

Stimulus @ Pay Hike

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The Union Cabinet has approved the recommendations of the Seventh Pay Commission, which will benefit around one crore central government employees and pensioners through 2.5 times pay hike in basic salary of the beneficiaries. The decision would put an extra monetary burden of `1.02 lakh crore on the central government.

In new pay scales entry-level basic pay would change from `7,000 to `18,000 per month, while at the highest level, it would go up from `90,000 to `2.5 lakh per month. For Class 1 officers, the starting salary would be `56,100.

The revised central government employee's salaries are likely to be paid from July 1, 2016. However, the employees will get salary arrears from 1 January 2016, while allowances will be paid only from 1 July 2016.

However, economic experts have a different view on this government's decision. They viewed this decision as hitting two targets with single arrow. By accepting the 7th Pay Commission's recommendations, the government of India tried to pacify the central government's demands through this most important populist major. But, on the other hand it has taken a decision that would help as a stimulus for the sluggish Indian economy. The expressed confidence that the pay hike would pump the consumer durable, automobile and real estate segment of the market which haven't done well in past two-three years.

As said earlier, a pleasant outcome of the pay hike is the increased savings as the household income expands. Most of the salaried people will raise their savings to utilize the opportunities of tax exemptions. Government will be a beneficiary of the salary hike indirectly as tax revenue will go up given the present exemption limit of `2.5 lakh.

"So the extra money also comes back into the system which increases size of economy," Finance Minister explains the overall benefit of the salary hike.

ECONOMIC BAIL OUT

The experts said that out of `1.02 lakh crore burden, the government of India is going to get back around `28,000 crore (28 percent) through various direct and indirect taxes that we Indian are paying during are day to day life. Normally, a person tries to save around 20 percent of his or her income. So, once again, around `20,000 crore would go to the banks that would enhance bank's liquidity into the market. It has to be kept

in mind that central government employees save their income into the government banks or public sector banks (PSBs). So, this `20,000 crore would to some extent give a sigh of relief to the PSBs which are forced to face the heat of NPA and cases of high profile willful defaults.

Asked about the implementation of 7th Pay Commission's impact on the Indian GDP Devendra Pant, Chief Economist at the India Ratings and Research said, "The union cabinet cleared the Seventh Central Pay Commission recommendations, which boost consumption by `451.1bn (0.30 percent of GDP) and increase savings by `307.1bn (0.20 percent of GDP). India Ratings and Research believes that after the sharing of central taxes with the state governments, the central government's net tax revenue will increase by `141bn (0.09 percent of GDP) in FY17." He said that 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. "A rise in demand is likely to not only increase capacity utilisation but may also help revive the investment cycle earlier than expected," said Devendra Pant of the India Ratings and Research.

Giving an insight of the government or any other employee's fight for their basic needs revolving around Roti-Kapda-Makan; Sonal Verma and neha Saraf of Nomura said, "The pay and pension hike will boost discretionary demand (auto, consumer durables), providing an impetus to growth. We expect GDP (market prices) growth to recover to 7.3 percent in 2016 from 7.2 percent in 2015, with the recovery being largely consumption-led."

Standing in sync with views expressed by India Ratings and Research and Nomura experts A Didar Singh, Secretary General at FICCI said, "The pay hike for government employees will give a strong boost to the consumer demand and help uplift the growth of the economy. This combined with continued public push to the capital expenditure will help steer the economy to higher growth levels of 8 percent and above, which is much needed amidst the current global headwinds."

BOOST TO CONSUMER DURABLES

Commenting upon the surplus money coming into the hands of employees Sunil D'Souza, Managing Director, Whirlpool of India said, "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."

Standing in sync with D'Souza; CM Singh, COO, Videocon said, "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."

On how much growth does the consumer durable market is expecting due to this pay hike Kamal Nandi, Business Head, Godrej Appliances said, "A minimum of 10 percent growth we are expecting due to this 7th Pay Commission."

PUSH FOR AUTO SECTOR

The strongest effect of the pay hike will be on aggregate demand in the economy. More cash with salaried people will trigger higher consumption. According to leading bankers, demand for cars and houses will go up tempting banks to lend more auto loans. Pick up in loans will energize banks as the creditworthiness of the salaried people is high.

"When you spend there is taxation, demand is also generated. When you save that, savings is used in development of the country. It also has some inflationary pressure," Finance Minister Arun Jaitley mentioned about the impact of the pay hike on the economy.

