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Sixth Pay Commission¹ Recommendations – Key Takeaways and Macro Impact

- **6th Pay Commission – annual gross outlay at Rs126bn:** The Sixth Pay Commission (SPC) has recommended average salary hikes of 40% for all the central government employees. This will result in an annual gross outlay of Rs126bn which will be shared by the central government and the railways. However, implementation of certain measures could result in savings to the tune of Rs46bn. Given that the revision in salaries is with retrospective effect (Jan 1, 2006), arrears work out to Rs 180bn (*if necessary, this could be paid in two installments over two years- again shared by the centre and railways*). Thus the gross outlay on account of the SPC works out to Rs306bn or 0.6% of GDP, while the net outlay would amount to Rs260bn or 0.5% of GDP.
- **Key recommendations:** Besides proposing average pay hikes of 40%, the SPC has recommended: (1) A minimum salary of Rs6,660 while the maximum salary has been pegged at Rs80,000; (2) Introduction of the concept of running pay bands (*see p.4 for details*); (3) A performance related incentive scheme that should work as a substitute for bonus and over time allowance; (4) Contractual appointments for select posts especially those that require high professional skills and (5) Measures for pensions/lateral entry/medical/women employees.
- **Impact on the fisc:** While the Railway budget has made a Rs50bn provision for the implementation of the SPC recommendations, the centre's FY09 budget has not made any provisions. Given that railways would bear 26% of the annual outlay of Rs126bn, the centre's share works out to Rs92bn. Further, assuming a single installment in payment of arrears, the centre's share is estimated at Rs 126bn. All this would result in the headline deficit number rising from Rs1332bn or 2.5% of GDP to Rs1551bn or 2.9% of GDP consequently putting upward pressure on bond yields.
- **Impact on consumption:** On the consumption side as mentioned in our recent note (*see <https://www.citigroupgeo.com/pdf/SAP14709.pdf>*) the recent budgetary proposals – the increase in basic exemption limit and tax slabs – coupled with the Pay Commission recommendations, are positive for consumption demand. We believe that this will likely offset the impact of the extended pause on rates and expect consumption growth to sustain at ~6% YoY with overall GDP growth coming in at 7.7% of GDP in FY09.

Note Released: 26-Mar-08

¹ A Pay Commission is a body that is periodically constituted to examine pays and allowances, retirement benefits, conditions of service and promotion policies among other issues of central government employees. The government constituted the Sixth Pay Commission in October 2006 to examine the structure of pay, allowances and other facilities/benefits whether in cash or in kind to all central government employees, defense forces, personnel of union territories and members of regulatory bodies (excluding RBI) set up under the Act of Parliament.

FAQs on the SPC

Who will be covered under the SPC?

The recommendations of the SPC would be applicable to all central government employees as well as personnel belonging to (1) the All India Services; (2) Defense Forces; (3) Union Territories; (4) Employees of the Indian Audit and Accounts; (5) Members of regulatory bodies set up under parliamentary acts (excl RBI).

Central Government Employees by Ministry (Mns, 2001 Census)

Ministry	No of Regular Employees	% of total
Railways	1.5	39.0
Communications and IT	0.6	15.9
Defense (Civilian)	0.6	15.2
Home Affairs	0.6	14.8
Finance	0.2	4.4
Others	0.4	10.7
Total	3.9	100

Source: Census on Central Govt Employees

How is the Rs6,660 minimum salary determined?

The SPC has adhered to norms set out by the 15th International Labor Conference in computing the minimum salary. As seen in the table below, using prevailing rates and assuming consumption for a 3- member family, the total costs per month amount to Rs5,479. These include expenditures on housing, education, and medical facilities. Using this amount as a benchmark, and bearing in mind higher skill levels, the commission has prescribed a minimum salary of Rs6,660 per month. This however, is lower than the ~Rs10,000 pm demanded by the various staff associations.

