'debt'. Investors invest capital into businesses with the intend to generate return or profit.

However, as the investors infuse capital into any business, they remain in a state of concern whether the invested capital is expected to default. However, for any business to gain momentum, need funds and the investors rely on the credit ratings provided to the companies or to a nation. Hence, a credit rating basically signifies the possibility that an issuer will default on a lend or other debt instrument due to insolvency. Investors rely on credit ratings to determine the risk of buying bonds or other debts from those groups. The credit ratings are issued by many independent agencies like S&P Global, Moody's, and Fitch Ratings. In the same sequence, we have another company called 'Morningstar DBRS'.

The credit rating agency provides independent ratings and opinions on corporate and sovereign entities, financial institutions, and structured finance instruments.

These factors influence the likelihood of default, which directly affects ¹credit ratings. Recently (on 9th May 2025), the company, has upgraded India's long-term foreign and local currency – issuer ratings from BBB (low) to BBB with a stable trend. The upgradation in the ratings has been due to improved infrastructure, digitalization, and overall macroeconomic stability via strong structural reforms, fiscal consolidation, and sustained economic growth, along with a flexible banking sector.

There are various techniques like financial statement analysis, industry and economic analysis, credit valuation method, Internal and Market-Based Measures deployed by these credit rating agencies to identify the upgraded credit rating of the different countries and companies. However, in this research paper we have carried out the study using the model called ²'CLO Insight Model' (Collateralized Loan Obligation).

A CLO is a funding vehicle that buys a portfolio of diversified leveraged loans as assets and issues a series of debt tranches at various credit ratings and an unrated equity tranche.

Literature Review:

In this research paper, the researchers ³Ranadev Goswami and S. Venkatesh study the significance of credit ratings by credit rating agencies in India. The researchers study the significance of credit ratings on security price behaviour the step plan via which information on ratings are gathered and its usability by the consumers. As the ratings gain momentum in India, the researchers collect primary data from the consumers in the market. The data for credit ratings was collected mainly for debt instruments. The result of the survey showed a significant change in the credit ratings (both upgrade and downgrade) of the debt instruments. The respondents realised the significance of credit ratings.

In this research paper, the researchers ⁴Ainun Hertikasari and Bhenu Artha are of the view that the financial crisis of the year 2008 was because of the information gap about the credit ratings. Also, the agencies mostly rely on the rating based on the shorter time period version. Hence, the credit ratings actually help in the information sink-up of the business data with the consumers. The researchers have distributed the variables of credit ratings into two types :- (i) variables that affect credit ratings economic growth and (ii) the variables which are affected by change in credit ratings like audit opinion, stock prices.

In this research paper, the researchers ⁵Dr. V. Venu Madhav and Sunitha G. have studied the variables and scope of reducing the disproportion in the credit market. The credit rating agencies help the investors in availing the true blueprint of the investment plan in a country by sharing the financial output for the investment amount. The researcher studies the credit agencies results based on various attributes which build up a business and provide them the passion to invest in a country and the expected earnings out of the investment. After identifying the credit score for a country; the investors are optimistic about their investment plans in diversified fields which provide more employment opportunities for the citizens of the country and hence an increase in per capita income.

Research Gap:

Researches for identifying the credit ratings have been carried out using the entity's financial statements, debt level, payment history, regulatory environment, management quality, and the entity's overall business strategy. In this research paper, we have relied upon 'CLO Insight Model' to understand the ratings being provided by credit rating agencies (CRA) like Morningstar DBRS. The "CLO Insight model" provides a better understanding on Collateralized Loan Obligations (CLOs) i.e. the model relies on variables like 'fiscal management & policy', debt and liquidity, economic structure and performance, political environment, monetary policy and financial stability.

Research Problem:

¹ [https://www.fibre2fashion.com/news/textile-news/morningstar-dbrs-raises-india-s-sovereign-credit-rating-to-bbb-302571-newsdetails.htm#:~:text=Morningstar%20DBRS%20has%20upgraded%20India's,25\)%2C%20and%20macroeconomic%20stability.](https://www.fibre2fashion.com/news/textile-news/morningstar-dbrs-raises-india-s-sovereign-credit-rating-to-bbb-302571-newsdetails.htm#:~:text=Morningstar%20DBRS%20has%20upgraded%20India's,25)%2C%20and%20macroeconomic%20stability.)

