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IMPACT OF 7TH PAY COMMISSION ON REAL STATE SECTOR AND AUTOMOBILE SECTOR: AN ANALYTICAL STUDY

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ABSTRACT It is decided by the government that the 7th Pay Commission report will have its effect from January 1, 2016. The recommendations made by the said commission report will have an impact on more than forty seven lakh central employees and fifty two lakh pensioners. It will not only have an impact on the government sector but also on various other sectors. This research paper aims to critically analyze the recommendations of the Seventh Pay Commission which have been approved by the Union Cabinet and its effects on various sectors.

This paper also examines how the increase in disposable income, increases the demand for consumer durable goods, real state and automobile sector take place after implication of 7th pay commission.

KEYWORDS : Attitude, Curriculum, Inclusive education.

Introduction

Pay Commission is a mechanism which is administrative in nature and is constituted by the Indian Government. Basically it gives recommendations to change the salary structure of the government employees. These recommendations also have an impact on the salary of military officials and pensioners. The commission does proper research and then gives a report which contains the recommendations that are accepted or rejected by the Indian Government.

7th Pay Commission: Main provisions

The recommendations of 7th pay commission were accepted by the Modi Government on 29th June 2016. The recommendations were mainly focused on the hike in the basic pay of the employees and pension.[1] some of the highlights of the recommendations are given below2:

1. There will be a 16% hike in the basic salary.[3]
2. There will be an increase in Dearness Allowance, House Rent Allowance etc.[4]
3. It recommends to set the basic pay for government employees at Rs. 18000 per month and there will be a salary hike of 23%.[5]
4. It has also recommended maximum pay which is two lakh twenty five thousand for the Apex scale while Rs. Two lakh fifty thousand per month for the Cabinet Secretary. [6]
5. There will be an annual increment which will be retained at three percent. [7]
6. Gratuity ceiling has been enhanced from ten lakh to twenty lakh and this ceiling is to

be raised by twenty five percent whenever dearness allowance is raised by fifty percent.[8]

7. The officers working short service will be now allowed to exit at any point of time from the armed forces between seven to ten years of their service. [9]
8. It also recommends abolishing fifty two allowances.[10]
9. Total impact of are expected to entail an increase of 0.65% points in the ratio of expenditure on to GDP.[11]

Impact of 7th Pay Commission on the Indian Economy

The recommendations are yet to be accepted by the government; however theses tend to be effective since January, 2016. So the report has suggested that the average increment in the salary of 23.5% which is likely to impact around 48 Lakh Central employees and around 55 Lakh pensioners.

Historically, it has been noted that implementation of any pay commission usually adds to the fiscal burden, is kind of inflationary post the inflation and leads to spurt in consumption. Even the 7th Pay Commission is likely to affect these variables in the following ways:

a. Impact on the Fiscal Policy

The 7th pay commission kind of suggests an additional expenditure of around 1.02 trillion that is 0.65% of GDP. Of these around 74,000 crore will be borne by the Central Government whereas 28,000 crore will be for the railway budget.

b. Impact on the Fiscal Deficit

With the implementation of the 7th pay commission which was likely to be April 2016, we would not see any significant arrears. This was the case in the 6th Pay Commission when the arrears itself amounted to around 18,000 crores. The government set the target of achieving three and a half percent as fiscal deficit to GDP by Financial year 2017. However after implementation of the 7th Pay Commission it is difficult to achieve this target.

c. Impact on Growth

With the implementation of 7th pay commission, the GDP composition is likely to reflect a higher growth in consumption and relatively slower growth in the investments then it was envisaged earlier. Currently there is a stable inflation and with revised pay scale there will be higher disposal income in the hands of the people. This would ultimately lead to spurt in consumption specifically in the real estate, automobiles, clothing, footwear and recreational services. However, to meet the fiscal consolidation path that government has promised, the government will have to cut down capital spending which would mean that the investment cycle will be further pushed ahead.

d. Impact on Inflation

There will be a positive as well as negative impact due to the recommendations. There will be a positive impact as there will be a high dose of fiscal stimulus that would help to revive consumption demand and quell worries of households about inflationary pressure on their budgets. However, when population will spend more it will give rise to inflation which is a negative effect.[12]

Effect of 7TH Pay Commission on Industries:

The 7th Pay Commission headed by Justice A K Mathur were tasked with reviewing and proposing changes to the pay scale, pension scheme and efficiency of government employees. These recomme ndations directly affect 33 lacs Central Government employees, also to 14 lacs armed forces personnel and 52 lacs pensioners.

