Economy | Macro-Cap

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Could the next consumption trigger be around the corner?

The 8th Pay Commission could inject INR1.6t-INR1.9t into consumption-focused sectors like PVs, 2Ws and FMCG in 2027, providing a timely cushion again domestic and external headwinds to domestic demand. The fiscal cost is estimated at INR2.4-2.8t (0.5-0.6% of GDP) for the first year, covering both serving government employees and pensioners salaries. The fiscal impulse is likely to be of similar magnitude as in the 7th Pay Commission.

Consumption faces headwinds despite resilient growth

- India's consumption outlook is becoming increasingly challenging, with emerging pressure for rural and urban households. Rural demand faces disproportionate risks from weak monsoon conditions, depleted reservoir levels, lower rabi sowing and the possibility of a stronger El Niño weather condition. Since food accounts for a larger share of rural household expenditure, high food inflation is likely to disproportionately erode rural purchasing power.
- Urban consumption, which has been relatively resilient in jewelry, premium automobiles, travel, hospitality and organized retail, is also facing headwinds from higher borrowing costs and rising consumer prices. **As companies increasingly signal input cost pass-through, discretionary consumption could come under pressure, particularly in price-sensitive categories. While festive demand should support 3QFY27, we expect the impact of higher inflation to become more visible in 4QFY27 and 1QFY28, increasing the risk of a broader consumption slowdown.**

Inflation risks are becoming broad-based

- We expect inflation to breach the RBI's 6% upper tolerance threshold during 3QFY27, 4QFY27 and 1QFY28, driven by food-supply risks, El Niño-related uncertainty and a broader pass-through of higher input costs. We expect inflation to average 5.3% in FY27.
- Importantly, inflationary pressure is becoming more broad-based, with core inflation showing signs of firming up. **We, therefore, expect two additional rate hikes of 25bp in Dec'26 and Feb'27, taking the repo rate to 6.0% by FY27-end, followed by another 25bp hike in Apr'27, taking it to 6.25% in early FY28.**

The 8th Pay Commission could be the next major component of the government's consumption-support strategy

- The government's recent policy actions indicate a continued emphasis on supporting domestic demand and household purchasing power. GST rate rationalization and personal income-tax relief have already provided support to consumption. Against this backdrop, we believe the 8th Central Pay Commission (CPC) could be the next significant income-support measure.
- **Expectations are building up for a likely announcement around the Union Budget in Feb'27 or latest by 1HCY27.** This would be consistent with the government's broader focus on supporting consumption amid emerging demand headwinds. The 8th CPC would be effective from 1st Jan'26, which would result in arrears payments, creating an additional one-off boost to household cash flows alongside the recurring increase in salaries and pensions.

We have divided this report into three sections:

1. CONSUMPTION: **Risks, state intervention, management commentary**
2. 8th CPC: **Potential boost to household income and consumption**
3. MACRO OUTLOOK: **Strong growth, firming rupee, and an RBI on watch**

Building the case for an early pay boost

Recent income-support measures

A 3pp increase in DA for Central Govt. employees and DR for pensioners, from 60% to 63%, effective 1st Jul'26. Announcement of the non-Productivity Linked (ad-hoc) Bonus for eligible Central Govt. employees for FY26

Mounting macro headwinds

rural stress, elevated inflation and tighter financial conditions: weak consumption in 2HFY27 and 1QFY28

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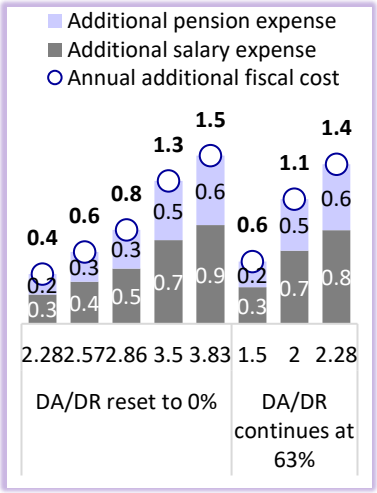
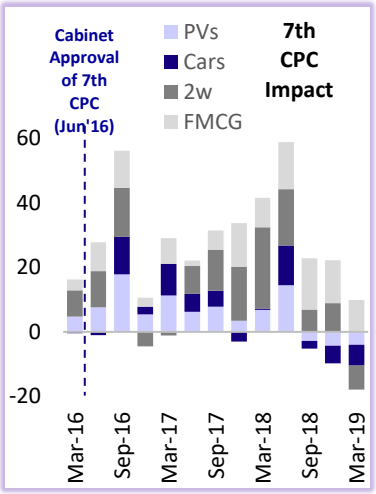
Annual additional fiscal cost of the central govt.

	Annual additional fiscal cost	
	(INR b)	% of GDP
FY16	182	0.1
FY17 (7th CPC)	740	0.5
FY18	452	0.3
FY27BE	278	0.1
FY28E possible scenarios for 8th CPC	**(INR b)**	**% of GDP**
FF = 2.28, DA/DR = 0%	1,927	0.4
FF = 2.57, DA/DR = 0%	2,787	0.6
FF = 2.86, DA/DR = 0%	3,647	0.8
FF = 3.5, DA/DR = 0%	5,545	1.3
FF = 3.83, DA/DR = 0%	6,523	1.5
FF = 1.5, DA/DR = 63%	2,417	0.6
FF = 2, DA/DR = 63%	4,833	1.1
FF = 2.28, DA/DR = 63%	6,187	1.4

Annual fiscal cost ranges from 0.4%-1.5% of GDP across our scenarios



7th Pay Commission Impact across sectors post Cabinet Approval in June 2016 (% YoY)



Our estimates indicate a sizeable fiscal outgo and consumption impulse

- We estimate the fiscal and consumption impact of the 8th CPC using the pay-level-wise distribution of 48.62 lakh central government employees and 68.71 lakh pensioners across Levels 1-18. We calculate the revised salary and pension under different fitment factors, compare these with existing gross pay and pension (including 63% DA/DR), and aggregate the incremental outgo across employee and pensioner groups. To estimate the consumption boost, we apply different MPCs across income groups, assuming lower-paid employees and pensioners spend a larger share of their additional income. (Details of our calculations are given in Section 2 and Annexures, page 15-26)
- Our scenario analysis indicates a wide range of possible outcomes depending on the fitment factor and treatment of DA/DR. **Under the scenarios where DA/DR remains at 63%, the combined annualized fiscal cost ranges from INR2.4t to INR6.2t, with a corresponding consumption boost of INR1.6t to INR4.2t. In contrast, under scenarios where DA/DR is reset to zero, fitment factors of 2.28x-3.83x result in a combined annualized fiscal cost of INR1.9t-INR6.5t, with a corresponding consumption impulse of INR1.3t-INR4.4t.**
- To validate our estimates, we examined the historical trends in central government expenditure on pay and allowances and pensions around the implementation of the 7th CPC. **Data shows that the annual additional fiscal cost jumped to INR740b (0.5% of GDP) in FY17, comprising INR464b (0.3% of GDP) in additional salary expenditure and INR276b (0.2% of GDP) in additional pension expenditure**. The incremental burden moderated but remained significant in FY18 at INR452b (0.3% of GDP). This indicates that the fiscal impact of a pay commission award can extend beyond its initial year of implementation.
- **Based on these historical benchmarks and our detailed bottom-up calculations, we consider an annual fiscal cost of INR2.4t-INR2.8t (~0.5-0.6% of GDP) to be a reasonable central estimate.** This corresponds to either a 1.5x fitment factor with DA/DR continuing at 63% (cost: INR2.4t; consumption boost: INR1.6t) or a 2.57x fitment factor with DA/DR reset to zero (cost: INR2.8t; consumption boost: INR1.9t).

Macro outlook: Growth carries the economy through the inflation hump

- India enters 2027 with growth strong enough to absorb a tightening cycle. We expect real GDP to grow 7.5% in FY27 and 7.0% in FY28, carried by first-half momentum, government capex and resilient domestic demand. Inflation is the near-term test. El Niño, depleted reservoirs and the pass-through of higher input costs are likely to keep CPI above 6% for three quarters, from 3QFY27 to 1QFY28, before it eases. We project CPI at 5.3% in FY27 and 5.1% in FY28.
- We expect the RBI to respond with three more 25bp hikes, taking the repo rate to 6.25% by Apr'27.
- Bond yields have limited room to fall. We see the 10-year at 7.2-7.4% by FY27-end and 7.5-7.6% in FY28. INR is the bright spot. FPI inflows of about USD12b into equity in 10 days have turned sentiment, and we now expect USD-INR to average 94.5 in FY27 (from 95.5 earlier) and 95.5 in FY28.

Conclusion

- Overall, while India's growth outlook remains strong, consumption faces several headwinds.
- In this environment, the 8th CPC could provide a meaningful boost to household incomes and support demand. **Our bottom-up analysis estimates an annual fiscal cost of INR2.4t-INR2.8t, translating into a consumption impulse of INR1.6t-INR1.9t.** While this could cushion the impact of these headwinds, the eventual boost will depend on the fitment factor, treatment of DA/DR and timing of implementation.

Section 1: Consumption faces emerging headwinds despite resilient growth

Consumption has remained resilient through 1HFY27, supported by GST rationalization, improving rural demand, festive spending and a gradual recovery in urban consumption. Corporate commentary from 2QFY27 results indicates that rural markets continued to outperform urban markets, while urban demand showed signs of improvement across premium products, automobiles and discretionary categories. FMCG companies reported healthy revenue and volume growth, although the recovery was uneven, with mass-market and price-sensitive categories remaining relatively vulnerable. Importantly, the outlook is becoming more challenging as companies flag rising input costs and indicate calibrated price hikes to protect margins. While 3QFY27 consumption should benefit from festive demand, the risks are likely to intensify thereafter. Rural households face a disproportionate burden from elevated food inflation, weak monsoon conditions, depleted reservoirs and the risk of a stronger El Niño, which could weigh on farm incomes and purchasing power. Urban consumption, meanwhile, faces pressure from higher borrowing costs, rising EMIs and the pass-through of input costs to consumer prices, particularly across credit-sensitive and discretionary categories. **We, therefore, see a risk of consumption momentum moderating in 4QFY27 and 1QFY28, as inflation erodes real household incomes in both rural and urban India.**

1.1. Rural demand faces a triple squeeze:

a) Agricultural uncertainty
b) Deteriorating farm terms of trade
c) Elevated food inflation

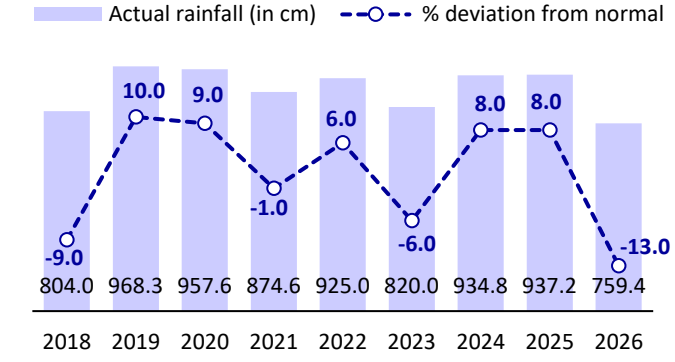
1.1 (a) Agricultural uncertainty: India's agricultural outlook remains uncertain as the impact of a deficient southwest monsoon is being compounded by inadequate post-monsoon rainfall, declining reservoir levels, widespread drought conditions and a strong El Niño episode.

1) The 2026 southwest monsoon ended 12.6% below the long-period average (LPA), with particularly large deficits in East and Northeast India (-26%) and Southern India (-24%). The rain shortfall has significantly weakened soil moisture and irrigation availability, **with storage across India's 178 major reservoirs declining to 63.3% of capacity as of 12th Nov'26, nearly 20% below normal levels and 29.7% lower than a year ago.** Southern India is particularly vulnerable, with reservoir storage at just 39.7% of capacity against the normal level of 74.8%. **Moreover, the post-monsoon season has provided limited relief, with cumulative rainfall during 1st Oct–11th Nov'26 remaining 32%**

below normal, including deficits of 52% in East and Northeast India and 48% in Central India.

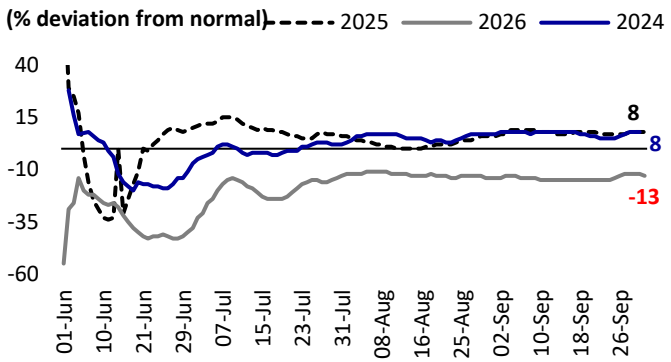
2) **The combination of inadequate rainfall and depleted water reserves has intensified drought conditions across several agricultural regions, with nearly 47% of India's geographical area experiencing abnormally dry or worse conditions in early Nov'26.** The stress is particularly acute across Karnataka, Andhra Pradesh, Telangana, Tamil Nadu, Maharashtra (especially Marathwada and Vidarbha), Rajasthan and parts of Madhya Pradesh and Gujarat, where inadequate soil moisture and irrigation shortages could adversely affect winter-crop cultivation.
3) **The impact is already visible in Rabi sowing, with total acreage declining 11.3% YoY as of 13th Nov'26, including lower sowing of wheat (-15.3%), pulses (-14.3%) and oilseeds (-7.4%), while gram acreage was particularly weak (-21.6%).** Although sowing has recovered from the sharp initial shortfall in Oct'26, continued water stress could constrain further acreage expansion and adversely affect crop yields.
4) **State governments have begun announcing relief measures, although the focus so far has largely been on immediate assistance rather than comprehensive farm-loan waivers.** Maharashtra has announced an advance cash payment of INR5,000 for eligible drought-affected farmers, alongside land-revenue concessions, restructuring of crop loans, a stay on recovery of agricultural loans, electricity bill relief and arrangements for drinking water and livestock fodder. The Karnataka government initially announced a drought input subsidy of INR2,500 in Sep'26, which was later doubled to INR5,000 paid in two instalments starting 5th Nov'26, and sought INR37.05b in central assistance for crop-loss relief, drinking water and livestock protection. Andhra Pradesh has started distributing subsidized Rabi seeds, with assistance reaching over 45,000 farmers by mid-Oct'26. These measures are intended to ease immediate cash-flow pressure and help farmers prepare for the winter crop season. However, if crop losses, farm indebtedness and income stress persist, demands for broader farm-loan waivers could gain momentum. **While waivers may provide temporary relief to indebted households, they would also create additional fiscal liabilities for state governments.**
5) The ongoing strong El Niño episode adds to these risks, with NOAA's Nov'26 outlook indicating an **80% probability of El Niño persisting through Mar-May'27, before neutral conditions become more likely during Apr-Jun'27.** It also gives a 96% probability of a very strong El Nino during Nov'26-Jan'27.