² <https://www.pinebridge.com/en/insights/clo-equity-how-it-works-and-why-its-compelling-now>

³ https://www.iimb.ac.in/sites/default/files/2018-07/WP.IIMB_.134.pdf

⁴ https://www.researchgate.net/publication/361641071_A_Literature_Review_of_Credit_Ratings/link/637ec3dd2f4bca7fd087cf6f/download?tp=eyJjb250Z.Xh0Ijp7ImZpcnN0UGFnZSI6InB1YmxpY2F0aW9uIiwicGFnZSI6InB1YmxpY2F0aW9uIn19

⁵ <https://www.cribfb.com/journal/index.php/ijfb/article/download/1328/1038/1851>

The credit rating agencies provide credit ratings to different entities which provides the creditworthiness of a country. The creditworthiness relies upon various economic and financial factors like structural reforms, infrastructure investments, and fiscal consolidations. However, in order for the investors to invest more strategically i.e. in a risk-free manner the investors need to have a complete insight upon cash flow engine to simulate the performance of different tranches (a division or portion of a pool or whole) and make data driven decisions.

Objectives:

- I. To understand the financial performance of a country on the variables building the CLO Insight model.
- II. To compare the variables building the CLO Insight model of different competing economies of the world.

Study Under CLO Insight Model

⁶Table No. 1 Depicting Details of Attributes Signifying Credit Ratings for Long Term – Foreign & Local Currency:

Scoreboard Indicators	2020	2021	2022	2023	2024
Fiscal Management and Policy					
Overall Fiscal Balance (% of GDP)	-12.9%	-9.4%	-9.0%	-7.9%	-7.4%
Government Effectiveness (Percentile Rank)	65.7%	61.0	63.2	67.9	----
Debt & Liquidity					
General Government Gross Debt (% of GDP)	88.4%	83.5%	82.2%	81.2%	81.3%
Interest Costs (% of GDP)	5.6%	5.2%	5.1%	4.9%	5.1%
Economic Structure & Performance					
GDP per Capita	1.9	2.3	2.4	2.5	2.7
Output Volatility (%)	3.2%	3.2%	3.1%	3.1%	3.1%
Economic Size (USD Billions)	2675	3167	3346	3638	3909
Monetary Policy and Financial Stability					
Rate of Inflation (% of EOP)	4.9%	6.3%	6.2%	5.0%	3.9%
Total Domestic Savings (% of GDP)	78%	72%	69%	69%	69%
Change in Domestic Credit (% of GDP)	7.2%	-6.0%	-1.0%	2.3%	2.8%

⁶ <https://dbrs.morningstar.com/research/453673/morningstar-dbrs-upgrades-india-to-bbb-trend-changed-to-stable>

Exploration on upgradation of India's Long-Term Foreign and Local Currency

Net Non-performing loans (% of Capital)	23.2%	13.7%	10.3%	6.9%	6.9%
Change in Property Price / GDP Index (%)	3.5%	-13.2%	-9.8%	-7.3%	-6.1%
Political Environment					
Voice & Accountability (Percentile Rank)	52.7	50.7	49.3	51.5	
Rule of Law (Percentile Rank)	52.4	50.0	55.2	56.1	

Significance of data presented in the above **Table No. 1:**

- Presently it is **-7.4%** in India i.e. Indian Government's expenditure is more than the earning.
- The indicator, 'Government Indicator' measures the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to its stated policies. Value of **67.9** is good but scope of improvement is there.
- General government gross debt refers to the total outstanding liabilities of the general government sector, including liabilities in the form of currency and deposits, debt securities, and loans. The value has been in decline mode. It is good for Indian economy.
- Lower interest rates mean less cost to borrow money for things like loans or mortgages, while higher rates mean more earnings on savings or investments. The figure of 5.2 denote more earnings on investments.
- GDP per capita is on high. A high GDP per capita is generally considered desirable, as it often indicates a higher standard of living and economic prosperity.
- The output volatility has positive and significant effect on economic growth for the full sample. Thus, higher growth rate signify higher output volatility. For India the output volatility is constant at 3.1
- A larger economic size, as measured by GDP, is associated with greater economic activity, higher living standards, and more opportunities.
- Hence, value of 3,909 - 4,187 (USD billion) depict higher living standards, and more opportunities in India.
- The Reserve Bank of India (RBI) aims for an inflation rate of 4% with a tolerance band of +/- 2%, meaning a target range of 2% to 6%. Hence, value of 3.9 - 4.1% is good enough for Indian economy.
- Increasing aggregate savings contributes to higher investment which leads to growth in aggregate wealth and thus a higher GDP growth. Current Gross savings of 68% seems to be good for Indian economy.
- The change in domestic credit should be neither too high nor too low; it should be appropriate for the specific economic context and growth goals of the country. Hence current value of 2.3% - 2.8% is fine enough.
- A higher non-performing loan (NPL) ratio not only reduces profitability but also curb lending capacity, enlarging funding costs and regulatory capital requirements.
- Net non-performing loan value of 2.9% is fine enough for economy like India but presently value lies at 6.9% (not good)