The Commission proposed to increase:

- A minimum salary of Rs. 18,000 per month,
- A maximum salary of Rs. 2,50,000 per month.
- The gratuity slag of Rs. 20 lacs.
- Housing loan allowance of Rs 25 lacs.

Such a salary hike affecting millions of employees will have some significant effect on the economy as a whole. The pay hike of Central government employees is likely to trigger pay hike of millions of additional employees of State Government. Following are the two major effect of 7th Pay Commission:

More savings and tax revenues-

As the household income will expand it is likely to increase savings. Most of the employees will utilise the opportunity of tax exemptions by raising their savings. The Finance Minister believes, extra money will come back into the system and increase the size of the economy.

Revival of Automobile and Real Estate Sector-

The effect of 7th Pay Commission is likely to increase aggregate demand in the economy. An increase in purchasing power will trigger higher consumption of products. In this research paper, we will analyse how Automobile and Real Estate Sector are likely to flourish.

Effect of 7TH Pay Commission

As already mentioned, the final recommendations are going to affect 47 lacs employees and about 52 lacs pensioners. Adding to this, there will be State government employees and Central Public Sector Units (PSU's) who will be benefited with their respective Pay Comm issions.[13]

Therefore, almost 3.4 crore individuals will have more disposable incomes in their hands. This inflow of additional income will give a boost to the Automobile Sector, Consumer Durable Sector and the much needed Real Estate Sector which has been in the sluggish mode for the last few years. The Real Estate Sector had almost remained stagnated for the past three to four years except few cities. The Sector has started looking up since QE Jul- Sep 2015 onwards.[14]

The expected inflow of money, as a result of Seventh Pay Commission implementation, is likely to change the scenario as it would provide the much needed stimulus needed to revive the Realty Sector.

To assess the effect of the commission on Real Estate industry, it is necessary to;

- To examine the income distribution and its effect on Middle Class.
- To analyze its impact on Real Estate.

Income Distribution and its effect on Middle Class

The income distribution due to the Pay Commission will not be in one go but will spread over a period of one to two years starting June 2016. Moreover, the Government is mulling a proposal to release only half of the arrears in the hands of the Employees and plough the balance 50 percent in a way of Government Schemes so that it can utilize the amount for other activities such as liquidating the Bank NPAs.

It is estimated that 75 percent of the increase should occur in FY 17 and the rest in FY 18 when the employees of the Central PSUs and State Commission will also ripe benefits from their respective Pay Commissions. The Central Government has already catered for a sum of Rs 70,000 crore in this year's Budget. Though the Budget has not provided any explicit numbers in terms of amount and revenues, it says that the hike has been built in interim allocation to the concerned Ministries.

As per the reports of Bank of America Merril Lynch, it is expected that the Commission's implementation to double the subsidized loans for housing to 15 lakhs will push up the housing demands. Also, the reports of Reserve Bank of India also suggests that, this foreseen demand is expected to have a sharp, quick and continuous spurt in the housing index of the country. As also, it will create demand for housing loans from the Banks and other Non-Banking Finance Companies (NBFCs).Nearly one third of India's middle class is employed by the Central Government.[15]

Implementation of the Pay Commission will result into an improvement in discretionary spending of middle class. 50 to 60 percent Government Employees reside in Tier 3 and Tier 4 cities hence these cities are expected to see steep rise in Real Estate, Auto and Consumer Durable Sectors.

Impact on Real Estate

Real Estate Sector is burdened with a large unsold inventory,[16] thus as a result of higher disposable income in the hands of a substantial chunk of the population will result into higher disposals of such inventory.

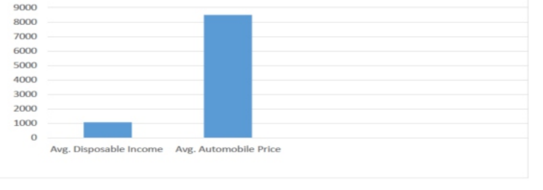
The recent decision of the Government to increase the limit of FDI in the Real Estate Sector and the recent rate cut by the RBI Governor in Apr 2016, will further motivate investments in houses and spurt the Real Sector demand. The increase in the limit of FDI in the Real Estate Sector is important to evaluate the 'supply' side of the impact of the commission on Real Estate.[17]

Whilst it is expected that the implementation of the Pay Commission will impact the Real Estate Sector substantially and lift demand, but there are some who feel that the benefits may not be very significant. The recommendations may not be accepted in toto by the Government and could actually be lesser.18 Moreover, if Real Estate Developers keeping in view if increases the price of market, it will negatively affect the economy.