Exhibit 1: All-India rainfall is 13% below normal as of 30th Sep'26 (vs. 8% above normal in 2025)



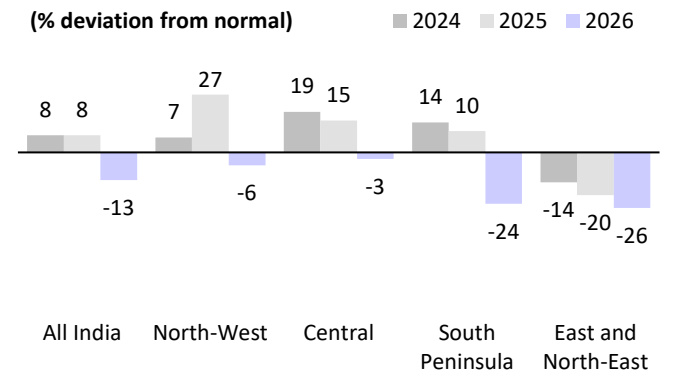
Data as of 30th September for all years

Exhibit 2: This is much lower than 2024 levels; -13% now vs. +8% in 2024 (last El Niño episode)



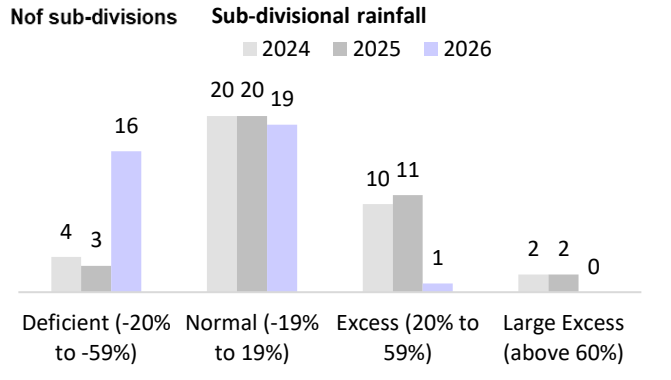
Source: CEIC, IMD, MOFSL

Exhibit 3: East and Northeastern India and Southern peninsula remain the weakest-performing regions



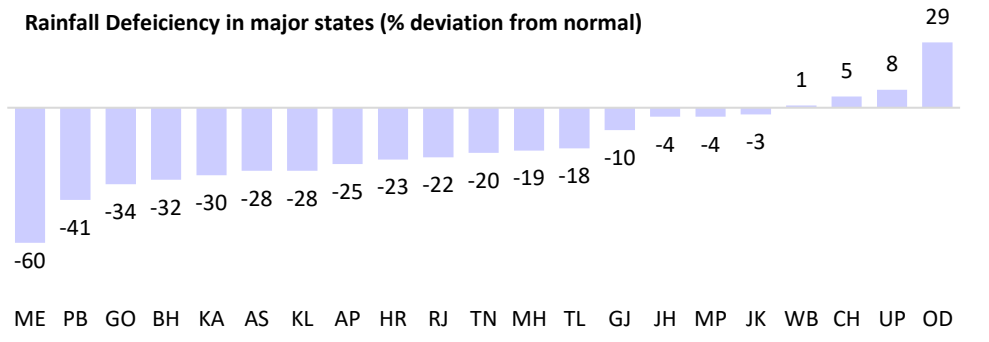
Data as of 30th Sep'26 for all years

Exhibit 4: 16 sub-divisions received deficient rainfall as of 30th Sep'26



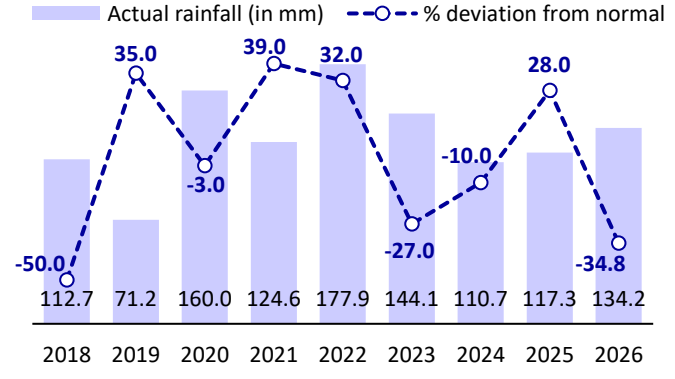
Source: IMD, CEIC, MOFSL

Exhibit 5: Rainfall deficiency persists across majority of the agrarian state



Data as of 12th November 2026

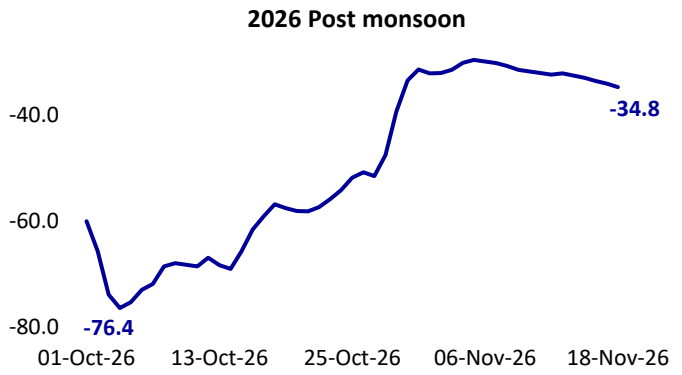
Exhibit 6: All-India post-monsoon rainfall is 34.8% below normal as of 18th Nov'26 (vs. 28% in 2025)



Data as of 18th November for all years.

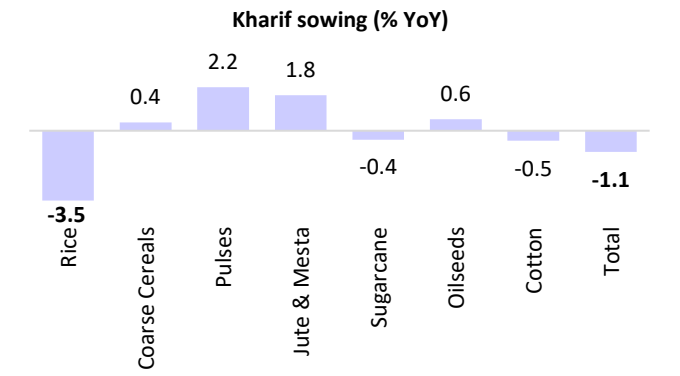
Post Monsoon refers to the period October to December.

Exhibit 7: 2026 post-monsoon rainfall deficit stood at 34.8% as of 18th Nov'26



Source: CEIC, IMD, MOFSL

Exhibit 8: Kharif sowing down by 1.1% as of 2nd Oct'26



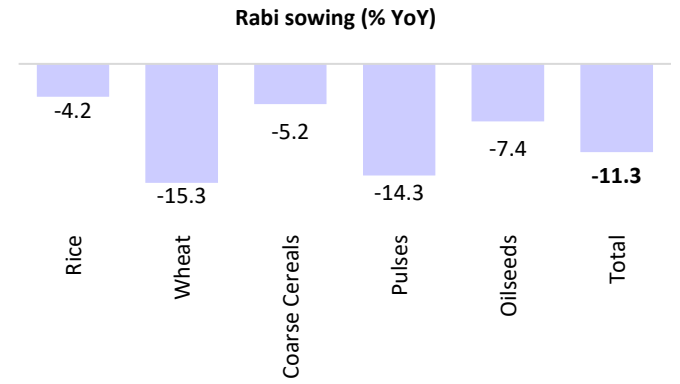
Data as of 2nd October for all years

Exhibit 9: Rice/sugarcane sowing sharply lower vs. last year

% YoY	02-Oct-24	02-Oct-25	02-Oct-26
Rice	7.7	3.1	-3.5
Coarse Cereals	-1.4	1.6	0.4
Pulses	-0.2	0.6	2.2
Jute & Mesta	-13.8	8.5	1.8
Sugarcane	0.2	2.9	-0.4
Oilseeds	5.2	-2.6	0.6
Cotton	-8.7	-1.7	-0.5
Total	2.5	1.1	-1.1

Source: IMD, MOA&FW, CEIC, MOFSL

Exhibit 10: Rabi sowing down by 11.3% as of 13th Nov'26



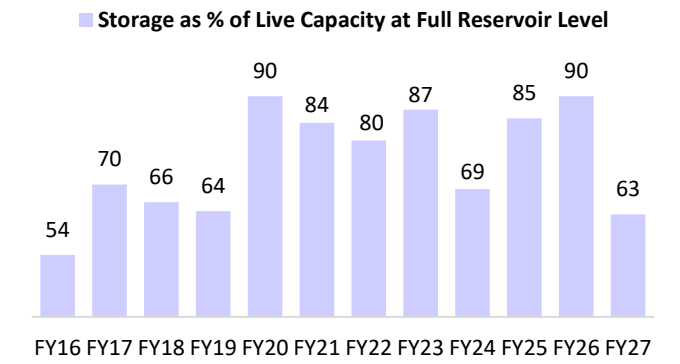
Data as of 13th November for all years

Exhibit 11: Wheat, pulses, oilseeds sowing lower vs. last year

% YoY	13-Nov-24	13-Nov-25	13-Nov-26
Rice	-9.4	21.1	-4.2
Wheat	-34.8	4.5	-15.3
Coarse Cereals	-13.7	-9.7	-5.2
Pulses	-4.3	12.1	-14.3
Oilseeds	-1.0	5.9	-7.4
Total	-16.0	6.5	-11.3

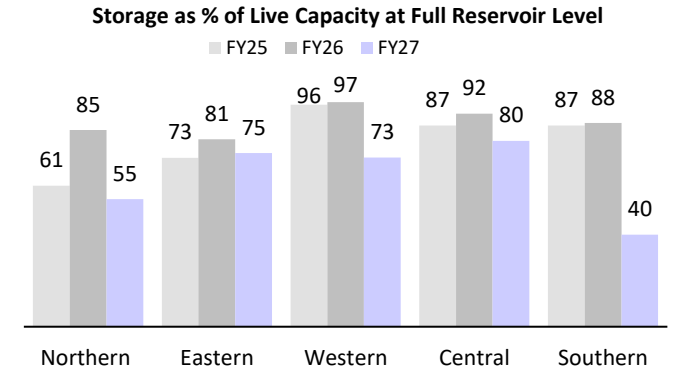
Source: IMD, MOA&FW, CEIC, MOFSL

Exhibit 12: Water reservoir levels at 63% of live storage capacity as of 12th Nov'26



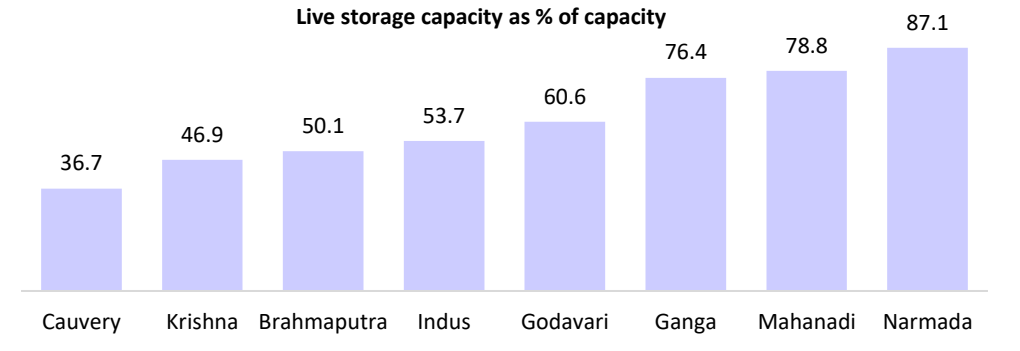
Data as of 12th November for all years

Exhibit 13: Broad-based weakness mainly led by Southern regions



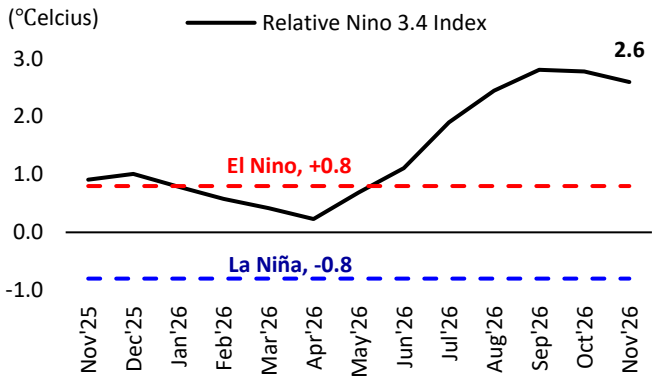
Source: CEIC, CWC, MOFSL

Exhibit 14: Narmada river has the highest basin storage at 87.1% of full capacity



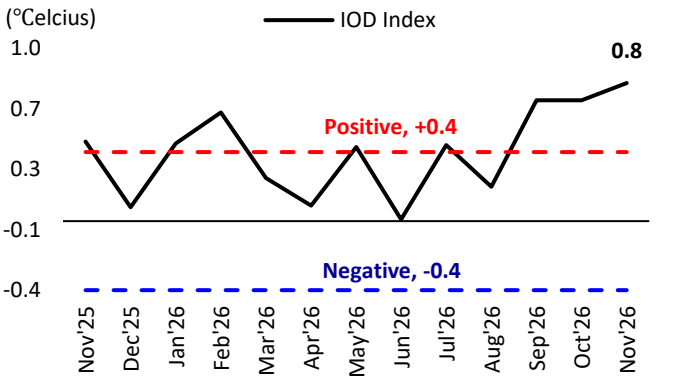
Data as of 12th Nov'26

Exhibit 15: Relative Niño index stood at 2.64 (higher than 0.8) as of 15th November 2026



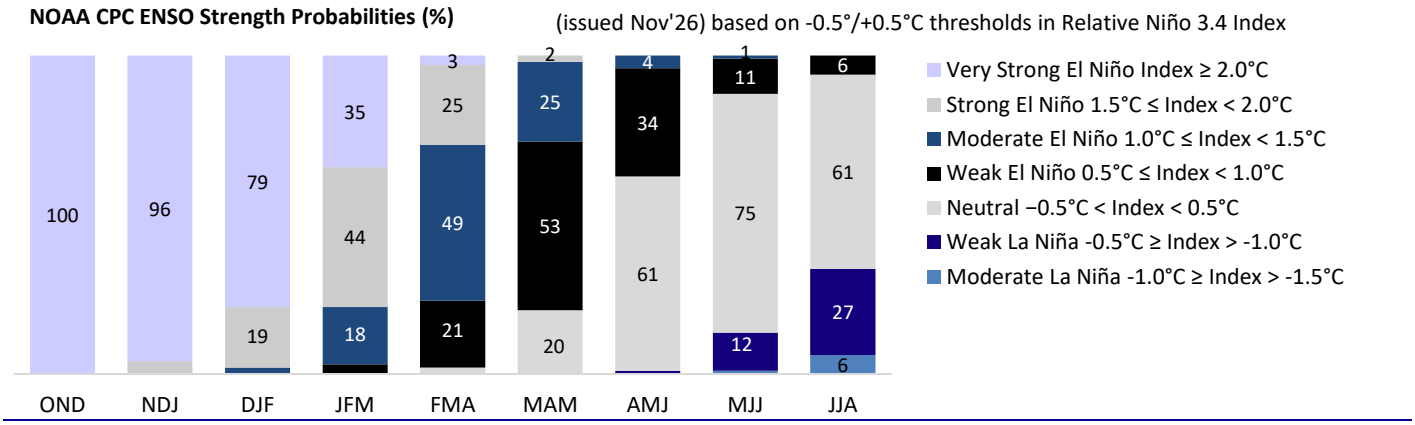
Data as of 15th November for all years

Exhibit 16: Indian Ocean Dipole (IOD) index edged up to 0.8°C, climbing back above the +0.4 °C positive threshold



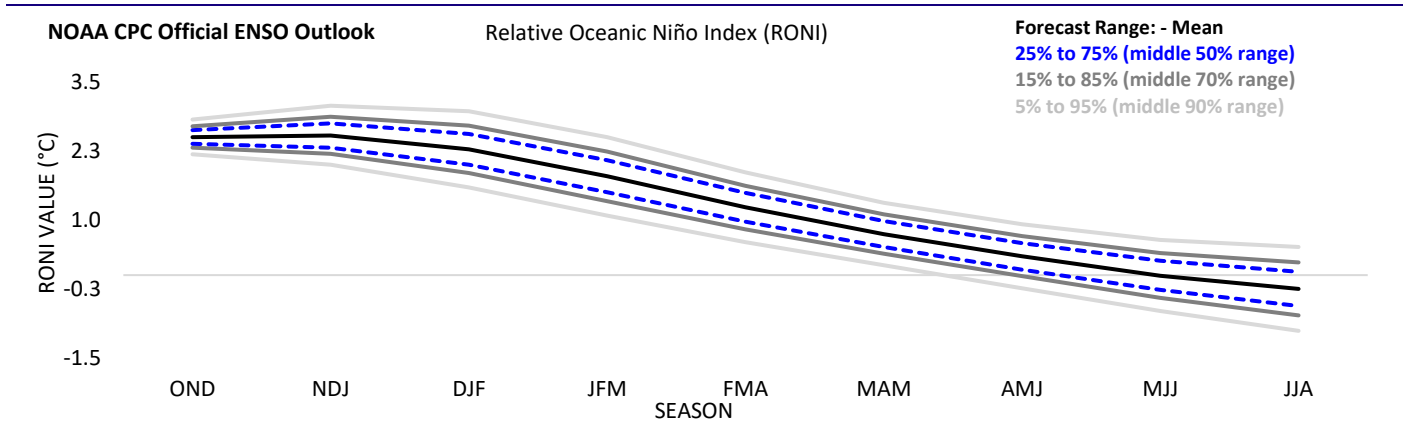
Source: Australian Bureau of Meterology, IMD, CEIC, MOFSL

Exhibit 17: 96% probability of a very strong El-Nino during Nov'26-Jan'27



(issued Nov'26) based on -0.5°/+0.5°C thresholds

Exhibit 18: Ocean warming surges El Niño thresholds



Source: CEIC, NOAA, MOFSL

1.1 (b) Pressure on farm incomes is being compounded by a sharp deterioration in farm terms of trade.