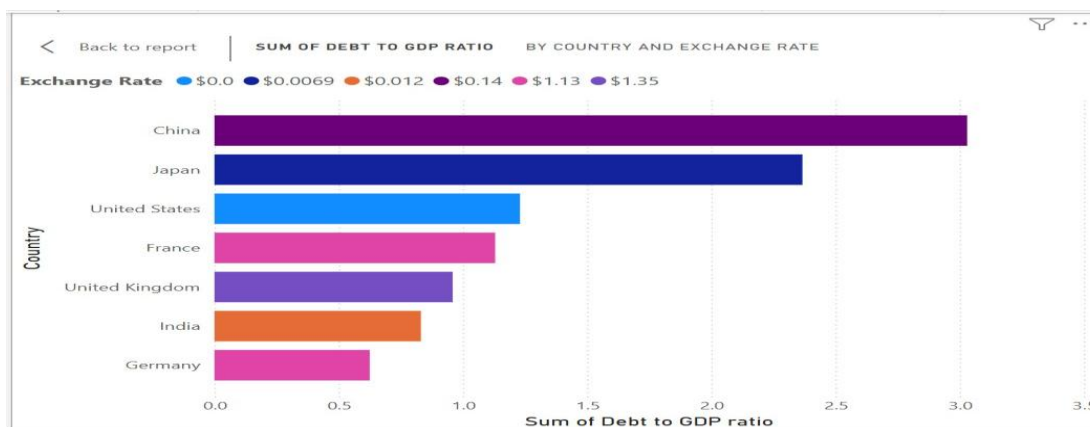
- This rise in property prices is partially driven by a strong GDP growth. However, in India, the demand for housing property has not been competing with the GDP.
- In the context of governance and development, both voice and accountability should be high. A score of 52 indicates a moderate level of voice and accountability, suggesting that citizens have some ability to participate in the political process and express their views, but it's not as strong as a higher score.
- The rule of law in India, like in any country, is a complex issue with both strengths and weaknesses. 56 percentile is generally considered a good value in theory, as it ensures that everyone, including those in power, is subject to the law and held accountable.

⁷⁸Table No. 2: Financial Performance of Global Competing Economies:

Country	Gross Domestic Growth	Inflation Rate	Debt to GDP Ratio	Exchange Rate
United States	\$29,184.9 billion	2.90%	123%	\$0.0
China	\$18.7 trillion	0.20%	303%	\$1.13
Germany	\$4.745 trillion	2.20%	62.50%	\$0.012
Japan	\$4.026 trillion	2.74%	236.70%	\$1.35
India	\$3.91 trillion	4.60%	83.10%	\$0.0069
United Kingdom	\$3.64 trillion	2.00%	95.90%	\$1.13
France	\$3.085 trillion	2.32%	113%	\$0.14

- United States rely on a relative open economy. The business in U.S has great dependency on Foreign Direct Investment. The country can maintain a large national as the father of world's primary currency. The challenge in maintaining the topmost position lies in the form of rising economic inequality, social safety net costs and deteriorating infrastructure.
- China has been maintaining the second largest economy of the world for quite sometime, the government of China has relied more on flexibility with market prices. Also, the Chinese increased the autonomy of businesses, foreign and domestic trade and investment have taken off in the country. However, as the country face rapid aging population and severe environmental degradation, has slowed the country's growth.