Asked about the impact of 7th pay Commission on the auto industry Ashish Jha, Auto Market Expert said, "The rise in pay of the employees is going to fuel the two wheeler and four wheeler market to a larger extent as Indian middle class has a tendency of spending their income on home and transport in the case of hike in salary. However, I expect low end car segment to get more benefit of this." He said that the net additional growth that the auto industry was expecting due to the 7th Pay commission was in the range of 10-12 percent.

Agreeing with the views expressed by Ashish Jha travel expert Amresh Tewari said that the industry growth has been sluggish and auto sales have been down for the last three years. He said that the 7th pay Commission is blessing in disguise for the industry as it would fuel the low end car sales after implementation.

FUEL FOR MARKETS

Implementation of the Seventh Pay Commission recommendations will have a positive impact on stock markets and also on consumption growth. Nirdosh Gaur, MD and CEO of Discount Broking Firm, Moneypalm said, "We are expecting that urban demand will spur after implementation and this will increase demand for discretionary products. Our favourite sectors to watch are automobile, FMCG, retail and real estate. Stocks such as Hero MotoCorp, Kansai Nerolac, PC Jewellers, Mahindra & Mahindra and DLF will benefit with the implementation of the commission."

Motilal Oswal, CMD, Motilal Oswal Financial Services said, "The pay hike of nearly `1 lakh crore for government employees will give a strong boost to the consumer

demand and help uplift the growth of the economy. This combined with continued public push to the capital expenditure will help steer the economy to higher growth levels of 8 percent and above, which is much needed amidst the current global headwinds." However, he said that new generation of the government sector and the executives employed in government jobs could be the people looking at the equity market. But, there is large section of the government employees who have started to invest into the equity linked mutual funds which is slightly lower in risk to the markets.

RISE IN REALTY MARKET

As said earlier, government employee's world revolves around Roti-Kapda-Makan which means they would move towards buying their dream home if they have enough salary to afford the Home Loan EMIs. So, the sector which has been crawling for the last half a decade is smelling a rise in sales of real estate projects.

Manoj Gaur, President CREDAI-NCR said, "The decision will substantially increase the disposable income of this vast populace impacted by the 7th Pay commission. It will also increase their spending and borrowing capacity, thereby giving a boost to domestic demand. Even after accounting for inflationary pressures, the rise in income will be large enough to boost investment in real estate." The Managing Director of the Gaursons India - a leading real estate brand in Delhi-NCR - further added, "Previous pay commissions have seen this trend. In the last few years, realty prices have bottomed out across most regions due to poor demand. To add to it, interest rates, too, have seen a downward slide. We believe this could be a game changer for the sector."

Amplifying the effect of 7th Pay Commission on the Indian Real Estate sector Ashok Gupta, CMD, Ajnara India said, "A huge chunk of the buyer group today comprises of government employees and with their pays expected to go up by as much as 23.55 percent, we are sure to see a spike in the people ready to invest across the sector. The need is always there because most of them have been using government accommodations as their residences throughout their period of service but once retired, they would be required to vacate the same thereby fuelling the future demand of housing in the sector."

Cautioning the sector to gear up for the abrupt rise in housing demand Vikas Bhasin, MD, Saya Group said, ". It is just a matter of analysing their demands and providing the correct supply. This coupled with the 2 crore housing shortage, answered through Housing For All, and with Smart India Mission already underway, housing sector in India will witness a boom in the upcoming few years, which will gradually make the commercial segment also grow. Thus, this Budget Session will be a make or break event for the real estate sector in particular."

POLITICAL EFFECT

The Pay Commission has always been an important political affair and had never been free from the populist majors. This time also, the government of India tried to sort out OROP in defense and other demands of the central government employees because the matter is directly related to around one crore employees (read one crore family). If we take four votes involved in one family there are four crore voters. Dividing four crore votes with 543 Lok Sabha seats, it comes around 73,700 (round figure) votes per Lok Sabha constituency which can change the result in close fought contest in any side. The value of these 4 crore votes can be easily understood when we come to know that BJP which registered around 17 crore votes in 2014 Lok Sabha elections which was around 6.5 crore higher than Congress which came second in that parliamentary elections. But, the results were quite phenomenal as Congress was almost decimated into that poll. Hence, negative swing of near 3 crore votes would be enough to kill the prospects of ruling party in the coming parliamentary elections.

Hence, the Pay Commission is matter that not a single political party can afford to take seriously, especially the ruling party. It has always affected the coming parliamentary polls and so does this 7th Pay Commission would.