1) As per our analysis of Oct'26 WPI data, agricultural input price inflation accelerated to 14.7% YoY in Oct'26 from 11.3% in Sep'26, while agricultural output price inflation increased only marginally to 9.1% from 8.7%. Consequently, the farm terms-of-trade worsened: contracted 4.9% YoY in Oct'26 vs a contraction of 2.4% in Sep'26.
2) This indicates that farmers are facing a faster increase in cultivation costs relative to the prices realized for their produce, compressing farm margins and profitability.

Exhibit 19: WPI grew 12.3% in Oct'26 vs. 11.4% in Sep'26

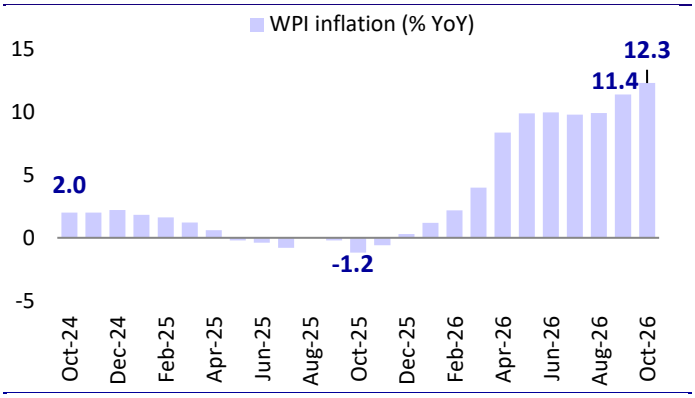
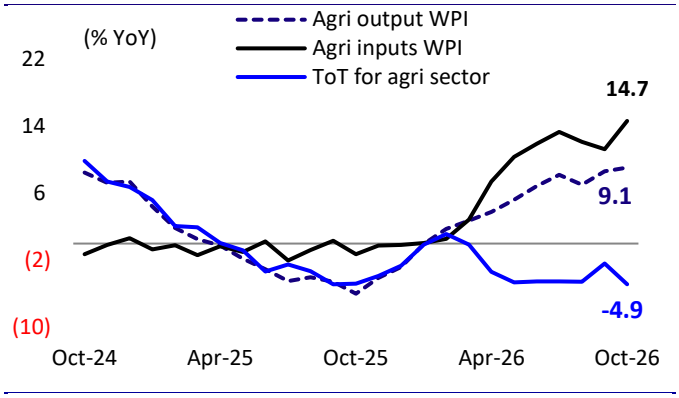


Exhibit 20: Farm Terms of Trade contracted 4.9% in Oct'26



Source: CEIC, Ministry of Commerce and Industry, MOFSL

1.1 (c) Rural households face a disproportionate food-inflation burden: The pressure on household purchasing power is significantly higher in rural India, where inflation is running above urban levels and food accounts for a larger share of expenditure.

1) Oct'26 headline CPI inflation stood at 6.6% (vs. 6.1% in Sep'26) in rural areas, compared with 5.4% (vs. 4.9% in Sep'26) in urban India, resulting in a rural-urban gap of 122bp.

2) Food inflation is accelerating (8.9% in Oct'26 vs. 7.7% in Sep'26), with supply-side pressure extending to vegetables, cereals, pulses and protein products. Historical experience suggests that strong El Niño episodes can amplify food-price pressure through rainfall deficiencies, lower agricultural output and supply disruptions. The 2009-10 episode, when monsoon rainfall was 15.9% below normal, resulted in a sharp increase in food-grain inflation, while the 2015-16 episode saw agricultural stress following two consecutive deficient monsoons. More recently, the strong El Niño during 2023-24 coincided with a prolonged period of elevated food inflation, which averaged over 8.5% between Jul'23 and Dec'24. The current episode presents additional risks as India enters the Rabi season with reservoir storage nearly 20% below normal, post-monsoon rainfall 32% below normal, and Rabi acreage 11.3% lower YoY as of 13th Nov'26. **While the impact of El Niño on inflation depends on rainfall distribution, irrigation availability, food stocks and government interventions, the combination of inadequate soil moisture, potential yield losses and adverse farm terms of trade could prolong food-price pressure in FY28. We, therefore, expect food-price risks to remain elevated in 1QFY28, consistent with the RBI's CPI inflation projection of 5.6% for the quarter.**

3) **The impact is likely to be disproportionately higher for rural households, where food inflation increased to 9.1% in Oct'26 against 8.7% in urban India, while food accounts for a larger share of the rural CPI basket (39.9% vs 28.3%).** Higher food expenditure, alongside weaker crop income prospects and rising cultivation costs, could significantly erode rural purchasing power.

4) Urban households are also facing elevated food-price pressure, but the relatively lower food weight in their consumption basket provides some insulation. However, higher housing, education, healthcare and transportation expenses, alongside rising borrowing costs, are likely to constrain urban disposable incomes. **We believe this divergence in inflation, combined with**

greater dependence on agricultural income, makes rural consumption more vulnerable than urban demand.

5) Lower agricultural output, higher input expenditure and weaker farm cash flows could significantly erode rural purchasing power, particularly in drought-affected regions. With rural households already facing higher food inflation, the combined pressure on farm and real disposable incomes could weigh on discretionary spending, especially tractors, entry-level two-wheelers, rural-focused FMCG and consumer durables. While additional government relief measures, including input subsidies, crop compensation and potential farm-loan waivers, could provide temporary support, they are unlikely to fully offset the underlying income shock. **Consequently, rural demand is likely to face a more pronounced and prolonged slowdown than urban consumption, with agricultural uncertainty and deteriorating farm terms of trade emerging as key downside risks to India's overall consumption in 2HFY27 and early FY28.**

Exhibit 21: Inflation increased to 6.1% in Oct'26 from 5.5% in Sep'26

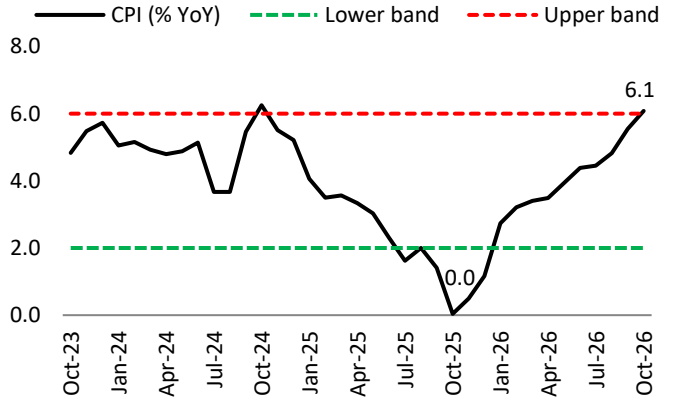
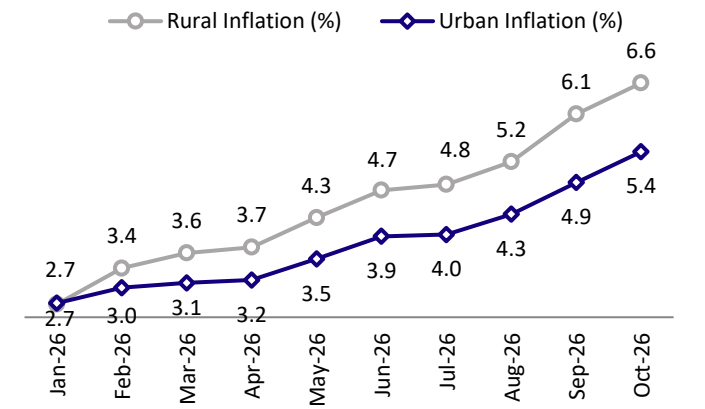
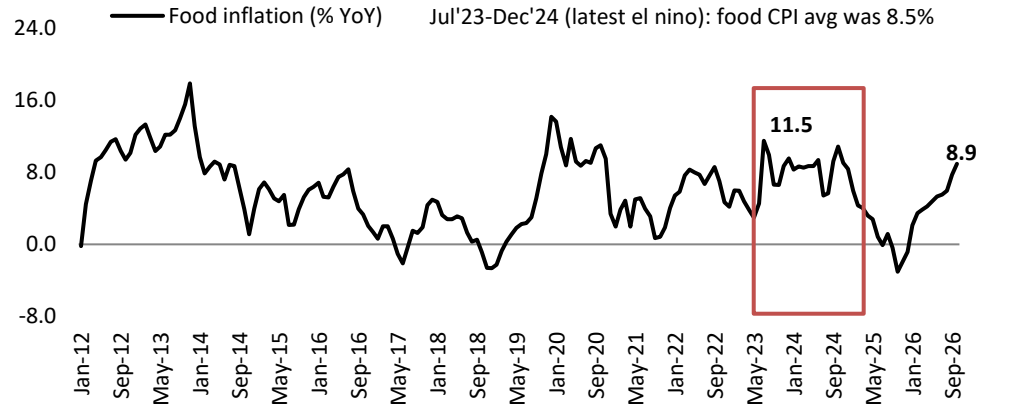


Exhibit 22: Rural inflation rose to 6.6% in Sep'26, compared with 5.4% in urban areas



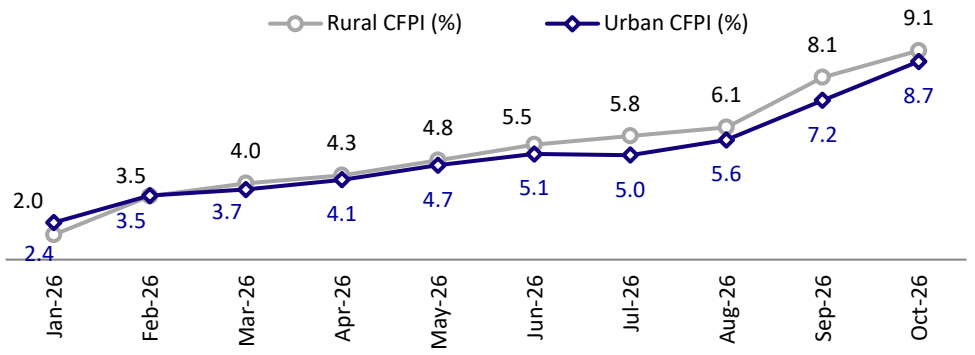
Source: CEIC, MOSPI, MOFSL

Exhibit 23: Food inflation is accelerating (8.9% in Oct'26 vs. 7.7% in Sep'26)



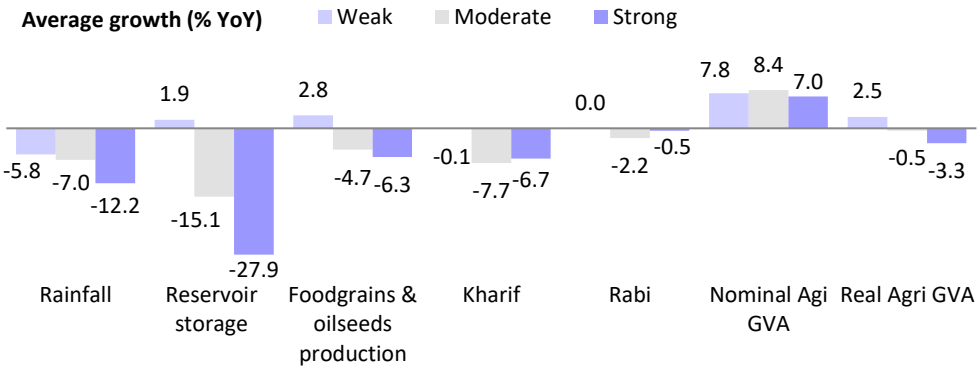
Source: CEIC, MOSPI, MOFSL

Exhibit 24: Rural food inflation rose to 9.1% in Oct'26 vs. 8.7% in urban areas



Source: CEIC, NOAA, MOFSL

Exhibit 25: Average growth during El Nino events (weak vs. moderate vs. strong)



Source: CEIC, NOAA, MOFSL

Exhibit 26: Indian agriculture and weather performance across El Niño and La Niña years

ENSO Type	Season	Monsoon	Reservoir levels	Foodgrains production	Kharif	Rabi	Nominal GVA	Real GVA
WL	2000-01	-10.5		-6.6	-3.4	-10.0	1.2	0.0
	2001-02	-9.0		8.5	9.9	6.9	8.3	6.0
ME	2002-03	-22.1	-23.7	-18.8	-23.2	-13.7	-2.7	-6.6
	2003-04	1.2	18.6	25.7	39.0	12.1	12.3	9.0
WE	2004-05	-11.4	-1.1	-6.6	-12.1	0.5	3.8	0.2
WL	2005-06	-1.4	40.8	6.2	7.8	4.4	12.7	4.8
WE	2006-07	4.0	15.2	2.1	-1.6	6.4	11.7	2.9
SL	2007-08	8.6	-4.7	7.8	13.7	1.6	14.7	5.5
WL	2008-09	0.0	-22.0	0.6	-4.0	6.2	12.8	-0.2
ME	2009-10	-21.4	10.0	-7.3	-12.0	-2.3	15.1	-0.9
SL	2010-11	1.9	36.9	14.0	19.3	8.8	21.9	8.8
WL	2011-12	1.6	-13.4	4.4	6.4	2.2	15.5	6.4
	2012-13	-7.1	5.1	0.3	-0.8	1.5	11.5	1.5
	2013-14	5.7	21.8	2.7	0.4	5.2	15.0	5.6
WE	2014-15	-11.9	-15.5	-6.1	-2.7	-9.7	8.7	-0.2
VSE	2015-16	-13.7	-27.9	-1.0	-3.7	2.1	6.4	0.6
ML	2016-17	-2.9	32.7	10.7	12.7	8.5	13.1	6.8
ML	2017-18	-5.2	-12.3	3.3	1.0	5.8	12.4	6.6
WE	2018-19	-9.4	9.0	0.1	0.4	-0.3	7.1	2.1
	2019-20	10.0	75.2	4.4	2.4	6.6	11.2	6.2
ML	2020-21	8.7	-13.3	4.8	5.0	4.7	10.0	4.0
ML	2021-22	-0.7	3.8	2.0	2.9	1.1	10.6	4.6
ML	2022-23	6.5	-4.1	4.9	1.4	-1.3	8.5	6.3
ME	2023-24	-5.4	-15.1	0.2	-1.1	1.3	9.6	2.7
WL	2024-25	7.7	18.1	7.7	9.8	4.9	10.4	4.6
WL	2025-26	7.9	10.8	-2.8	1.6	3.4	0.8	3.1
	2026-27	-12.6	-18.4					

WE=Weak El Niño, ME=Moderate El Niño, SE=Strong El Niño, VSE=Very Strong El Niño
WL=Weak La Niña, ML=Moderate La Niña, SL=Strong La Niña

1.2 Urban consumption is also becoming vulnerable to a less supportive macroeconomic environment.

1.2 (a) Monetary tightening could constrain discretionary consumption

- Urban consumption has remained relatively resilient, particularly in premium automobiles, jewelry, travel, hospitality and organized retail. However, the outlook is becoming more challenging as monetary conditions tighten. **The RBI increased the policy repo rate by 25bp to 5.50% in Oct'26 and shifted its policy stance from neutral to calibrated tightening**. **The decision reflects the central bank's greater concern about persistent inflation risks, particularly from higher food and commodity prices, currency depreciation and external uncertainties.**
- **The impact could be reinforced by the sharp decline in banking system liquidity. System liquidity, which had been substantially surplus earlier in Sep'26 (averaged INR7.7t), declined to average around INR1.5t in Nov'26.** While the transmission to household borrowing rates may take time, tighter liquidity and higher policy rates together could weigh on credit-sensitive consumption categories.
- **Elevated global bond yields could further constrain the RBI's policy flexibility.** Higher US Treasury yields and tighter global financial conditions may sustain pressure on emerging-market currencies, including INR, while limiting the scope for monetary easing. **This could reinforce domestic financial tightening, particularly in the context of persistent inflation and currency depreciation.**
- Higher policy rates could gradually increase borrowing costs for households, particularly for floating-rate loans and newly originated credit. This is relevant for urban consumption because purchases of passenger vehicles, housing and consumer durables are often financed through bank or NBFC loans. A rise in EMIs or lending rates could reduce affordability and encourage households to postpone discretionary purchases. Even though existing loan rates do not immediately increase, expectations of tighter financial conditions could affect consumer confidence.

