Pay hike to boost growth, say India Inc, analysts

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New Delhi: India Inc, analysts gave thumbs up to the Union Cabinet decision to clear the 7th Central Pay Commission recommendations, stating the move will "boost consumption in the economy" and lead to higher GDP growth.

The pay hike combined with continued public push to the capital expenditure will help steer the economy to higher growth levels of 8 per cent and above, which is much needed amidst the current global headwinds, India Inc said. "The pay hike of nearly Rs 1 lakh crore for government employees will give a strong boost to the consumer demand and help uplift the growth of the economy," said A Didar Singh, secretary general, FICCI.

Motilal Oswal, chairman and MD, Motilal Oswal Financial Services, said, "Just ahead of Monsoon, the 7th Pay Commission will set the snowball impact in the economy. This is a well expected positive move, this will help achieve GDP growth target quicker. Auto, consumer durables and FMCG sectors would see much higher demand. The small concern could be that this may push inflation a bit higher." "We feel contented by this move which is in favor of as many as 10 million people. This will certainly have an impact on the sales and trigger purchases. Favoring a tilt in demand for premium products, we expect the new age technologies segment to boost our business," said CM Singh, COO, Videocon.

India Rating estimate shows that the demand boost to the economy as a result of the revision in the salaries/pensions of the employees will be at least four times the panel's award. Though it does not see any immediate threat to inflation due to the award of the commission, consumer price inflation may inch up somewhat due to higher prices of services, impact on wholesale price index is likely to be muted due to the counter balance provided by the deflation in commodity prices and the availability of excess capacity in several manufacturing sectors.

"A rise in demand is likely to not only increase capacity utilisation but may also help revive the investment cycle earlier than expected," it said.

"The impact of pay revision of state government employees will be felt only in FY18. The Commission award is expected to be less severe on state finances than expected earlier due to a lower arrear pay out. Now that the central government has accepted the report of the Central Pay Commission, state governments will also follow suit after a gap of six months to a year," said Devendra Pant, chief economist, India Ratings.

The government move will lead to surplus cash at the hands of the employees. "The pay commission will put extra money in the hands of a large section of the Indian consumer. This is great positive for the consumer durable industry since this will definitely spur demand for discretionary and aspirational products. We look forward to this contributing to good growth in the later part of this year," said Sunil D'Souza, managing director, Whirlpool of India.

However, the Reserve Bank had listed the Pay Panel recommendations as one of the upside risks to inflation. Announcing the monetary policy earlier this month, RBI Governor Raghuram Rajan had said the recommendations will be factored into the inflation projections as soon as clarity emerges.