Impact of 7TH Pay Commission on Automobile sector:

The automobile sector of India has not shown a growth rate that it capable of keeping in mind the population strength and growth rate at which India is pacing forward. The factor that it is lacking in is that of the purchase power parity of the citizens in India. Only Demand is not necessary and it has to be coupled with purchase power of target audience create a growth environment in any particular sector. Due to many factors, that purchase power of people was still not at the level that could serve to a higher growth rate of the automobile sector. Thus, what was needed to happen was a boost in the income of the people which in turn would increase the purchasing power of the potential buyers of automobiles resulting in the growth of the sector.

That is exactly what the seventh pay commission has resulted in. Grouping with few other attributes, what the Seventh Pay commission has done this year is that it has increased the purchasing power of the working class employees which are the primary target of the automobile sector to a huge extent and thus what we have seen till now and further in this financial year and the year after, is a surge in demand of the automobile sector.



The above graph shows the disparity between the average Disposable income of a citizen of India and the Average Automobile Price in India19. As we can see that there is a huge disparity between the income and the Automobile prices which makes it very difficult for the people to buy vehicles and hamper the growth of the Industry. The reason for such a high disparity can also be the fat of unequal distribution of Income and more population being in the lower middle class and the lower class segment but still they are the segment the industry is targeting and somehow the graph clearly depicts the weak purchasing power in India.

Thus what the seventh pay commission has done to an extent is that it has decreased the gap between the average disposable income and the average price of the automobiles in India. This commission has given a hike of around 23.55% which has been able to successfully increase the purchasing power of the lower middle class and the middle class employees and make them reach the prices of the low end and mid end vehicles for that class thus increasing the expected Growth rate of the Industry.

Low priced vehicles from both the two wheeler and the four wheeler segment are most likely to be at benefit from the current hike as they are the products that the companies are going to pitch mostly to the government employees and pensioners. The Experts from Automobile giants like Hyundai and Maruti are targeting to double the base of public sector employee's buyers to around 14 %21 and they are also expecting their sales to grow at a rate of around 25% and 15% respectively. The result in demand increase and growth will spread over a time period of two years this time also and will most probably show results till FY[18].

Expected Growth Rate after the Pay Commission Hike

Prior to the announcement of the seventh pay commission, the expected rate of growth of the automobile industry in India was not very high and it was hovering around 6 to 8 %. The reasons for the same was bad monsoons, higher interest rates, higher taxes etc. But, after the Seventh pay commission was announced, the expected rate has gone up by almost double and is now expected to be at 12 to 14%20 which is considered to be pretty good taking into picture last couple of years of the industry.

The factors like good monsoon, positive economic environment, interest rate slashing forecasts have also to do with the expected higher growth rate but the main reason has to be the fact that the government has announced a hike of 23.55% in pay. By this hike the disposable income of the public sector employees will increase to a great extent and it shall in turn help them to purchase two and four wheelers from the markets. The automobile manufacturers are targeting this segment of public sector employees to increase their sales which has been an open strategy for most of the automobile giants like Maruti, Hyundai and Honda who are expected to be the biggest gainers from the current increase in the growth rate of the Automobiles. The people covered under these pay commission are huge in numbers which amount to someone crore employees and pensioners. Automobile Industry is one of the first industry that will get a help from this commission along with real estate sector and the consumer durables sector. Thus, it is expected that the Industry will target this customer base of people and assuming that they will get even 10 percent success, it will be a great boost for the Automobile Industry of India.

CONCLUSION

If government wants to stick to the target then it will have to significantly curtail its capital expenditure. The government could also resort to raising service tax rate which would lead to higher revenues or it could rely more on non-tax revenue such as disinvestment and higher stake sales. With the implementation of the Seventh Pay Commission, there will be a huge flow of the funds in the economy. This will increase the demand, especially for passenger cars, two-wheelers, consumer durable goods and homes/flats. Thus, the Real Estate and Automobiles will be the primary beneficiary. Besides, Banks and NBFC will get the pie of the Pay Commission as the demand for loans will also increase. In summation, the Seventh Pay Commission is good news and will boost the economy and be a win-win situation for both, the Customers as well as the Banks and NBFCs.

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