Data Analysis Using Power BI



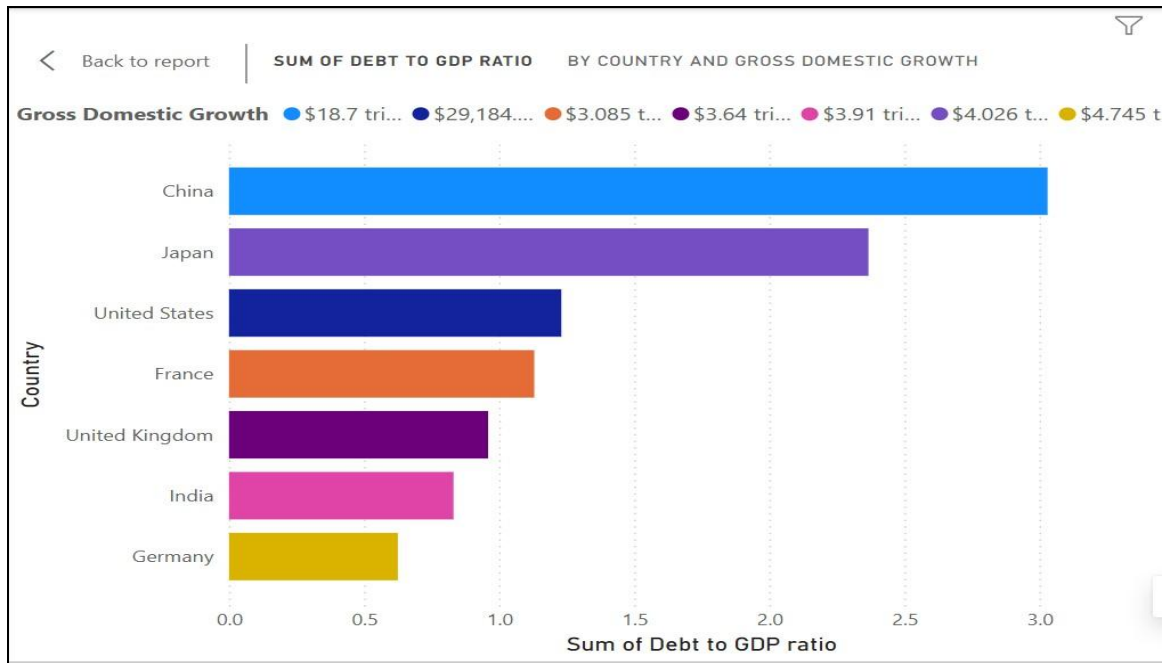
⁷ <https://cleartax.in/s/world-gdp-ranking-list>

⁸ <https://www.investopedia.com/insights/worlds-top-economies/>

Exploration on upgradation of India's Long-Term Foreign and Local Currency

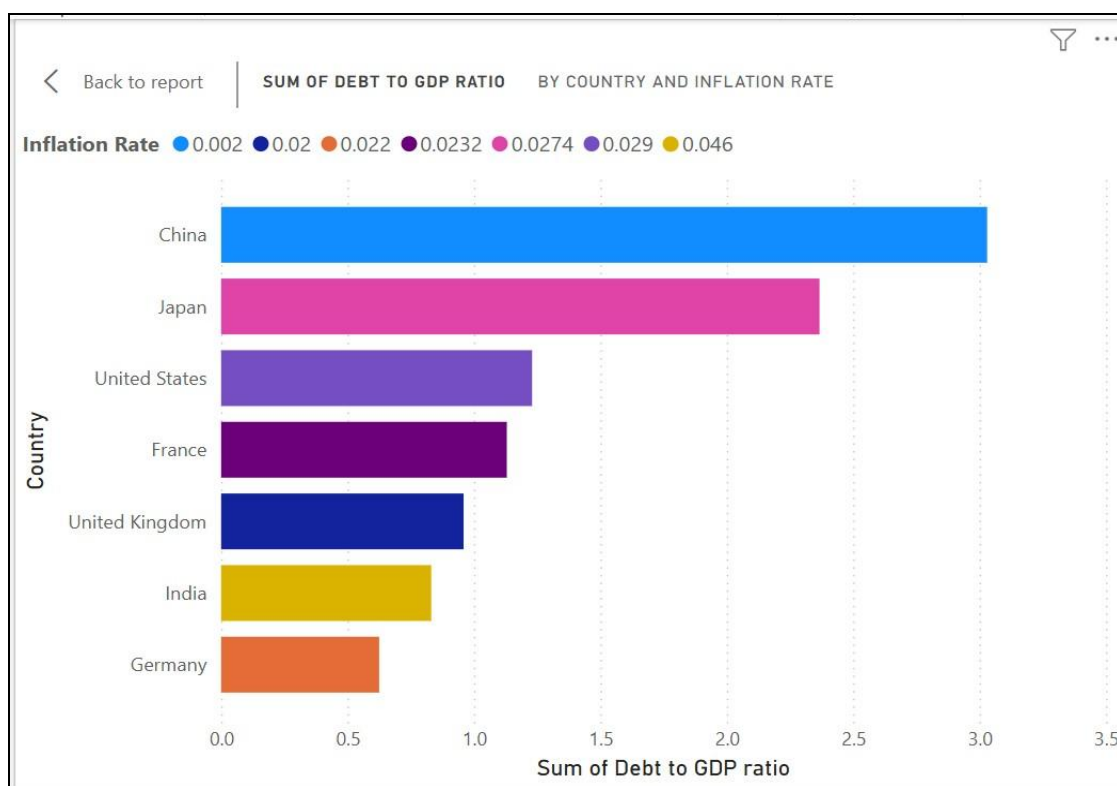
- Germany has dominated the world economy in the fields of vehicles, machinery, chemicals, and other manufactured goods. They maintain a highly skilled workforce. The low fertility rate has caused the hurdle in the replacement of the aging population which is one of the hurdles with sustaining the economic dominance.
- Japanese government policies have infused the country's overall growth especially after Fukushima disaster. Result output of the country's overall hardwork is that country has maintained its dominance in the world economy. However, scarcity of natural resources and aging population not getting replaced by youth is the major concern.