Fixation of Minimum Wage as on 1st January 2006

	Per Day Cons Unit	Per Month 3CU (In Kgs)	Price per kg taken by staff side (Rs)	Total cost as per staff side (Rs)	Price per kg as per prevailing rates (Rs)	Total Cost as per prevailing rates
Rice/wheat	475	43	22	941	18	770
Dal	80	7	65	468	40	288
Raw vegetables	100	9	28	252	10	90
Greenleaf veg	125	11	24	370	10	113
Other veg	75	7	26	176	10	68
Fruits	120	11	50	540	30	324
Milk	200MI	18lt	24	432	24	432
Sugar and jaggery	56	5	4	120	24	120
Edible oil	40	4	90	324	50	180
Fish		3	180	450	120	300
Meat		5	180	900	120	600
Egg		90 (no)	3	225	2	180
Detergents			300 p.m	300	200	200
Clothing		6	80 mt	440	80/Mt.	440
Total				5,838		4,104
Misc. at 20%				1,168		827
Total				7,006		4,931
Addl. Expenditures at 25%				1,751	400	400
Total				8,757		5,331
Housing at 10%				973		148
Grand Total				9,730		5,479

Note: 3CU= Three Consumption Units. Source: Report of the Sixth Central Pay Commission

Used to determine benchmark minimum salary

Financial Implications

The proposed salary increases will result in an annual gross outlay of Rs126bn. However, the SPC has calculated that the net financial outlay at Rs80bn as the committee has recommended certain measures such as revision/rectification in the commutation of pension that would result in savings to the tune of Rs46bn.

Working out the Math: Implications of the SPC Recommendations (Rs Bn)

Head	Implications (Rs Bn)
Revised pay scales for civilians	38.3
Revised pay scales for defense forces	16.4
Military service pay for defense forces	15.0
Transport Allowances (civilians and defence forces)	2.4
HRA (civilians and defence forces)	11.0
Pensions (civilians and defence forces)	13.7
Gratuity civilians and defence forces)	4.1
Leave encashment (civilians and defence forces)	1.8
Defense forces allowances	17.5
Other allowances (upgradations of individual posts, individual allowances etc.)	4.0
Misc	1.5
Total	125.6
Savings on account of commutation of pension + lateral movement of defense personnel	45.9
Net Outgo	79.8
Arrears	180.6
Grand Total	260.4

Total Financial Impact: Rs260bn

Source: Report of the Sixth Central Pay Commission

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Revised Pay Bands in the Sixth Pay Commission

Salaries of Central Government workers currently comprise basic pay, dearness pay, and various other allowances. Employees are broadly divided into four groups, viz., A-D from the most senior official downwards, with 35 bands with different basic, and increment structures, across these groups. Employees typically move into a higher pay band on promotion. Dearness allowance is inflation-indexed, and revised twice a year, and fixed increments are paid annually in each pay band.

The SPC proposes to simplify this structure into **four broad 'running' pay bands** viz., PB-1 to PB-4², and an 'Apex' scale. There are **20 'grades' divided across the four bands**, with a progressively higher 'grade' pay in each.

Instead of just basic pay, core salaries would now consist of the '**band pay**' and the '**grade pay**'. As a result, promotions would now simply entail an additional, higher grade pay, and an additional increment rather than a shift into a higher band each time. Such a system would also allow the government to simplify the payment structure later by removing grades within a pay band, and providing additional performance-related incentives.

² The four 'running' price bands are set thus PB-1: 4860-20200, PB-2: 8700-34800, PB-3: 15600-39100, and PB-4: 39200-67000. The Apex scale is reserved for Secretaries in the Govt., and is fixed at Rs80,000. Further, Cabinet secretaries would have a fixed scale of Rs90,000.



Instead of fixed monetary increments, the SPC proposes a **2.5% annual increment in each grade**, calculated on the sum of the running band pay, and the grade pay. As an experimental first step towards performance incentives, the top 20% of employees in one of the bands would now get a higher increment of 3.5%.