Exhibit 27: India 10Y bond yield at 7.3% on 20th Nov'26

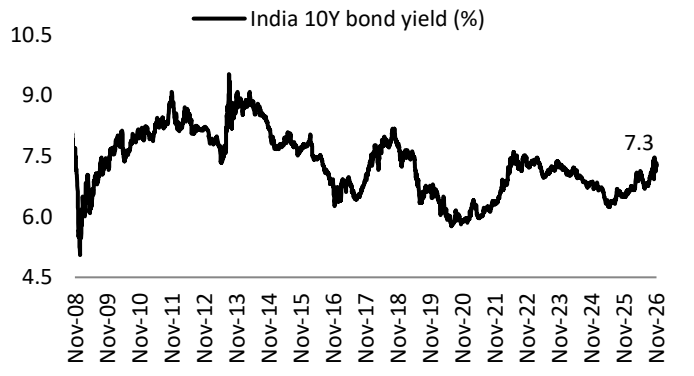


Exhibit 28: US 10Y bond yield at 5% on 20th Nov'26



Source: CEIC, MOFSL; Data as of 20th Nov'26

Exhibit 29: Indian repo rate rose 25bp to 5.50% in Oct'26

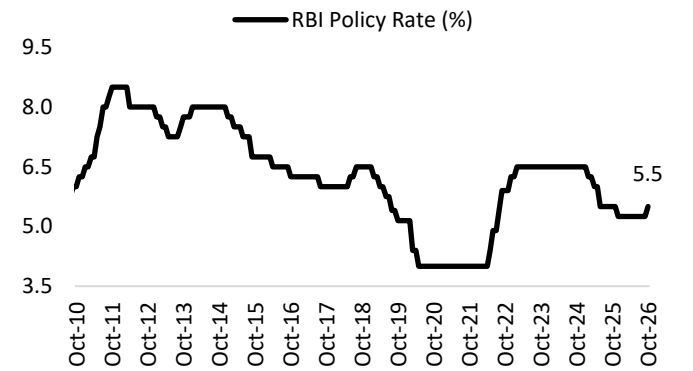
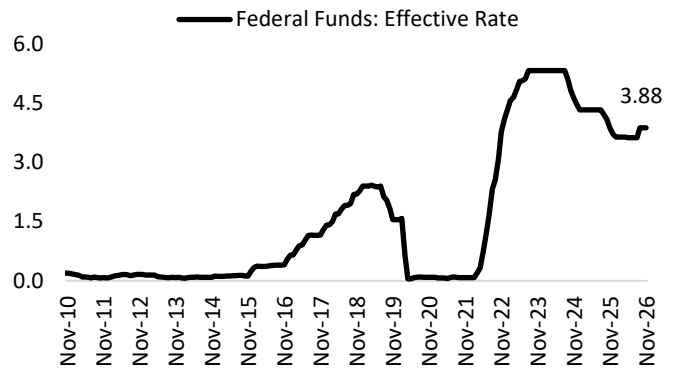


Exhibit 30: US Federal Funds target range set at 3.75-4.00%



Source: CEIC, MOFSL

Exhibit 31: Liquidity balance as % of NDTL fell to 0.4% as of 19th Nov'26

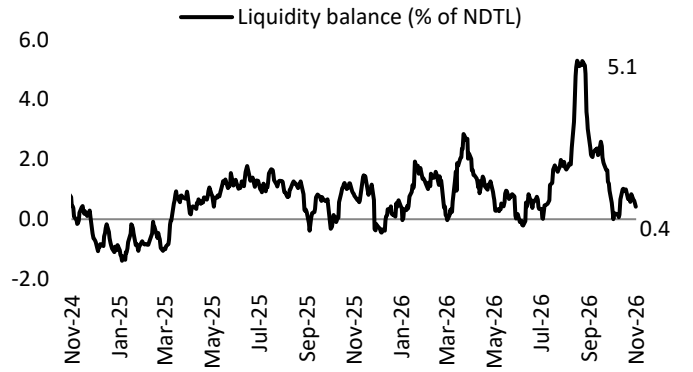
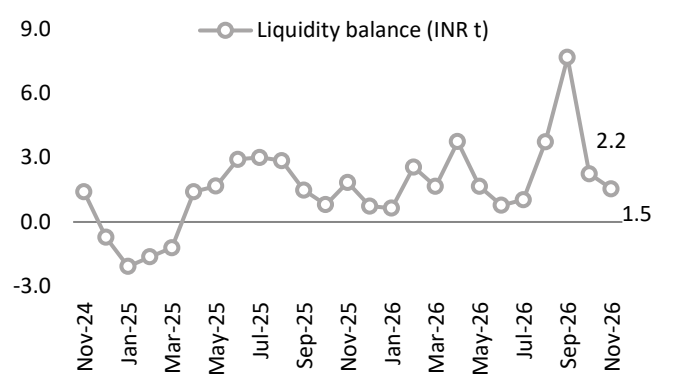


Exhibit 32: Liquidity balance averaged INR7.7t in Sep'26, fell to INR1.5t in Nov'26



Source: CEIC, MOFSL; Data as of 19th Nov'26

Exhibit 33: Crude oil at 90.89 USD/bbl on 20th Nov'26

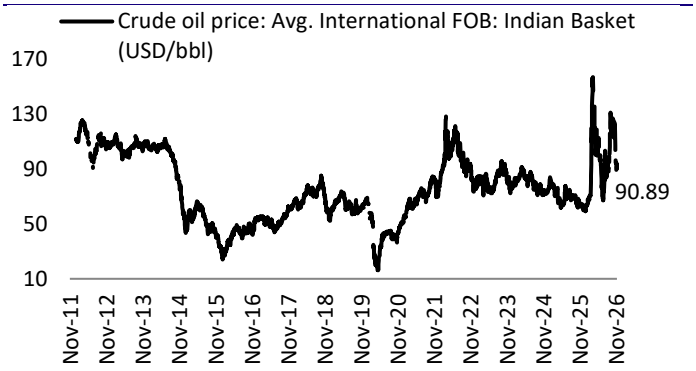
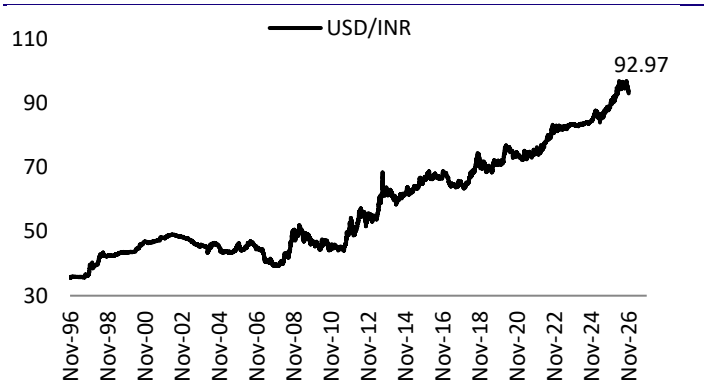


Exhibit 34: USD/INR stood at 92.97 on 20th Nov'26



Source: CEIC, MOFSL; Data as of 20th Nov'26

1.3 Crude oil volatility and corporate pricing actions could add to inflation

1) **The risk to household purchasing power is not restricted to agricultural commodities, as geopolitical uncertainty in West Asia continues to expose India to volatile crude oil prices.** Any disruption to energy infrastructure or shipping routes could increase crude prices and raise costs across transportation, logistics, fertilisers, petrochemicals and packaging.
2) **Consumer companies are already reporting higher input costs for palm oil, milk, wheat, sugar, crude derivatives and packaging materials**. While several companies have continued to report positive volume growth, management

commentary indicates that further calibrated price increases, pack-size adjustments and cost-saving measures may be required to protect margins.

3) **Companies such as HUL, Britannia, Dabur, Marico, Tata Consumer Products and Nestlé India have highlighted varying degrees of input cost and pricing pressure.** We believe sustained cost inflation could increasingly be passed on to consumers, potentially limiting volume growth in mass-market categories. This is particularly concerning for rural demand, where households are already facing higher food expenditure and uncertain farm income.

1.4 Corporate commentary: Demand resilient, but cost pressure persists

4) Management commentary suggests that consumption demand improved across FMCG, automobiles, consumer durables and jewellery during 2QFY27. FMCG companies reported a gradual recovery in rural markets, while urban demand remained relatively resilient. Automobile manufacturers benefited from GST-led affordability gains and festive purchases, with demand improving across both entry-level and premium segments. Consumer durable companies also reported healthy demand, while jewellery retailers continued to see strong festive and wedding-related purchases.
5) **The outlook for 3QFY27 remains broadly constructive, supported by the festive season and the shift in the festive calendar. However, companies are more cautious about the sustainability of demand in 4QFY27, particularly as festive purchases normalise and the high base begins to affect growth.**
6) **Rising input costs are emerging as a common concern across sectors. FMCG companies are facing higher crude-linked and palm-oil costs, while automobile manufacturers are dealing with elevated commodity prices and adverse currency movements. Consumer durable companies are also considering further price increases to offset higher raw-material costs, while jewellery retailers remain concerned about gold-price-driven affordability pressure.** Although companies are attempting to pass on some of these costs through calibrated price increases, higher prices could eventually affect volumes, particularly in mass-market and price-sensitive categories.
7) Overall, management commentary for 2QFY27 indicates an improvement in consumption across FMCG, automobiles, consumer durables and jewellery. However, the outlook for 2HFY27 is mixed. Companies remain optimistic about festive demand and underlying consumption, but higher commodity prices, currency depreciation and pricing actions are emerging as important risks. **We believe sustaining consumption beyond the festive season will require stronger growth in real household incomes, particularly across rural and middle-income urban households.**

Exhibit 35: Corporate commentary: Demand outlook and the cost pass-through dilemma

Company	Demand outlook and cost pressures: 2QFY27–4QFY27	Corporate pricing response: Pass-through or margin absorption
Automobiles Sector		
Hero MotoCorp	Festive buying and better affordability supported 2Q–3Q demand, though 2H growth should moderate on a high base; 4Q normalization remains a monitorable.	Selective price increases have been implemented to offset commodity inflation. Management is also relying on cost-saving measures to protect margins.
Maruti Suzuki	Strong 2Q sales from festive demand and GST-led gains. Sales should remain supported in 3Q but rising input costs and adverse currency movements could weigh on 2H margins.	Selected price increases have been implemented, with further hikes under consideration to offset rising input costs. The extent of pass-through will shape consumer affordability.
FMCG Sector		
Britannia Industries	2Q volume growth remained healthy, supported by semi-urban and rural demand. Festive and wedding demand is expected to support 3Q. However, higher input costs could make 4Q more challenging if further price increases affect volumes.	Took approximately 3.5% pricing in 2Q, largely through grammage reductions. Further price increases and grammage adjustments are planned, although cost optimization remains a priority to limit consumer pass-through.
Hindustan Unilever	2Q Demand improved led by Beauty & Wellbeing while higher crude-linked input costs pressured Home Care margins. Festive demand could support 3Q, but post-festive volume sustainability remains a concern.	Calibrated price increases and cost efficiencies are being used to manage inflation. However, pricing lags mean that higher input costs may continue to affect near-term margins.
Godrej Consumer Products	Demand remained healthy, but crude-linked derivatives, palm oil and other commodities pressured 2Q margins. Elevated input costs may sustain 3Q, as festive demand normalizes.	Planned price increases are expected to support margin recovery and cost efficiencies to offset inflation, while maintaining single-digit standalone volume growth guidance.
Consumer Durables Sector		
Crompton Greaves	Demand improved across consumer electrical categories, with fans returning to growth in 2Q. However, sustaining this recovery after festive demand normalizes will be important.	Pricing discipline and cost efficiencies have supported margins. The extent to which further raw-material inflation can be absorbed without additional price increases remains a monitorable.
Havells India	Strong revenue growth in 2Q led by cables and wires, while consumer electrical demand remained moderate. Commodity volatility and under-recovery of costs affected margins.	Management indicated further price increase of 5–7% in 3Q, with their impact extending into Q4. This is a clear example of cost pass-through that could affect consumer affordability.
Jewelry Sector		
Titan Company	Studded jewelry demand remained healthy in 2Q, while plain gold jewelry softened due to high gold prices. Festive and wedding purchases should support 3Q, although gold-price affordability remains a risk for subsequent demand.	Management maintains FY27 jewelry margin guidance of 11%, prioritizing customer acquisition and growth. Stable or lower gold prices could support buyer growth.
Kalyan Jewellers	Retail demand remained healthy in 2Q. Festive purchases shifting into 2H and store additions are expected to support 3Q and 4Q, although management acknowledges a high base in 4Q	Management expects 2H PBT margins to remain stable and higher than 1H, supported by seasonality and operating leverage. Gold-price affordability remains a separate demand risk.
P. N. Gadgil Jewellers	Retail demand remained healthy, with festive purchases and store expansion supporting growth. Elevated gold prices remain an affordability concern, making buyer growth and volumes important monitorables.	Management is focusing on cost control and operating leverage to maintain margin guidance.

Source: Company earnings releases, management conference calls and media reports for 2QFY27. Management guidance is distinguished from our assessment; where companies have not provided explicit 4QFY27 guidance, the outlook is based on their stated near-term commentary.

1.5 Consumption risks are building up, although demand has not collapsed

1) **Higher rural inflation, agricultural uncertainty, rising input costs and tighter monetary conditions point to a growing risk of consumption moderation through 4QFY27 and 1QFY28.**
2) The pressure is likely to be more visible in rural markets, where households are more exposed to food prices and agricultural income. Urban consumption may remain relatively resilient because of more stable salaried incomes and formal employment, but higher living costs and borrowing rates could affect discretionary spending.
3) **Corporate commentary suggests that demand remains positive at present, but companies are increasingly focused on managing input-cost inflation and implementing price increases.**
4) **We believe the first signs of stress could emerge through slower volume growth, downtrading and delayed purchases rather than a broad-based decline in sales.** Sectors exposed to rural discretionary spending, including

entry-level two-wheelers, tractors, rural FMCG, value retail and consumer durables, could be relatively more vulnerable.

5) We believe the key risk is that temporary support from festive spending and GST-related affordability gains may not be sufficient to sustain consumption momentum if real household income growth remains under pressure. Against this backdrop, measures that improve disposable income could play an important role in supporting consumption in FY28.