Data Analysis Using Powe BI:



- The risk of debt sustainability has been low for India despite the high public debt ratio. The country's public debt is dominated in local currency. Public external debt lies at 2.6% of GDP. The inflation has fallen within RBI's forbearance band of 4±2 percent. The implementation of reciprocal tariffs by United States (postponed till 9th July 2025) does not put much pressure on key manufacturing sectors of Indian economy as India relies on closed nature of the Indian economy. Domestic financial markets have remained stable. Non-performing assets have been on reduction mode i.e. from 11.2% in March 2018 to a 13-year low of 2.5% in December 2024. India's non-banking financial sector have stood firm.

Data Analysis Using Power BI:



Empirical Findings:

- The credit rating agency 'Morningstar DBRS' is expected to promote the credit ratings of a nation if the country's continuous reforms raise the investments into the country which in turn helps in improving the medium-term growth. Also, the reforms help in the material reduction in the public debt-to-GDP ratio.
- There has been a rising global trade tensions which has led International Monetary Fund (IMF) revised the global growth forecast down from 3.3% to 2.8% in the fiscal 2025-26.
- However, for India IMF still predicts a growth of 6.2% – 6.3% in the fiscal.
- India's continuous structural reform efforts are facilitating country's fiscal consolidation which in turn has led to high potential growth.
- India has consolidated its infrastructure and rapid digitization plan which has led the investors rely on rural India as well. This in turn has led to boost the country's GDP to 8.2% between the fiscal 2022 – 2025.
- India's banking system has grown more matured and resilient with the ratio of non-performing loans to total loans falling to 2.5%
- Inflation in the country is as per the predictions made by Reserve Bank of India (RBI) i.e. 4±2%
- Finally, as United States implement reciprocal tariff; India continues to be the least hit (although 26% tariff has been imposed on Indian goods); because of the low level of goods exports to U.S and domestic driven nature of Indian economy.

Conclusion:

As today's business have gone global, the investors are expected to infuse their money into different companies across the globe. As they invest their money in anticipation of returns, the credit rating agencies signify the possibility that an issuer will default on a lend or other debt instruments due to insolvency. Credit rating agencies verify various financial

Exploration on upgradation of India's Long-Term Foreign and Local Currency

and non-financial attributes like company's financial statements, payment history, debt levels, and overall market outlook, as well as their operational efficiency, management quality, and governance practices to evaluate an entity's creditworthiness. As the country's sustain with the various hurdles to compete successfully with the global business challenges, India's continuous structural reform efforts are facilitating country's fiscal consolidation which in turn has led to high potential growth in recent times. Also, the country has consolidated its infrastructure and rapid digitization plan which has led the investors rely on rural areas as well. As a result, the GDP of the country has been varying around 8.2% during the fiscal between 2022 – 2025 and ratio of non-performing loans to total loans falling to 2.5%. Also, as the IMF forecast the global growth of 2.8% to 3.3% during the fiscal 2025-26; the growth prediction for India still stands at 6.2% – 6.3%. This has provided India an overall edge compared to other countries which has led to the upgradation of the long-term foreign and local currency – issuer ratings by Morningstar DBRS. Also, the Indian economy is expected to remain stable as United States vary the tariff rates for the different business partnering countries from across the globe.

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