The **dearness allowance** structure, which is currently 41% of basic pay, has been left unchanged. Unlike previous pay commissions, where this allowance was merged with the basic pay, and recalculated on the higher base, the SPC recommends keeping this allowance separate, the existing structure of bi-annual revisions based on a price index to continue.

As an example, please see page 5.

1. An employee in band S-20 (10650-325-15850), would currently have a total salary of 15016.5 (10650+ 41%DA), plus allowances.
2. The next year, her basic salary would rise by 325, taking her salary to 15474.75, plus allowances. The corresponding band in the new structure is PB-3 (15600-39100), with grade pay 6500. The total salary at the current level is thus 31161 (15600 band pay + 6500 grade pay, then 41% DA).
3. One year later, the core pay would rise to 22652.5 (2.5% increment on 15600+6500), and the total salary would be 31940, plus allowances.
4. With a promotion, an employee would move to the scale S-21 (12000-375-16500) in the current scale, but remain in PB-3 in the new structure, with her grade pay rising to 6600.



Old and Revised Pay Bands (Rs/per month)

Old		Revised		
Pay Scale	Pay Scale	Pay Band	Corresponding Pay Bands	Grade Pay
S-1	2550-55-2660-60-3200	-1S	4440-7440	1300
S-2	2610-60-3150-65-3540	-1S	4440-7440	1400
S-2A	2610-60-2910-65-3300-70-40	-1S	4440-7441	1600
S-3	2650-65-3300-70-4000	-1S	4440-7440	1650
S-4	2750-70-3800-75-4400	PB-1	4860-20200	1800
S-5	3050-75-3950-80-4590	PB-1	4860-20200	1900
S-6	3200-85-4900	PB-1	4860-20200	2000
S-7	4000-100-6000	PB-1	4860-20200	2400
S-8	4500-125-7000	PB-1	4860-20200	2800
S-9	5000-150-8000	PB-2	8700-34800	4200
S-10	5500-175-9000	PB-2	8700-34800	4200
S-11	6500-200-6900	PB-2	8700-34800	4200
S-12	6500-200-10500	PB-2	8700-34800	4200
S-13	7450-225-11500	PB-2	8700-34800	4600
S-14	7500-250-12000	PB-2	8700-34800	4800
S-15	8000-275-13500	PB-2	8700-34800	5400
New scale	8000-275-13500	PB-3	15600-39100	5400
S-16	9000	PB-3	15600-39100	5400
S-17	9000-275-9550	PB-3	15600-39100	5400
S-18	10325-325-10975	PB-3	15600-39100	6100
S-19	10000-325-15200	PB-3	15600-39100	6100
S-20	10650-325-15850	PB-3	15600-39100	6500
S-21	12000-375-16500	PB-3	15600-39100	6600
S-22	12750-375-16500	PB-3	15600-39100	7500
S-23	12000-375-18000	PB-3	15600-39100	7600
S-24	14300-400-18300	PB-3	15600-39100	7600
S-25	15100-400-18300	PB-3	15600-39100	8300
S-26	16400-450-20000	PB-3	15600-39100	8400
S-27	16400-450-20900	PB-3	15600-39100	8400
S-28	14300-450-22400	PB-4	39200-67000	9000
S-29	18400-500-22400	PB-4	39200-67000	9000
S-30	22400-525-24500	PB-4	39200-67000	11000
S-31	22400-600-26000	PB-4	39200-67000	13000
S-32	24050-650-26000	PB-4	39200-67000	13000
S-33	26000 (fixed)	Apex Scale	80,000	Nil
S-34	30000 (fixed)	Cab. Sec. or Equivalent	90,000 (fixed)	Nil

Source: Report of the Sixth Central Pay Commission

Increments & Span

-1S Annual increment @ 2.5%. Span 18 years.

PB-1 Annual increment @ 2.5%. Span 50 years.

PB-2 Annual increment @ 2.5%. Span 40 years.

PB-3 Annual increments @ 2.5% & 3.5%. Span 32 years.

PB-4 Annual increment @ 2.5%. Span 20 years.

Disclosure Appendix A1

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