Exhibit 36: Domestic tractor sales contracted 15.5% in Sep'26

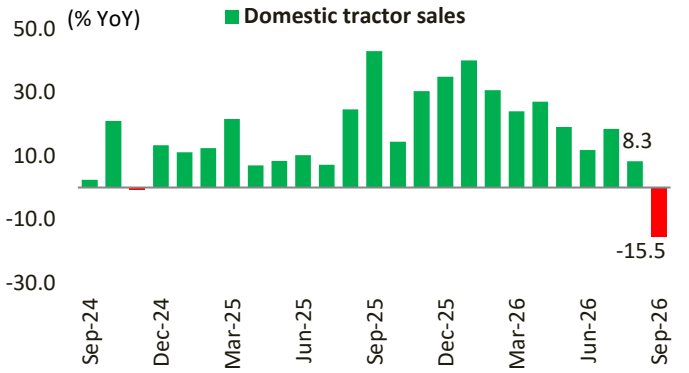
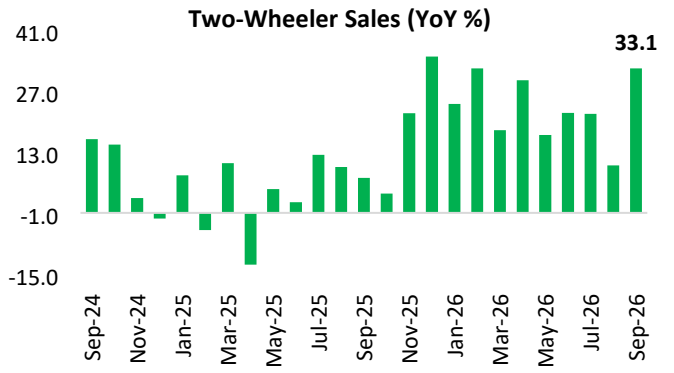
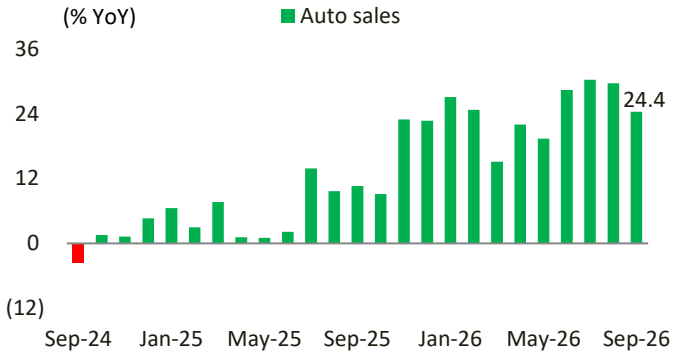


Exhibit 37: Two-wheeler sales accelerated to 33.1% in Sep'26 from 10.9% in Aug'26



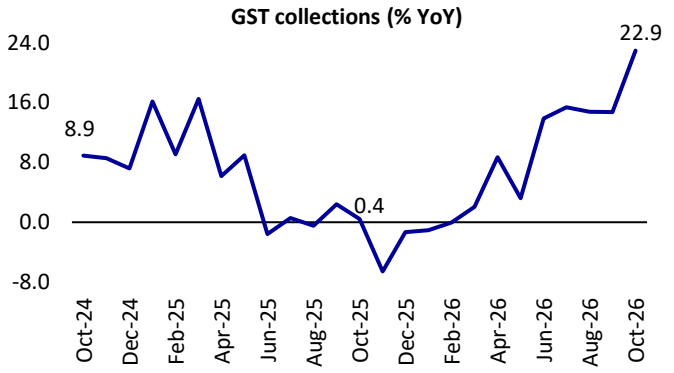
Source: CEIC, CMIE, MOFSL

Exhibit 38: Auto sales growth stood at 24.4% in Sep'26



PVs + CVs+ 2 wheelers + 3 wheelers

Exhibit 39: GST collections accelerated 22.9% YoY in Oct'26



Source: CEIC, MOFSL

Building the case for an early pay boost

Recent income-support measures

A 3pp increase in DA for Central govt. employees and DR for pensioners, from 60% to 63%, effective 1st Jul'26.

Announcement of the non-productivity linked (ad-hoc) bonus for eligible Central govt. employees for FY26

Mounting macro headwinds

Rural stress, high inflation and tighter financial conditions: weak consumption in 2HFY27

1.6 Government likely to remain focused on supporting household demand

The emerging consumption risks are important because private consumption remains a key driver of India's economic growth, and the government has repeatedly used fiscal and tax measures to support household purchasing power. GST rate rationalization was aimed at improving affordability by reducing the tax burden on selected goods and services, while personal income tax relief has increased disposable income for eligible households. These measures reflect the government's focus on supporting domestic demand. However, if food inflation, higher borrowing costs and further consumer-price increases begin to affect household spending more visibly, an additional income-support measure could become important. In this context, the 8th CPC could provide a direct and relatively broad-based income boost to central government employees and pensioners, supporting consumption at a time when private demand is facing headwinds.

Section 2: 8th CPC – potential boost to household income and consumption

2.1 Why we expect an announcement on the 8th CPC?

- Taken together, the consumption indicators and corporate commentary suggest that the recovery is improving but remains vulnerable. Rural households face a combination of weak agricultural income prospects and elevated food inflation, while urban households are exposed to higher borrowing costs, tighter liquidity and rising living expenses. Although festive demand and GST rationalization have provided near-term support, these factors may not be sufficient to sustain consumption momentum over the medium term.
- **The govt. has already announced two relatively small income-support measures ahead of the anticipated larger pay-revision framework under the 8th CPC.** First, the 3pp increase in DA/DR to 63%, effective Jul'26, will provide an incremental boost to the incomes of Central Government employees and pensioners. Second, on 15th Oct'26, the government approved a 30-day Non-Productivity Linked (ad-hoc) Bonus for FY26, covering Group C and non-gazetted Group B employees who are not covered under any productivity-linked bonus scheme. While modest in scale and one-off in nature, these measures provide some near-term support to household purchasing power.
- Against this backdrop, we believe the government may not wait until the 8th CPC submits its final recommendations, expected around May'27, to provide greater clarity on the pay-revision framework. We expect the government to consider announcing the broad framework in the Feb'27 Union Budget, ahead of the Commission's final report or latest by 1H CY27. Such an announcement could improve household income expectations and signal the government's intention to support consumption.
- We believe the timing could reflect the need to support household purchasing power as consumption faces multiple headwinds in 4QFY27 and potentially into early FY28. A pay revision would provide direct income support to nearly 5m serving central government employees and 6.9m pensioners, helping cushion the impact of weak rural demand, elevated living costs and tighter financial conditions.
- The 8th CPC could provide an important boost to household consumption at a time when rural and urban demand are facing several headwinds. **An early announcement could improve visibility on future salary and pension increases and provide a positive signal to households as the economy enters FY28.**

2.2: What is the 8th CPC?

- The CPC reviews the salary structure, allowances, pension benefits and other service conditions of central government employees. A pay commission is generally constituted once in around 10 years. The 7th CPC recommendations were implemented on 1st Jan'16, and the 8th CPC is expected to determine the next round of revisions.
- The government announced the formation of the 8th CPC in Jan'25. Its Terms of Reference were approved in Oct'25, and the Commission was formally constituted on 3rd Nov'25. It is chaired by Justice Ranjana Prakash Desai, with Prof. Pulak Ghosh as the part-time member and Pankaj Jain as Member-Secretary. The Commission has been given 18 months from its constitution to

submit its recommendations, implying a timeline of around May'27. It may also submit interim reports on specific matters.

- The Commission's scope covers pay, allowances, benefits, retirement benefits and service conditions for central government employees, including industrial and non-industrial employees, All India Services personnel, defense personnel and other specified categories. It will also examine pension and gratuity-related matters.
- The government has specifically asked the Commission to consider the country's economic conditions, fiscal prudence, availability of resources for development and welfare expenditure, the unfunded cost of non-contributory pension schemes and the likely impact on state government finances. This indicates that fiscal affordability will be an important consideration in determining the final pay revision.

2.3: How does the fitment factor work?

- The fitment factor is a multiplier applied to an employee's existing basic pay to arrive at the revised basic pay. A higher factor results in a larger increase in basic salary. Allowances such as HRA and transport allowance are calculated separately and may also be revised under the new pay structure.
- For example, an employee with an existing basic pay of INR35,000 would receive the following revised basic pay under different fitment-factor scenarios:

Exhibit 40: Revised basic pay under different fitment factors (Figures in INR 000's)

Fitment factor	Existing basic pay	Revised basic pay	Increase in basic pay
2.28x	35	79.8	44.8
2.57x	35	89.9	54.9
2.86x	35	100.1	65.1
3.50x	35	122.5	87.5
3.83x	35	134.0	99.0

Source: 8th CPC, MOFSL

- These amounts represent revised basic pay, not the final take-home salary. The final salary will also depend on the treatment of DA, HRA, transport allowance and other benefits. The fitment factor should also not be interpreted as the percentage increase in take-home salary because the existing DA component is generally taken into account while determining the new pay structure.

2.4: Government position vs. employee union demands

- The government's approach is likely to focus on fiscal affordability, while employee unions are seeking a substantial increase in salaries and pensions to compensate for higher living costs. The government has not announced a fitment factor or committed to merging accumulated DA with basic pay.
- Employee unions have demanded a **fitment factor of 3.833x and minimum basic pay of INR69,000**, compared with the current minimum of INR18,000.
- **They have also sought the merger of accumulated DA with basic pay, more frequent DA revisions and improved pension benefits.** Some employee-side proposals suggest merging DA with basic pay once it reaches around 25%.
- The government, on the other hand, has not committed to such a merger. Under the existing system, DA is revised periodically and remains separate from

basic pay. The government is also expected to consider the impact of any pay revision on its fiscal position, state government finances, pension liabilities and development expenditure.

- A fitment factor of 3.833x would, however, result in a large fiscal cost under our calculations. With DA/DR reset to zero, the combined annual incremental salary and pension expenditure would be around INR6.52t. This is substantially above the INR2.0-2.5t fiscal envelope that we consider more credible.
- The difference between the union demand and our expected fiscal range is, therefore, significant. The final award is likely to reflect a compromise between employee expectations and the government's fiscal capacity.

Exhibit 41: Government position vs. employee union demands

Key parameter	Government's position	Employee-union demand
Fitment factor	No factor announced; to be decided after the Commission's review.	Demanded 3.833x.
Minimum basic pay	Current minimum is INR18,000; no revision announced.	Increase to INR69,000.
DA merger	No commitment to merge DA with basic pay.	Merge accumulated DA with basic pay.
DA merger threshold	No automatic merger announced under the current system.	Some proposals seek merger when DA reaches around 25%.
DA revisions	Continue with the existing periodic revision framework.	Seek more frequent, including quarterly, revisions.
Annual increment	No revised rate announced.	Increase from 3% to 6%.
Allowances	To be reviewed by the Commission.	Higher HRA and revision of other allowances.
Pension benefits	To be assessed alongside the overall fiscal implications.	Higher pension and continued inflation protection.
Overall approach	Balance salary increases with fiscal prudence and development spending.	Higher fitment factor and improved pay and pension benefits.

Source: 8th CPC, MOFSL

2.5: Historical perspective: How previous pay commissions treated DA?

- The treatment of DA is particularly important because it determines how much of the increase in basic pay is a genuine improvement in employee compensation and how much simply compensates for accumulated inflation.

5th CPC

- The 5th CPC introduced the concept of dearness pay by merging a portion of accumulated DA with basic pay. This increased the salary base on which other benefits and allowances were calculated. It provided employees with some protection against the erosion of purchasing power during the pay cycle.

6th CPC

- The 6th CPC moved toward a revised pay-band and grade-pay structure. It did not continue the same automatic mid-cycle dearness pay arrangement as a general feature. DA continued to be revised separately to compensate for inflation, while the new pay structure incorporated the applicable pay revision.

7th CPC

- The 7th CPC introduced the pay matrix and a uniform fitment factor of 2.57x. This factor incorporated DA neutralization of 125% and an additional real increase in pay of ~14.29%. In simplified terms:

Exhibit 42: 7th CPC calculations

Component	Calculation
Existing basic pay	1.00
DA neutralization at 125%	1.25
Basic pay plus DA neutralization	2.25
Additional real increase of approximately 14.29%	2.25 × 1.1429
Fitment factor	Approximately 2.57

Source: 8th CPC, MOFSL

- Thus, the 2.57x factor was not an additional 157% increase over basic pay plus DA. It already incorporated the accumulated DA neutralization and a real increase in pay. Once the new pay structure was implemented, DA was reset to 0% and began accumulating again under the new basic-pay structure.
- **Implication for the 8th CPC:** The Commission could follow a similar approach by incorporating accumulated DA into the fitment factor. However, this has not yet been announced. If the fitment factor already includes DA neutralization, existing DA should not be added again to the revised basic pay, as that would double-count the increase.

2.6: DA merger: Two possible approaches under the 8th CPC

There are two broad ways in which the 8th CPC could handle accumulated DA. The treatment of DA and Dearness Relief (DR) is one of the most important assumptions determining the fiscal cost of the 8th CPC. DA is paid to serving employees to compensate for changes in the cost of living, while DR serves a similar purpose for pensioners. At the time of a new pay commission, the accumulated DA/DR may be absorbed into the revised basic pay or pension and reset to zero.

Our calculations use two alternative approaches:

Approach 1: DA is absorbed into the fitment factor (DA reset to 0%)

- Under this approach, the accumulated DA is subsumed into the revised basic pay, similar to the 7th CPC. **The fitment factor incorporates DA neutralization and the additional real increase**. DA is then reset to 0% under the new pay structure.

Approach 2: DA continues separately (DA/DR continue at 63%)

- Under an alternative approach, the Commission could provide a more limited increase in basic pay while allowing DA to continue separately. In this case, the total monthly compensation would include revised basic pay plus DA calculated on the revised basic pay.
- The distinction is important because the same fitment factor cannot be compared across the two approaches without adjusting for DA. A factor that includes DA neutralization will appear higher than a factor that excludes it.

The second approach generates a substantially higher incremental outgo for a given fitment factor in our model. This is because the revised basic pay or pension is multiplied by the continuing DA/DR rate, rather than absorbing the existing DA/DR into the revised basic amount. *A lower fitment factor with continuing DA/DR can, therefore, produce a fiscal outcome similar to a higher fitment factor with DA/DR reset.*

Exhibit 43: Illustration using basic pay of INR35k and DA of 63% (figures in INR 000's)

Particulars	DA absorbed in fitment	DA continues separately
Existing basic pay	35.0	35.00
Existing DA at 63%	22.05	22.05
Existing basic pay + DA	57.05	57.05
Illustrative revised basic pay	79.80 (2.28x)	43.75 (1.25x)
DA on revised basic pay	Not added again	27.56
Revised basic pay + DA	79.80	71.31
Increase over existing basic pay + DA	22.75	14.26

The second column is an illustrative alternative, not an announced government proposal. It demonstrates why the treatment of DA needs to be specified before comparing fitment-factor estimates.

2.7 Estimated impact on serving employees and pensioners (fiscal cost and consumption boost)

Modelling framework and key assumptions

- **We estimate the fiscal cost and potential consumption impact of the 8th CPC separately for serving employees and pensioners**. **Our calculations cover 48.62 lakh serving Central Government employees and 68.71 lakh pensioners, with the additional expenditure estimated separately for each group.** For serving employees, we use the level-wise distribution of employees across Levels 1-18 and their corresponding 7th CPC basic pay. The current DA rate is 63%. For pensioners, we use the estimated population of 68.71 lakh and the corresponding level-wise distribution of pensioners, with the existing DR rate also at 63%. This distinction is important because the salary revision affects serving employees, whereas the pension revision creates a separate and recurring expenditure obligation for the government. Both components need to be considered to understand the full fiscal implications of the 8th CPC.
- **The first step is to estimate the revised pay and pension under different fitment factors.** The fitment factor is the multiplier applied to the existing 7th CPC basic pay or pension to arrive at the revised basic pay or pension. For example, a fitment factor of 2.57x means that the existing basic pay is multiplied by 2.57 to calculate the revised basic pay. However, the final increase in take-home pay also depends on how the existing DA is treated. We, therefore, examine two distinct approaches: (i) DA/DR are reset to zero after being absorbed into the revised basic pay or pension; and (ii) DA/DR continue at the existing rate of 63% over the revised basic pay or pension. These approaches produce significantly different estimates of the government's additional expenditure.
- **The calculations measure the additional annual expenditure over the existing salary and pension bill, rather than the total revised expenditure.** Under the DA/DR-reset approach, the revised basic pay is compared with the existing basic pay plus 63% DA. Similarly, revised pension is compared with the existing pension plus 63% DR. Under the continuation approach, the revised basic pay and pension are both increased by the existing 63% DA/DR, and the resulting amounts are compared with the current salary and pension levels. **We exclude changes in other allowances, arrears and other implementation-related costs from the estimates.**
- **The fiscal cost of the 8th CPC is only one side of the assessment; the other is the extent to which higher salaries and pensions could translate into additional household spending.** A pay revision increases the disposable income of serving employees and pensioners, but the entire increase does not necessarily flow into consumption. Some of the additional income may be saved, used to repay existing loans or allocated toward financial investments. The share that is spent will vary across income groups. Lower-income employees and pensioners generally have a greater need to spend additional income on everyday requirements, while higher-income households are more likely to save a larger share of the increase. We, therefore, apply different marginal propensities to consume (MPCs) across employee and pensioner levels to estimate the potential first-round consumption response.
- **MPC assumptions are designed to reflect differences in spending behavior across income levels.** We assume an MPC of 75-85% for lower levels, 55-65% for

middle levels and 35-45% for higher levels. More specifically, the model uses an MPC of 85% for Levels 1-2, 80% for Level 3, 75% for Levels 4-5, 65% for Level 6, 60% for Levels 7-8, 55% for Level 9, 45% for Levels 10-12, 40% for Levels 13-14 and 35% for Levels 15-18. The same broad income-based approach is applied to pensioners. These are analytical assumptions rather than observed spending responses specific to the 8th CPC. The consumption boost is calculated by applying the relevant MPC to the incremental salary or pension income estimated for each level and then aggregating the results across all employee and pensioner groups.

