

# Policy Brief—Roundtable on the 16th Finance Commission

Event Summary

Wednesday, April 8, 2026

The Centre for Social and Economic Progress (New Delhi) convened a roundtable on April 8th, 2026, to discuss the 16th Finance Commission (FC) report. The key recommendations and their implications were deliberated, with important and historical insights from the participants, while noting the justifications. Key themes discussed at the roundtable included the relevant macroeconomic framework for debt-deficit targets, revenue deficit grants, finances of the local bodies and cities, sharing of resources, and the underlying principles overall.

This brief provides a summary overview for wider dissemination of the policy discourse and insights.

- The Finance Commission’s evolving role—from ensuring equity to incentivising efficiency in state finances—and implications thereof** for fiscal conduct, independence, cooperation, and resource utilisation invited reflection. In this context, the “contribution to GDP” principle as a new determinant of inter se devolution criteria marks a further shift away from the basic role towards a ‘reward–effort’ dynamic. Some welcomed the ‘reward’ principle as satisfactory recognition of the southern states’ efforts in advancing socio-economic outcomes. A deeper view was that each FC adjusts devolution criteria, effectively realigning the rules of the game—states are rarely rewarded for their past good behaviour, while conversely, they do not respond likewise to newly added incentives at five-year intervals. For example, the perpetual playout of power sector dues continues despite non-performance and lack of reform, notwithstanding two rounds of incentives. Similarly, the debt consolidation and write-off (Debt Consolidation and Relief Facility [DCRF]) provided by the 12th FC in exchange for enacting the Fiscal Responsibility and Budget Management (FRBM) Acts by the states illustrates this pattern.
- The terms of reference—basic versus more elaborate—** had evenly divided views. The former’s simplicity was appreciated by some participants, while others noted critical exclusions, viz., wider fiscal management issues in relation to sound public finances, which have been typically assessed for consistency with a macroeconomic framework for overall stability at five-year intervals. It was noted that these had served well as benchmarks for deficits and debt over the years, while the departure from this longstanding practice particularly creates a vacuum on the macroeconomic policy radar due to the lack of any other platform or periodic review (e.g., FRBM Review Committee, 2017) and the absence of fresh/revised/amended FRBM legislation.
- Macroeconomic implications of enhanced general government deficit limit—to 6.5% of GDP—drew attention against the trend decline in total financial savings, which have been no more than 6.5% of GDP in FY23–FY25.** With domestic and external savings averaging 5.4% and 1.1%, respectively, in the period, the evident financial constraint is compounded by new questions about the sustainable current account deficit, viz., the appropriateness of the conventional threshold of 2–2.5% of GDP in light of financing difficulties for even 1% of GDP due to persistently negative capital/financial account balances. The last assessment of the macroeconomic framework (FRBM Review Committee, 2017)—which suggested an equal division of total savings (then 10% of GDP) between government and the private sector (5% each), and 2.5% each for the Union and state governments to avoid potential crowding out—surfaced in this context. A counter viewpoint noted changed macroeconomic settings from 2017–18 to the present—a surplus private corporate sector due to lack of investment—and that apprehensions of real interest rate pressures may no longer be relevant.

- **Diverse insights and perspectives illuminated the discontinuation of revenue deficit grants—a major shift in intergovernmental transfer arrangements.** *Inter alia*, the bridging role between various FC awards, which are typically backward-looking and respond to past outcomes and/or behaviour by adjusting devolution norms accordingly, subjects states to regular resource fluctuations—RDGs therefore smoothen these disruptive cycles. Their stoppage from 2026 is a more severe disturbance and likely compounds states’ fiscal stress because the resource shock coincides with revenue shortfalls from GST rate reductions (mid-2025), the end of the GST revenue-guarantee compensation cess, and post-pandemic debt consolidation pressures. An across-the-board removal amidst wide cross-state variation, and with high-frequency RDG recipients being mostly hill states, is considered disturbing by some; this is more so due to the uniform treatment of indiscipline by a few constituents.
- **The direct, centralised shift in the resource devolution mechanism to local bodies raised significant issues in light of past performance and governance structures.** *Inter alia*, the historically poor performance of State Finance Commissions (SFCs) implies insufficient autonomy, limited performance-linked funds, and ineffective utilisation, reflected in unspent funds and inadequate infrastructure. This is because of the dependence of local bodies on states for SFC constitution, the holding of elections, and capacity-building. The resources allocated are grossly inadequate, with half limited to specific areas. Rather than bypassing solutions, i.e., direct transfers, to overcome past failures or shortcomings, the deepfelt need was for genuine cooperation

through a fundamental overhaul in governance structures to alleviate constraints on autonomy, frequent bureaucratic changes, and the longstanding reluctance of state governments towards genuine decentralisation of powers and resources. Access to central funds is complicated, particularly where political consensus is elusive or, worse, where there are frictions, which dilute the effectiveness of conditional transfers. Finally, there is a need for specific redressal of regional needs, e.g., offsets for positive externalities from green cover in the Himalayan states.

- **Key insights from the roundtable are shared for policymakers’ benefit.** Although definitive conclusions were not the objective, important takeaways are as follows.
  - In conjunction with the trend decline in financial savings, the stretched pace of fiscal consolidation, with enhanced overall government deficit level (anchored on debt stock), could be unsustainable. There is an overwhelming need for fiscal belt-tightening at both levels of government, with the inevitable pain of adjustment. At the centre level, there should be room for responding to shocks; at the state level, a replay of past debt relief measures (e.g., DCRF) could transpire.
  - In this light, a detailed and consultative appraisal for legislating a fiscal consolidation framework on the lines of past FRBM would be immensely useful. The 15<sup>th</sup> FC’s suggestion of constituting a high-powered intergovernmental group (Union and states) as ‘active partners and collaborators to achieve macroeconomic stability’ ought to be considered.

All content reflects the individual views of the participants. The Centre for Social and Economic Progress (CSEP) does not hold an institutional view on any subject.

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