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Implementation of 7th Pay Commission to impact govt's fiscal math: Deutsche Bank

By PTI | Updated: Feb 14, 2016, 11.19 AM IST

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NEW DELHI: Implementation of the Seventh Pay Commission recommendations is likely to exert pressure on the government's fiscal finances and [inflation](#) trajectory going forward, says a [Deutsche Bank](#) report.

According to the global [financial services](#) firm, the government is likely to meet its [fiscal deficit](#) target for the fiscal but may settle for a higher fiscal deficit target of 3.8 per cent for 2016-17.

"It will be difficult for the government to absorb the likely 0.5 per cent of [GDP](#) worth incremental increase in wage bill and also attempt to bring the fiscal deficit down to 3.5 per cent of GDP in FY17, as per the revised medium-term fiscal consolidation plan," Deutsche Bank said in a research note.

According to the global brokerage firm, the government is expected to settle for a higher fiscal deficit target of 3.8 per cent of GDP in FY17, lower than the 3.9 per cent likely out-turn in fiscal year 2015-16.

Moreover, the 7th Pay Commission would boost consumption but not "materially".

However, Pay Commission would boost household [savings](#) in the next couple of years, which will help to support domestic investment needs, without having to rely excessively on foreign savings (or current account deficit).

On inflation, the report said the inflation trajectory will likely get affected by 30-50 bps, due to the Pay Commission impact, which should still leave room for the central bank to cut the policy rate by at least 25 bps.

Reserve Bank Governor Raghuram Rajan on February 2 left key [interest rate](#) unchanged citing inflation risks and growth concerns, while pegging further easing of monetary policy on government's budget proposals.

Rajan said RBI "continues to be accommodative" but would look forward to the government's budget proposals on February 29 as also the inflation trend.

According to Deutsche Bank, beyond the 25 bps rate cut, scope of further easing would be strictly data dependent and would hinge on the likelihood of RBI's meeting the 5 per cent CPI target by early next year.

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