2.7 (A). Serving employees: Salary expenditure and consumption impact

1. **DA reset to zero: At a 2.57x fitment factor, the additional annual salary expenditure on serving employees is estimated at INR1.63t, translating into a potential consumption boost of INR1.11t.** Under this approach, the existing 63% DA is absorbed into the revised basic pay, and no separate DA payment is assumed immediately after implementation. The additional salary cost is, therefore, calculated by comparing the revised basic pay under each fitment factor with the existing basic pay plus 63% DA. **At a lower fitment factor of 2.28x, the additional annual salary bill is estimated at INR1.13t, while the corresponding consumption boost is around INR764b.** As the fitment factor increases to 2.86x, the salary cost rises to INR2.14t and the consumption response to INR1.45t. At higher fitment factors of 3.5x and 3.83x, the additional salary expenditure increases to INR3.25t and INR3.83t, respectively, with the potential consumption boost rising to INR2.20t and INR2.59t. **The estimates indicate that a higher fitment factor would provide a larger income and demand stimulus, but would also increase the government's recurring salary commitment.**
2. **DA continues at 63%: The fiscal cost is considerably higher when DA continues to be paid separately over the revised basic pay.** In this case, the government bears the increase in basic pay as well as the DA payable on the revised amount. At a fitment factor of 1.50x, the additional annual salary expenditure is estimated at INR1.42t, generating a potential consumption boost of INR958b. However, increasing the fitment factor to 2.0x raises the salary bill to INR2.83t and the consumption response to INR1.92t. At 2.28x, the additional salary expenditure rises further to INR3.63t, while the consumption boost increases to INR2.45t. **Thus, even a relatively modest fitment factor can result in a significant recurring expenditure burden when DA continues separately.**

Note: Detailed calculations are shown in Annexure A (PAGE29)

Exhibit 44: Annual fiscal cost (total increase in P&As) and consumption boost (at different FF and DA scenarios) for serving employees

Fitment factor	Total Fiscal cost (INR t)	Consumption boost (INR t)
DA reset to 0%, fully subsumed into revised basic pay		
2.28	1.1	0.8
2.57	1.6	1.1
2.86	2.1	1.4
3.5	3.3	2.2
3.83	3.8	2.6
DA continues at 63%		
1.5	1.4	1.0
2.0	2.8	1.9
2.28	3.6	2.5

Exhibit 45: Estimated annual fiscal cost at different FFs with DA=0%

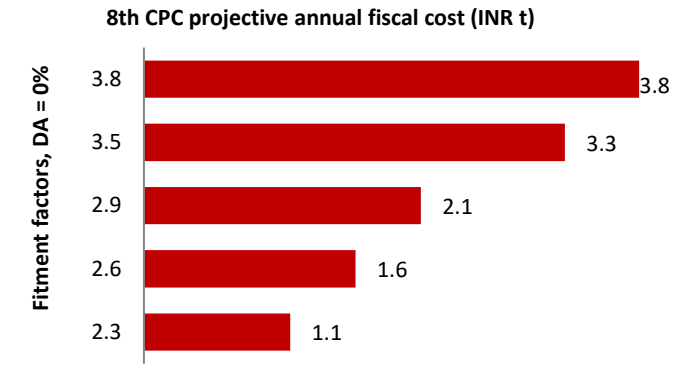
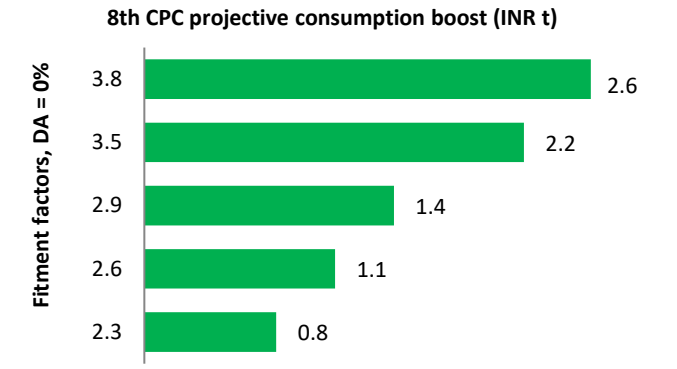


Exhibit 46: Estimated consumption boost at different FFs with DA=0%



Source: CEIC, CMIE, MOFSL

Exhibit 47: Estimated annual fiscal cost at different FFs with DA at 63%

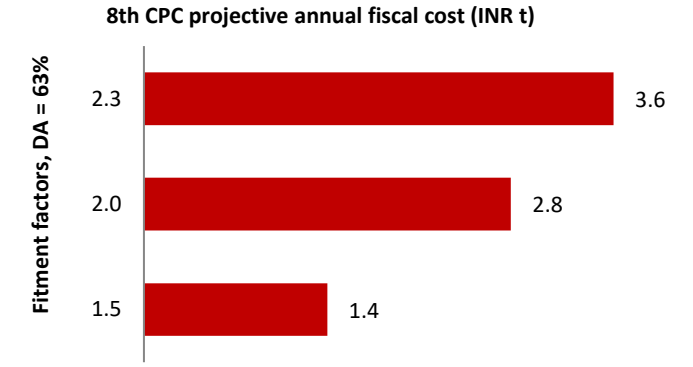
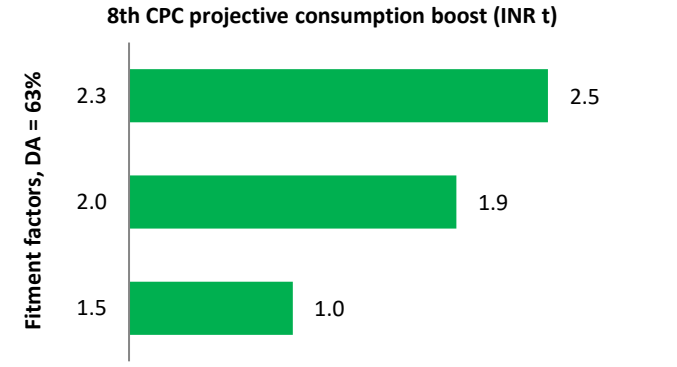


Exhibit 48: Estimated consumption boost at different FFs with DA at 63%



Source: CEIC, MOFSL

2.7 (B). Pensioners: Salary expenditure and consumption impact

1. **DR reset to zero: At a 2.57x fitment factor, the additional annual pension expenditure is estimated at INR1.15t, with a potential consumption boost of INR780b.** Similar to the treatment of serving employees, the existing 63% DR is assumed to be absorbed into the revised pension, with no separate DR payment immediately after implementation. The additional pension cost is calculated by comparing the revised pension with the existing pension, including the current DR component. At a 2.28x fitment factor, the incremental pension bill is estimated at INR797b, translating into a consumption boost of INR539b. At 2.86x, the additional pension expenditure rises to INR1.51t, while the corresponding consumption response increases to INR1.02t. Under the higher fitment-factor scenarios of 3.5x and 3.83x, the annual incremental pension bill increases to INR2.29t and INR2.7t, respectively, generating potential consumption boosts of INR1.55t and INR1.83t.
2. **DR continues at 63%: Continuing DR separately over the revised pension results in a substantially higher pension bill.** At a fitment factor of 1.5x, the additional annual pension expenditure is estimated at INR1.0t, with a potential consumption boost of INR676b. At 2.0x, the incremental pension cost increases to INR2.0t and the consumption response to INR1.35t. At 2.28x, the additional pension expenditure rises further to INR2.56t, generating an estimated consumption boost of INR1.73t.

Exhibit 49: Fiscal cost and consumption boost calculations at different fitment factors for pensioners

Fitment factor	Total fiscal cost (INR t)	Consumption boost (INR t)
DR reset to 0%, fully subsumed into revised basic pay		
2.28	0.8	0.5
2.57	1.2	0.8
2.86	1.5	1.0
3.5	2.3	1.6
3.83	2.7	1.8
DR continues at 63%		
1.5	1.0	0.7
2.0	2.0	1.4
2.28	2.6	1.7

Exhibit 50: Estimated annual fiscal cost at different FFs with DA=0%

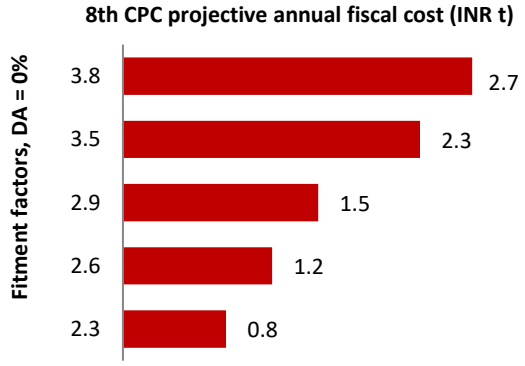
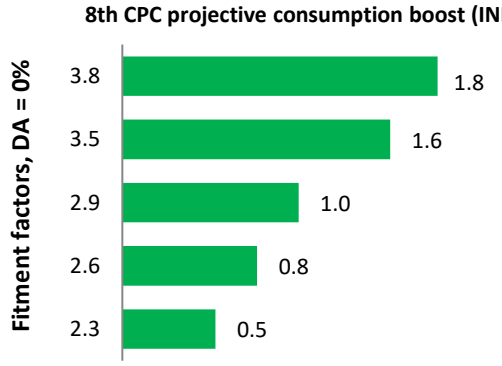


Exhibit 51: Estimated consumption boost at different FFs with DA=0%



Source: CEIC, CMIE, MOFSL

Exhibit 52: Estimated annual fiscal cost at different FFs with DA at 63%

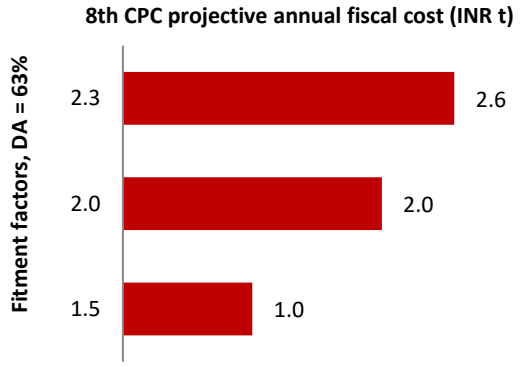
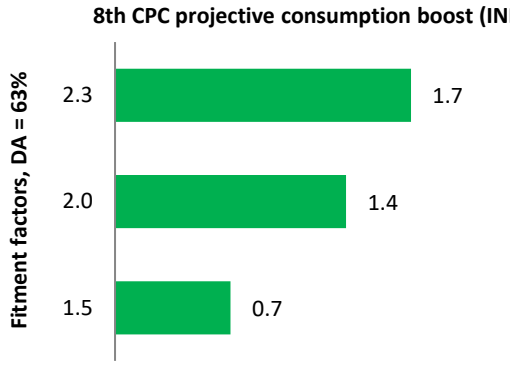


Exhibit 53: Estimated consumption boost at different FFs with DA at 63%



Source: CEIC, MOFSL

2.7 (C). Combined potential fiscal cost and consumption impact

1. **Combining the impact on serving employees and pensioners, the estimated annual incremental fiscal cost varies significantly across the fitment-factor and DA/DR scenarios, with a corresponding variation in the potential consumption stimulus.** Under the DA/DR-reset approach, the combined salary and pension expenditure ranges from INR1.93t at a 2.28x fitment factor to INR6.52t at 3.83x, while the estimated first-round consumption boost ranges from INR1.3t to INR4.4t. At our intermediate 2.57x scenario, the additional fiscal burden is estimated at INR2.8t, comprising INR1.6t towards serving employees and INR1.15t towards pensioners, with a corresponding consumption response of INR1.9t.

2. Under the alternative approach of continuing DA/DR at 63%, the combined annual fiscal cost ranges from INR2.4t at a 1.5x fitment factor to INR6.2t at 2.28x, while the potential consumption boost varies from INR1.6t to INR4.2t. These estimates highlight the considerable sensitivity of the government's fiscal commitment to both the fitment factor and the treatment of DA/DR. **Overall, the 8th CPC has the potential to provide a meaningful boost to household demand, but the scale of this stimulus will need to be weighed against the government's capacity to absorb a higher and recurring salary and pension bill.**

Exhibit 54: Annual fiscal cost (total increase in P&As) and consumption boost (at different FF and DA scenarios) for serving employees and pensioners

Fitment factor	Total fiscal cost (INR t)	Consumption boost (INR t)
DA reset to 0%, fully subsumed into revised basic pay		
2.28	1.9	1.3
2.57	2.8	1.9
2.86	3.6	2.5
3.5	5.5	3.7
3.83	6.5	4.4
DA continues at 63%		
1.5	2.4	1.6
2.0	4.8	3.3
2.28	6.2	4.2

Exhibit 55 Estimated annual fiscal cost at different FFs with DA=0%

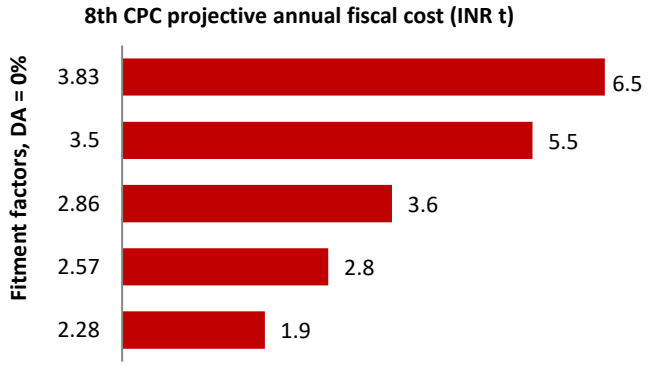
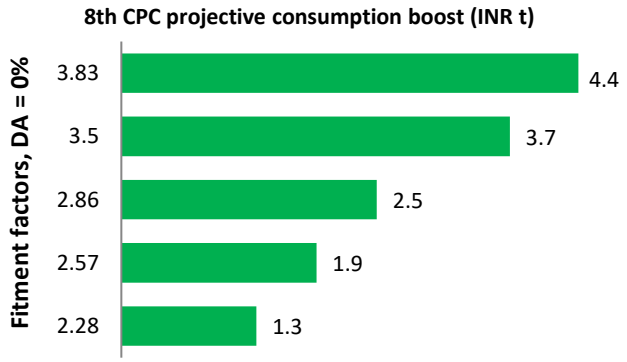


Exhibit 56 Estimated consumption boost at different FFs with DA=0%



Source: CEIC, CMIE, MOFSL

Exhibit 57: Estimated annual fiscal cost at different FFs with DA at 63%

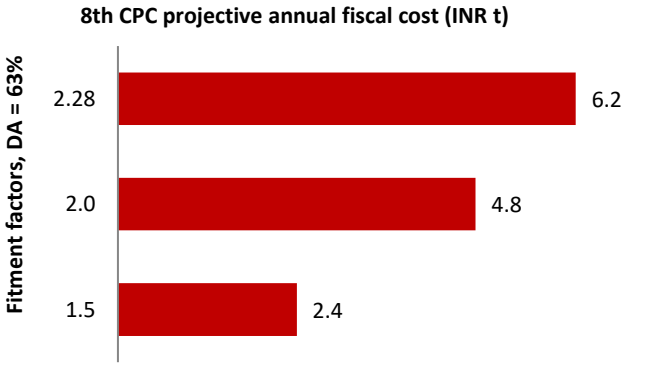
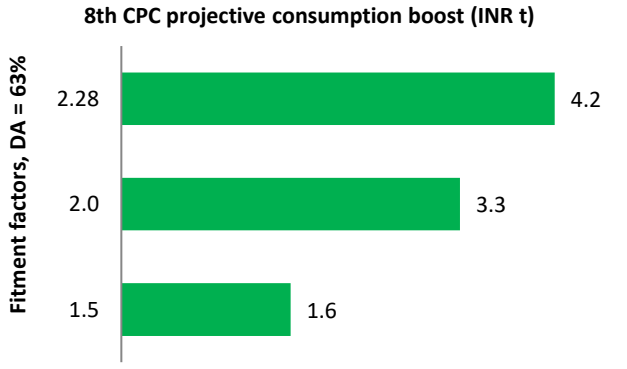


Exhibit 58: Estimated consumption boost at different FFs with DA at 63%



Source: CEIC, MOFSL

2.8 How much fiscal cost can the government credibly absorb?

The affordability of the 8th CPC needs to be assessed against the Centre's historical expenditure on salaries, allowances and pensions, particularly the increase witnessed during the implementation of the 7th CPC. While the fitment factor determines the increase in individual pay and pension entitlements, the aggregate fiscal burden depends on the size of the employee and pensioner base and the extent to which the government can accommodate higher recurring expenditure. We, therefore, examine the Centre's expenditure on pay and allowances and pensions as a proportion of GDP, alongside their annual growth, to understand the historical fiscal burden of successive pay revisions. The experience of FY17 and FY18 is particularly relevant, as these years capture the initial impact of the 7th CPC implementation and provide a useful benchmark for assessing the potential cost of the 8th CPC.

