ARE SOVEREIGN CREDIT RATINGS BIASED TOWARDS INDIA? AN ANALYSIS ON MOODY'S CREDIT RATING ACROSS THE YEARS USING MACHINE LEARNING MODELS?

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ABSTRACT

Sovereign credit ratings serve as a critical barometer of a nation's fiscal health and its capacity to honor debt obligations, traditionally reflecting the economic size and resilience of the world's largest economies. Historically, the fifth largest economy has been assigned a Aaa rating, underscoring its perceived ability to repay debt with minimal risk. However, India's current sovereign credit rating of Baa3, the lowest tier of investment grade, marks a significant departure from this trend, positioning it as a historical anomaly alongside China, which was rated A2 in 2005. This paper examines whether the fundamentals typically underpinning sovereign credit ratings justify this unprecedented downgrade for a top-tier global economy.

India, as the fifth largest economy by nominal GDP in 2025, boasts robust growth projections, a burgeoning technology sector, and a youthful demographic dividend, yet it grapples with persistent fiscal imbalances, elevated public debt, and vulnerabilities in its external accounts, it also is lagging behind in all of the social and qualitative metrics which are factored into the credit rating. These factors contrast sharply with the historical profiles of other top-five economies, which have typically exhibited stronger fiscal discipline and global financial integration to sustain AAA ratings. China's earlier exception, driven by its transition from an emerging market to an economic powerhouse, offers a comparative lens, though its trajectory toward higher ratings diverges from India's stagnation at the Baa3 threshold. This study employs a mixed-methods approach, integrating econometric analysis of macroeconomic indicators with qualitative assessments of rating agency methodologies from Moody's to interrogate the consistency and transparency of these evaluations.

It explores whether methodological biases or geopolitical considerations disproportionately penalize emerging economies like India, despite their global economic stature. By juxtaposing India's case against historical precedents and China's outlier experience, this thesis seeks to illuminate whether sovereign credit ratings adequately reflect economic fundamentals or if they reveal systemic flaws in the rating framework. The findings aim to contribute to broader debates on the relevance of credit ratings for large emerging markets and their implications for global financial stability.