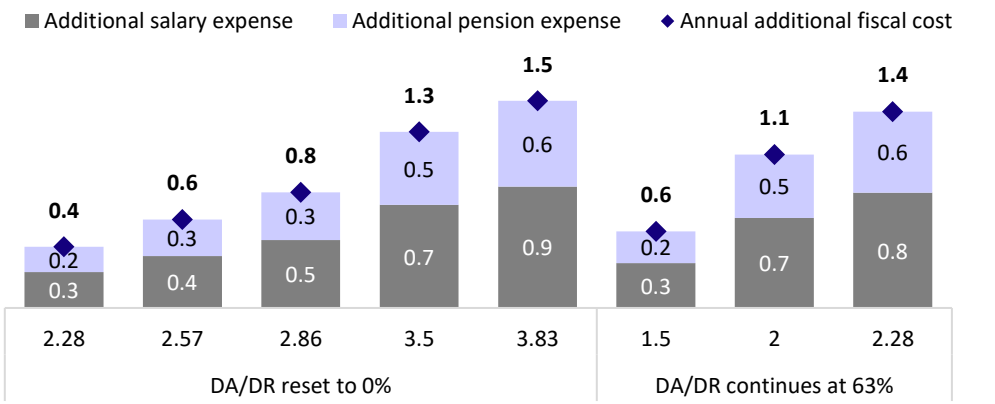
7th CPC provides a benchmark for the incremental fiscal burden

The implementation of the 7th CPC resulted in a noticeable increase in the Centre's salary and pension expenditure, with the combined incremental outgo estimated at around INR740b in FY17. Expenditure on pay and allowances increased by 20.3% YoY to INR2.74t in FY17, compared with INR2.28t in FY16. Meanwhile, pension expenditure rose by 28.9% to INR1.2t from INR957b. **Taken together, the additional salary and pension expenditure amounted to ~INR740b, equivalent to around 0.5% of GDP**. **The expenditure increase continued in FY18, although the incremental burden moderated.** Pay and allowances increased by 8.3% to INR2.97t, while pension expenditure rose by 18.1% to INR1.5t. **The combined incremental expenditure was approximately INR452bn, equivalent to around 0.3% of GDP**. **Thus, the first two years of the 7th CPC saw an aggregate additional salary and pension burden of around INR1.2t, with the annual incremental cost declining from approximately 0.5% of GDP in FY17 to 0.3% in FY18.** This illustrates that the fiscal impact of a pay commission is not necessarily concentrated in a single year; the timing of implementation, payment of arrears and subsequent adjustments can spread the burden across financial years.

Exhibit 59: Pay & allowances and pension expenditure of the central govt.

	Pay & allowances		Pensions		Annual additional salary expenditure		Annual additional pensions expenditure		Annual additional fiscal cost	
	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP
FY16	2,280	1.7	957	0.7	161	0.1	21	0.0	182	0.1
FY17 (7th CPC)	2,744	1.8	1,234	0.8	464	0.3	276	0.2	740	0.5
FY18	2,972	1.7	1,457	0.9	228	0.1	224	0.1	452	0.3
FY27BE	5,102	1.3	2,962	0.8	182	0.0	96	0.0	278	0.1
FY28E possible scenarios for 8th CPC	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP	(INR b)	% of GDP
FF = 2.28, DA/DR = 0%	6,232	1.4	3,759	0.9	1,130	0.3	797	0.2	1,927	0.4
FF = 2.57, DA/DR = 0%	6,736	1.5	4,115	0.9	1,634	0.4	1,153	0.3	2,787	0.6
FF = 2.86, DA/DR = 0%	7,240	1.7	4,471	1.0	2,139	0.5	1,509	0.3	3,647	0.8
FF = 3.5, DA/DR = 0%	8,353	1.9	5,256	1.2	3,251	0.7	2,293	0.5	5,545	1.3
FF = 3.83, DA/DR = 0%	8,927	2.1	5,660	1.3	3,825	0.9	2,698	0.6	6,523	1.5
FF = 1.5, DA/DR = 63%	6,519	1.5	3,962	0.9	1,417	0.3	1,000	0.2	2,417	0.6
FF = 2, DA/DR = 63%	7,936	1.8	4,961	1.1	2,834	0.7	1,999	0.5	4,833	1.1
FF = 2.28, DA/DR = 63%	8,729	2.0	5,521	1.3	3,628	0.8	2,559	0.6	6,187	1.4

Exhibit 60: Annual fiscal cost ranges from 0.4%-1.5% of GDP across our scenarios



Source: CEIC, MOFSL

The government's existing salary and pension commitment has also increased

The Centre's salary and pension expenditure has grown substantially since the 7th CPC, although its share of GDP has remained broadly contained. Pay and allowances increased from INR2.7t in FY17 to INR4.9t in FY26RE, while pension expenditure rose from INR1.2t to INR2.9t over the same period. However, pay and allowances declined from 1.8% of GDP in FY17 to 1.4% in FY26RE, while pension expenditure remained relatively stable at around 0.8–1.1% of GDP. The combined salary and pension burden consequently declined from around 2.6% of GDP in FY17 to approximately 2.2% in FY26RE.

2.9 Our assessment: A fiscal cost of INR2.4-2.8t appears reasonable

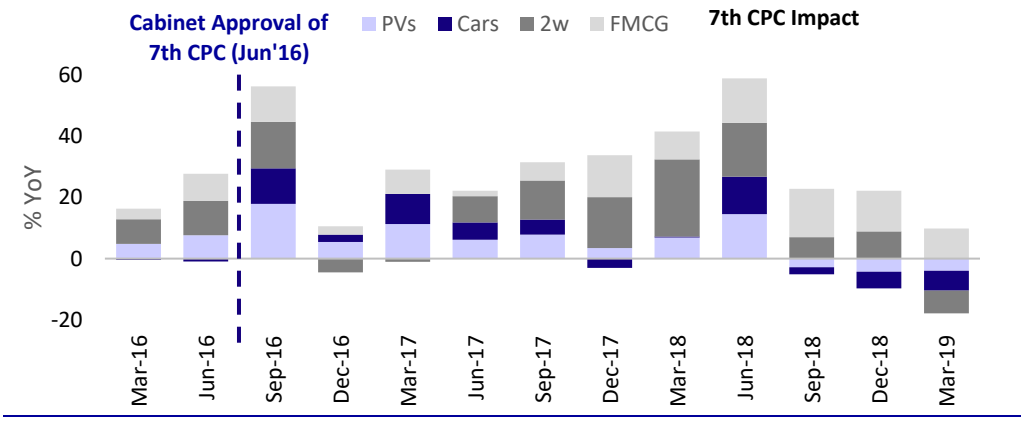
Our historical analysis suggests that the government could accommodate an additional salary and pension expenditure of around 0.5–0.6% of GDP, translating into ~INR2.2–2.6t (assuming nominal GDP growth at 13.5% in FY27 and 11% in FY28). Applying this affordability benchmark to our scenario analysis, we believe a fitment factor of 2.3–2.57x with DA/DR reset to zero, or a lower fitment factor of around 1.5x with DA/DR continuing at 63%, appears more realistic. **These combinations imply a combined annual incremental fiscal cost of approximately INR2.4–2.8t, covering both serving employees and pensioners. The corresponding first-round consumption boost is estimated at around INR1.3–1.9t**.

- Specifically, a 2.28x fitment factor with DA/DR reset would entail a fiscal cost of INR1.9t and generate consumption of INR1.3t, while the 2.57x scenario would raise these to INR2.8t and INR1.9t, respectively.
- Under the alternative assumption of 1.5x fitment with DA/DR continuing at 63%, the fiscal cost would be INR2.4t, with a consumption boost of INR1.6t. **Overall, we believe the 8th CPC could entail an annual incremental burden of around INR2.4-2.8t for the government and provide a meaningful consumption stimulus of INR1.3-1.9t, with the final outcome depending largely on the fitment factor and the treatment of DA/DR.**
- Overall, the 8th CPC could provide a timely boost to consumption when household purchasing power is under pressure, but it is unlikely to offset all the existing demand headwinds on its own. The increase in disposable income could benefit both essential and discretionary spending, with lower-income employees and pensioners likely to have a relatively higher propensity to spend their additional income.

- **The potential beneficiaries could include automobiles, consumer durables, FMCG, apparel, retail, housing-related products and services.** However, the demand impulse is unlikely to materialize uniformly or immediately. The timing will depend on the final recommendations, government approval, implementation and payment of revised salaries and pensions.

Note: All expenditure and consumption estimates are annualised modelled estimates based on the stated employee and pensioner populations, fitment factors, DA/DR assumptions and MPCs. They exclude changes in allowances, arrears and other implementation-related costs. The consumption estimates represent first-round spending responses and not the total multiplier impact on GDP.

Exhibit 61: 7th Pay Commission Impact across sectors post Cabinet Approval in June 2016



Source: CEIC, Company Updates, MOFSL

Macro outlook: Strong growth, firming INR, and an RBI on watch

1. Inflation outlook: Broadening price pressure likely to persist

We expect inflation to remain above the RBI's 6% upper tolerance threshold over the next three quarters — 3QFY27, 4QFY27 and 1QFY28 — reflecting a combination of food-supply risks and rising input-cost pressure. The risk of a stronger El Niño, with an estimated 80% probability of persistence through Mar-May'27, could keep food prices elevated, particularly given the weak monsoon, depleted reservoir levels and emerging pressures on rabi sowing. Importantly, inflationary pressure is no longer confined to food. Core inflation has also started broadening, while several companies have indicated their intention to pass on higher input costs to consumers over the coming quarters. This suggests that the second-round effects of elevated commodity and input prices could become increasingly visible in retail inflation.

We expect 3QFY27 to remain relatively resilient on the consumption front, supported by festive season demand. However, the subsequent quarters could be more challenging as higher prices are passed on to consumers, gradually eroding household purchasing power. This risk is particularly relevant for India, where a large share of consumption remains price-sensitive and lower-income households have limited buffers against persistent inflation. **We project CPI inflation at 5.3% in FY27 and 5.1% in FY28.**

2. Monetary policy: We expect three additional rate hikes

Against this backdrop, we believe the RBI's policy priorities will increasingly shift towards containing inflation expectations and preventing broader price pressure from becoming entrenched. **With headline inflation expected to remain above the upper tolerance threshold for three consecutive quarters, alongside a widening**

core inflation footprint and persistent currency-related risks, we expect the central bank to maintain its calibrated tightening bias.

We expect two additional rate hikes of 25bp during the remainder of FY27, taking the repo rate to 6.0%, followed by another 25bp hike in Apr'27, taking the rate to 6.25% in early FY28. The expected tightening cycle reflects the risk that food-price shocks could spill over into core inflation through higher input costs and price pass-through.

3. Growth to hold strong for FY27/FY28

We expect real GDP growth to remain strong at 7.5% in FY27, supported by robust momentum in 1H, government capex and resilient domestic demand. However, growth is likely to moderate in 4QFY27 and 1QFY28 as higher inflation weighs on real household incomes and discretionary spending. Corporate commentary also points to a greater pass-through of input costs, which could translate into higher consumer prices and some moderation in demand, particularly across price-sensitive categories.

The impact is likely to be more visible in mass-market consumption segments, where affordability is a key determinant of demand. While premium and urban consumption may demonstrate greater resilience, sustained inflation could gradually affect broader consumption momentum. **We, therefore, expect real GDP growth to moderate to 7.0% in FY28, reflecting the cumulative impact of elevated inflation, tighter monetary conditions and a less supportive consumption environment.**

4. Bond yields: Relief for now; upside risks in FY28

Global bond yields are likely to remain elevated amid persistent inflation concerns, expectations of tighter monetary policy and rising government financing requirements. Higher US Treasury yields and a broader risk-off environment could sustain pressure on emerging-market debt, including India.

Domestically, persistent inflation, expectations of further RBI rate hikes and tight banking system liquidity are likely to limit the downside in G-sec yields. While moderation in crude oil prices and manageable government borrowing requirements should provide some support, **we expect the 10-year benchmark G-sec yield to trade in the 7.2-7.4% range by FY27-end. A further moderation in crude oil prices towards USD80–85/bbl, accompanied by easing global yields, could support a decline toward 7.0%, while renewed inflationary pressure and tighter monetary conditions could push yields higher. For FY28, we expect the 10Y yields to move up toward 7.5-7.6%,** assuming one additional rate hike in April and liquidity remaining close to neutral to marginal surplus**.**

5. INR: A cyclical recovery in a structurally tight external position

INR's recent recovery is encouraging and suggests that the balance of flows in the currency market is beginning to turn. The nearly 3% end-period appreciation against USD in Nov'26 (as of 23 Nov), despite weakness in several Asian currencies, points to an improvement in India's relative currency dynamics. A sharp reversal in foreign portfolio flows, softer crude prices and measures by the RBI to ease dollar market tightness have collectively helped. The scale of FPI activity is noteworthy, with close to USD12b flowing into Indian equities in just 10 days. There could be further room

for portfolio reallocation, especially when viewed against the cumulative USD47b of FPI equity outflows during FY25-FY27, compared with just USD12b of inflows so far. In an earlier cycle, FPIs reversed USD17b of selling over FY22-FY23 with USD21b of purchases in FY24. While history is not necessarily a guide to the quantum or timing of future flows, it does suggest that periods of substantial selling can leave scope for meaningful reversals. As long as the current inflow momentum holds, INR should retain an appreciation bias.

More importantly, the improvement in currency sentiment should be seen as an opportunity to restore greater two-way movement in the market rather than the beginning of an uninterrupted appreciation cycle. India's underlying external position still faces challenges: the trade deficit remains sizeable, gross FDI is good but net is still weak, external borrowing has been muted, and exporter dollar supply has yet to recover meaningfully. A reversal in global risk appetite, renewed dollar strength or an oil-price shock could also alter the near-term trajectory. Overall, the near-term outlook for INR has turned constructive. The sustainability of this recovery, however, will depend on whether portfolio inflows are accompanied by a broader improvement in India's capital account and external-sector fundamentals. **Looking at the ongoing momentum, USD-INR is expected to average 94.5 in FY27 from 95.5 expected earlier. FY28 USD-INR average is expected at 95.5.**

Annexures: Estimated fiscal cost and consumption impact of the 8th CPC

Annexure A: Employee salary revision

Table A1. Distribution of central government employees and existing salary structure

Pay level	Classification	Employee strength	7th CPC basic (INR/month)	Gross salary including 63% DA (INR/month)	MPC
Level 1	Group C	12,00,000	18,000	29,340	0.85
Level 2	Group C	10,00,000	19,900	32,437	0.85
Level 3	Group C	6,00,000	21,700	35,371	0.80
Level 4	Group C	4,00,000	25,500	41,565	0.75
Level 5	Group C	2,00,000	29,200	47,596	0.75
Group C		**34,00,000**			**0.75–0.85**
Level 6	Group B	5,50,000	35,400	57,702	0.65
Level 7	Group B	3,20,000	44,900	73,187	0.60
Level 8	Group B	1,50,000	47,600	77,588	0.60
Level 9	Group B	50,000	53,100	86,553	0.55
Group B		**10,70,000**			**0.55–0.65**
Level 10	Group A	1,50,000	56,100	91,443	0.45
Level 11	Group A	1,10,000	67,700	1,10,351	0.45
Level 12	Group A	60,000	78,800	1,28,444	0.45
Level 13	Group A	40,000	1,23,100	2,00,653	0.40
Level 14	Group A	20,000	1,44,200	2,35,046	0.40
Level 15	Group A	8,000	1,82,200	2,96,986	0.35
Level 16	Group A	3,000	2,05,400	3,34,802	0.35
Level 17	Group A	800	2,25,000	3,66,750	0.35
Level 18	Group A	200	2,50,000	4,07,500	0.35
Group A		**3,92,000**			**0.35–0.45**
Total serving employees		**48,62,000**			

Table A2. Estimated salary revision for FF = 2.28 and DA reset to zero

Per employee, ₹ per month except expenditure and consumption impact

Pay level	FF 2.28: Revised basic	Monthly increment	Annual increment	Fiscal cost (INR b)	Consumption boost (INR b)
Level 1	41,040	11,700	1,40,400	168.5	143.2
Level 2	45,372	12,935	1,55,220	155.2	131.9
Level 3	49,476	14,105	1,69,260	101.6	81.2
Level 4	58,140	16,575	1,98,900	79.6	59.7
Level 5	66,576	18,980	2,27,760	45.6	34.2
Group C				**550.4**	**450.2**
Level 6	80,712	23,010	2,76,120	151.9	98.7
Level 7	1,02,372	29,185	3,50,220	112.1	67.2
Level 8	1,08,528	30,940	3,71,280	55.7	33.4
Level 9	1,21,068	34,515	4,14,180	20.7	11.4
Group B				**340.3**	**210.8**
Level 10	1,27,908	36,465	4,37,580	65.6	29.5
Level 11	1,54,356	44,005	5,28,060	58.1	26.1
Level 12	1,79,664	51,220	6,14,640	36.9	16.6
Level 13	2,80,668	80,015	9,60,180	38.4	15.4
Level 14	3,28,776	93,730	11,24,760	22.5	9.0
Level 15	4,15,416	1,18,430	14,21,160	11.4	4.0
Level 16	4,68,312	1,33,510	16,02,120	4.8	1.7
Level 17	5,13,000	1,46,250	17,55,000	1.4	0.5
Level 18	5,70,000	1,62,500	19,50,000	0.4	0.1
Group A				**239.5**	**102.9**
Total				**1,130**	**764**

Table A3. Fiscal cost and consumption impact under alternative fitment factors (INR b) – DA reset to zero

Pay level	FF 2.28 Cost	Consumption	FF 2.57 Cost	Consumption	FF 2.86 Cost	Consumption	FF 3.50 Cost	Consumption	FF 3.83 Cost	Consumption
Level 1	168.5	143.2	243.6	207.1	318.8	271.0	484.7	412.0	570.2	484.7
Level 2	155.2	131.9	224.5	190.8	293.7	249.7	446.6	379.6	525.4	446.6
Level 3	101.6	81.2	146.9	117.5	192.2	153.7	292.2	233.7	343.7	275.0
Level 4	79.6	59.7	115.1	86.3	150.6	112.9	228.9	171.7	269.3	202.0
Level 5	45.6	34.2	65.9	49.4	86.2	64.6	131.0	98.3	154.2	115.6
Group C	**550.4**	**450.2**	**795.9**	**651.1**	**1,041.5**	**852.0**	**1,583.4**	**1,295.3**	**1,862.8**	**1,523.8**
Level 6	151.9	98.7	219.6	142.8	287.4	186.8	436.9	284.0	514.0	334.1
Level 7	112.1	67.2	162.1	97.2	212.1	127.2	322.4	193.5	379.3	227.6
Level 8	55.7	33.4	80.5	48.3	105.4	63.2	160.2	96.1	188.5	113.1
Level 9	20.7	11.4	29.9	16.5	39.2	21.6	59.6	32.8	70.1	38.6
Group B	**340.3**	**210.8**	**492.2**	**304.8**	**644.0**	**398.8**	**979.1**	**606.3**	**1,151.9**	**713.3**
Level 10	65.6	29.5	94.9	42.7	124.2	55.9	188.8	85.0	222.2	100.0
Level 11	58.1	26.1	84.0	37.8	109.9	49.5	167.1	75.2	196.6	88.5
Level 12	36.9	16.6	53.3	24.0	69.8	31.4	106.1	47.7	124.8	56.2
Level 13	38.4	15.4	55.5	22.2	72.7	29.1	110.5	44.2	130.0	52.0
Level 14	22.5	9.0	32.5	13.0	42.6	17.0	64.7	25.9	76.1	30.5
Level 15	11.4	4.0	16.4	5.8	21.5	7.5	32.7	11.4	38.5	13.5
Level 16	4.8	1.7	7.0	2.4	9.1	3.2	13.8	4.8	16.3	5.7
Level 17	1.4	0.5	2.0	0.7	2.7	0.9	4.0	1.4	4.8	1.7
Level 18	0.4	0.1	0.6	0.2	0.7	0.3	1.1	0.4	1.3	0.5
Group A	**239.5**	**102.9**	**346.3**	**148.8**	**453.2**	**194.8**	**688.9**	**296.1**	**810.5**	**348.3**
Total	**1,130**	**764**	**1,634**	**1,105**	**2,139**	**1,446**	**3,251**	**2,198**	**3,825**	**2,586**

Table A4. Fiscal cost and consumption impact under alternative fitment factors – DA continuing at 63%

Pay level	FF 1.50 Cost	Consumption	FF 2.00 Cost	Consumption	FF 2.28 Cost	Consumption
Level 1	211.2	179.6	422.5	359.1	540.8	459.7
Level 2	194.6	165.4	389.2	330.9	498.2	423.5
Level 3	127.3	101.9	254.7	203.7	326.0	260.8
Level 4	99.8	74.8	199.5	149.6	255.4	191.5
Level 5	57.1	42.8	114.2	85.7	146.2	109.7
Group C	**690.1**	**564.5**	**1,380.2**	**1,129.0**	**1,766.6**	**1,445.1**
Level 6	190.4	123.8	380.8	247.5	487.5	316.9
Level 7	140.5	84.3	281.0	168.6	359.7	215.8
Level 8	69.8	41.9	139.7	83.8	178.8	107.3
Level 9	26.0	14.3	51.9	28.6	66.5	36.6
Group B	**426.7**	**264.3**	**853.5**	**528.5**	**1,092.4**	**676.5**
Level 10	82.3	37.0	164.6	74.1	210.7	94.8
Level 11	72.8	32.8	145.7	65.5	186.4	83.9
Level 12	46.2	20.8	92.5	41.6	118.4	53.3
Level 13	48.2	19.3	96.3	38.5	123.3	49.3
Level 14	28.2	11.3	56.4	22.6	72.2	28.9
Level 15	14.3	5.0	28.5	10.0	36.5	12.8
Level 16	6.0	2.1	12.1	4.2	15.4	5.4
Level 17	1.8	0.6	3.5	1.2	4.5	1.6
Level 18	0.5	0.2	1.0	0.3	1.3	0.4
Group A	**300.3**	**129.0**	**600.5**	**258.1**	**768.7**	**330.4**
Total	**1,417**	**958**	**2,834**	**1,916**	**3,628**	**2,452**

Note: DA is assumed to continue at 63% under all three fitment-factor scenarios. Fiscal cost represents annual incremental salary expenditure. Consumption boost is estimated using level-wise MPC assumptions

Annexure B: Pension revision and consumption impact

Table B1. Distribution of pensioners and existing pension structure

Pay level	Classification	Pensioner strength	7th CPC basic pension (INR/month)	Gross pension including 63% DR (INR/month)	MPC assumption
Level 1	Group C	17,00,000	9,000	14,670	0.85
Level 2	Group C	14,10,000	9,950	16,219	0.85
Level 3	Group C	8,50,000	10,850	17,686	0.80
Level 4	Group C	5,60,000	12,750	20,783	0.75
Level 5	Group C	2,90,000	14,600	23,798	0.75
Group C		**48,10,000**			**0.75–0.85**
Level 6	Group B	7,80,000	17,700	28,851	0.65
Level 7	Group B	4,50,000	22,450	36,594	0.60
Level 8	Group B	2,10,000	23,800	38,794	0.60
Level 9	Group B	71,000	26,550	43,277	0.55
Group B		**15,11,000**			**0.55–0.65**
Level 10	Group A	2,10,000	28,050	45,722	0.45
Level 11	Group A	1,55,000	33,850	55,176	0.45
Level 12	Group A	85,000	39,400	64,222	0.45
Level 13	Group A	56,000	61,550	1,00,327	0.40
Level 14	Group A	28,000	72,100	1,17,523	0.40
Level 15	Group A	11,000	91,100	1,48,493	0.35
Level 16	Group A	3,600	1,02,700	1,67,401	0.35
Level 17	Group A	1,100	1,12,500	1,83,375	0.35
Level 18	Group A	300	1,25,000	2,03,750	0.35
Group A		**5,50,000**			**0.35–0.45**
Total pensioners		**68,71,000**			

Table B2. Fiscal cost and consumption impact under alternative fitment factors (INR b) – DR reset to zero

Pay level	FF 2.28 Cost	Consumption	FF 2.57 Cost	Consumption	FF 2.86 Cost	Consumption	FF 3.50 Cost	Consumption	FF 3.83 Cost	Consumption
Level 1	119.3	101.4	172.6	146.7	225.8	192.0	343.3	291.8	403.9	343.3
Level 2	109.4	93.0	158.3	134.5	207.1	176.0	314.8	267.6	370.4	314.8
Level 3	71.9	57.5	104.0	83.2	136.1	108.9	207.0	165.6	243.5	194.8
Level 4	55.7	41.8	80.5	60.4	105.4	79.0	160.2	120.2	188.5	141.4
Level 5	33.0	24.8	47.8	35.8	62.5	46.9	95.0	71.3	111.8	83.8
Group C	**389.4**	**318.5**	**563.2**	**460.7**	**736.9**	**602.8**	**1,120.3**	**916.4**	**1,318.0**	**1,078.1**
Level 6	107.7	70.0	155.7	101.2	203.8	132.5	309.8	201.4	364.5	236.9
Level 7	78.8	47.3	114.0	68.4	149.1	89.5	226.7	136.0	266.7	160.0
Level 8	39.0	23.4	56.4	33.8	73.8	44.3	112.2	67.3	131.9	79.2
Level 9	14.7	8.1	21.3	11.7	27.8	15.3	42.3	23.3	49.8	27.4
Group B	**240.2**	**148.8**	**347.3**	**215.1**	**454.5**	**281.5**	**691.0**	**428.0**	**812.9**	**503.5**
Level 10	45.9	20.7	66.4	29.9	86.9	39.1	132.2	59.5	155.5	70.0
Level 11	40.9	18.4	59.2	26.6	77.4	34.8	117.7	53.0	138.5	62.3
Level 12	26.1	11.8	37.8	17.0	49.4	22.2	75.2	33.8	88.4	39.8
Level 13	26.9	10.8	38.9	15.6	50.9	20.3	77.3	30.9	91.0	36.4
Level 14	15.7	6.3	22.8	9.1	29.8	11.9	45.3	18.1	53.3	21.3
Level 15	7.8	2.7	11.3	4.0	14.8	5.2	22.5	7.9	26.5	9.3
Level 16	2.9	1.0	4.2	1.5	5.5	1.9	8.3	2.9	9.8	3.4
Level 17	1.0	0.3	1.4	0.5	1.8	0.6	2.8	1.0	3.3	1.1
Level 18	0.3	0.1	0.4	0.1	0.6	0.2	0.8	0.3	1.0	0.3
Group A	**167.6**	**72.1**	**242.3**	**104.2**	**317.1**	**136.4**	**482.1**	**207.4**	**567.2**	**244.0**
Total pensioners	**797**	**539**	**1,153**	**780**	**1,509**	**1,021**	**2,293**	**1,552**	**2,698**	**1,826**

Notes and assumptions:

1. Total estimated pensioner population is 68.71 lakh, comprising Group C (48.10 lakh), Group B (15.11 lakh) and Group A (5.50 lakh).
2. Existing gross pension includes 63% DR.
3. Under the revised pension structure, DR is assumed to reset to zero.
4. Revised basic pension = 7th CPC basic pension × fitment factor.
5. Monthly increment = revised basic pension − existing gross pension (including 63% DR).
6. Annual incremental expenditure = monthly increment × 12 × pensioner strength.
7. Consumption boost is estimated using differentiated MPC assumptions across pensioner pay levels.

Key takeaway: Under the DR-reset scenario, estimated annual incremental pension expenditure ranges from INR797b at a 2.28 fitment factor to INR2.70t at a 3.83 fitment factor. The corresponding consumption boost is estimated at INR539b–INR1.83t.

Table B3. Fiscal cost and consumption impact under alternative fitment factors (INR b) – DR continuing at 63%

Pay level	FF 1.50 Cost	Consumption	FF 2.00 Cost	Consumption	FF 2.28 Cost	Consumption
Level 1	149.6	127.2	299.3	254.4	383.1	325.6
Level 2	137.2	116.6	274.4	233.3	351.3	298.6
Level 3	90.2	72.2	180.4	144.3	230.9	184.7
Level 4	69.8	52.4	139.7	104.7	178.8	134.1
Level 5	41.4	31.1	82.8	62.1	106.0	79.5
Group C	**488.3**	**399.4**	**976.6**	**798.8**	**1,250.0**	**1,022.5**
Level 6	135.0	87.8	270.0	175.5	345.7	224.7
Level 7	98.8	59.3	197.6	118.6	252.9	151.8
Level 8	48.9	29.3	97.8	58.7	125.1	75.1
Level 9	18.4	10.1	36.9	20.3	47.2	26.0
Group B	**301.1**	**186.5**	**602.3**	**373.0**	**770.9**	**477.5**
Level 10	57.6	25.9	115.2	51.8	147.5	66.4
Level 11	51.3	23.1	102.6	46.2	131.4	59.1
Level 12	32.8	14.7	65.5	29.5	83.8	37.7
Level 13	33.7	13.5	67.4	27.0	86.3	34.5
Level 14	19.7	7.9	39.5	15.8	50.5	20.2
Level 15	9.8	3.4	19.6	6.9	25.1	8.8
Level 16	3.6	1.3	7.2	2.5	9.3	3.2
Level 17	1.2	0.4	2.4	0.8	3.1	1.1
Level 18	0.4	0.1	0.7	0.3	0.9	0.3
Group A	**210.1**	**90.4**	**420.2**	**180.8**	**537.9**	**231.4**
Total pensioners	**1,000**	**676**	**1,999**	**1,353**	**2,559**	**1,731**

Note: DR is assumed to continue at 63% under all fitment-factor scenarios. Fiscal cost represents annual incremental pension expenditure.; Consumption boost is estimated using differentiated MPC assumptions across pensioner pay levels.

Methodology: Revised basic pension = 7th CPC basic pension × fitment factor. Monthly increment = revised basic pension − existing gross pension (including 63% DR). Annual incremental expenditure = monthly increment × 12 × pensioner strength. Consumption boost = incremental expenditure × assumed MPC.

Annexure C: Methodology

The incremental salary and pension expenditure is calculated by comparing revised pay or pension with the existing gross amount, including 63% DA/DR.

For the DA/DR-reset scenario:

- Existing gross pay or pension = 7th CPC basic pay or pension × 1.63.
- Revised basic pay or pension = 7th CPC basic pay or pension × fitment factor.
- Monthly incremental amount = revised basic pay or pension − existing gross pay or pension.
- Annual incremental amount = monthly incremental amount × 12.
- Aggregate expenditure = annual incremental amount × employee or pensioner population.
- For the DA/DR-continuing scenario:
- Revised gross pay or pension = revised basic pay or pension × 1.63.
- Monthly incremental amount = revised gross pay or pension − existing gross pay or pension.
- Annual and aggregate expenditure are calculated using the same approach.

The consumption boost is estimated by applying a level-specific MPC to the incremental annual income. Lower levels are assigned higher MPCs, reflecting the assumption that households with lower incomes spend a larger share of additional income. Higher levels are assigned lower MPCs.

The estimated consumption boost is therefore:

Consumption boost = Incremental annual income × Assumed MPC

The model estimates a first-round spending response. It does not incorporate indirect or subsequent multiplier effects on output, employment or tax revenues.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%s
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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