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## CENTRE–STATE LINKAGES AND THE DYNAMICS OF FISCAL FEDERALISM: A CASE STUDY OF ODISHA

<sup>1</sup>Sradhanjali Das and <sup>2</sup>Dr. Gayatri Kar

<sup>1</sup>PhD Research Scholar in the Department of Political Science, Rama Devi Women’s University, Bhubaneswar

<sup>2</sup>Assistant Professor in the Department of Political Science, Shailabala Women’s Autonomous College, Cuttack,

### Abstract:

Fiscal Federalism is an adaptive process in India which is mainly formed by continuous dialogue between the national government and regional aspirations. Odisha, being highly affluent with raw materials like bauxite, coal, iron ore but still the state suffers from developmental delays, extreme economic hardship and at risk of frequent natural calamities. This study examines the dynamics of fiscal federalism in India through a case study of Odisha, focusing on its fiscal dependence on central transfers and comparative fiscal capacity. The study uses secondary sources of data such as academic literatures, books, government reports and budgetary records by adopting a descriptive and analytical research design. By considering Odisha within the general discussion of Indian federalism, the paper highlights that how the centralized fiscal system, regional inequality and political negotiations influence developmental outcomes of the state. The findings of the study indicates that Odisha exhibits moderate dependence on central transfers, supported by a relatively strong own tax revenue system, reflecting partial fiscal autonomy. However, challenges remain in the form of inadequate decentralization to local bodies, persistent fiscal deficits, and rising borrowing pressures.

**Keywords:** Fiscal Federalism, Centre–State Relations, Odisha, Fiscal autonomy

### 1.Introduction

A state is known as a federal state, if there are two governments govern the affairs of the state like national government at the union level and the state governments at the regional level. India is a unified federal state, where state governments combine themselves into a single union. of India Both the governments draw their powers from the constitution. The states are not only the representatives of the federal government but are the integral part of the central government and they have no power to withdraw themselves from the centre. As prescribes by the Indian constitution, the federal structure is a part of the basic structure where the legislative, administrative and financial powers are distributed between the central and state governments. Out of this dimensions, financial relation is the most important and critical factors to run good relation between both governments. Federalism can only be successful if there will be equal and appropriate allocation of fiscal measures between the union and regional governments as well. Financial relation which is provided under article 268 to 293 part XII in the constitution of India.<sup>1</sup> In India fiscal federalism can be viewed as a contest between the central and regional governments in the areas of general public finances, politics and economics. The uneven distribution of taxation power and expenditure between the national government and state government resulting in an imbalance in the financial relations. It creates a situation where centre gets larger amount of revenue and states have the extraordinary responsibilities, as a result it is seen like vertical imbalance in the financial management. To solve this issue a Finance Commission was established by the constitution, which empowers the president to appoint it in every 5 years. This commission suggested on Fiscal devolution and aid-through grant of revenues where the Indian government always try to transfer beyond the recommendations of finance commission.<sup>2</sup> The Montagu-Chelmsford Reforms, originally recognised the financial obligation between the regional and central governments. But the 1935 act initiated the plans for financial movement between the provincial and central governments.<sup>3</sup> The role of states in maturation and fundings were expanded in the post-1991 reforms, but still faced borrowing limitations and fiscal problem. The 73<sup>rd</sup> and 74<sup>th</sup> amendment acts played as a third-tier role in governance, which further expanded fiscal federalism to the grassroot levels.<sup>4</sup> The 101st constitutional amendment act of Indian constitution in 2016 provide the provision for adding the Article 246A, which launched the GST (Goods and Service Tax) to the constitution of India. This permitted the centre to make law on Central GST (CGST) and Integrated GST (IGST) and the state government will make laws on the state related subjects (SGST). The planning



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commission was the contributory in allocating the organised fiscal aid to State Governments and the non-organised taxes provided by the Finance Commission.<sup>3</sup>

Odisha was economically a backward state during 1990s, which strongly depended on farming. The continuous natural disasters like cyclones, floods and droughts also impacted the fiscal economy of India. The substantial State's dependence on central transfers, fragile tax collection process, and growing public debt, create imbalance in fiscal sphere. Another cause was the 1999 Super Cyclone, which again evacuated the public resources. During the period of 1999-2000 the condition was heightened, where the fiscal deficit increased to 8.7% of GSDP and 47.96% of debt-to-GSDP ratio at the point of crisis due to lack of tax collection and contribution of tax income which was lower than 6% to GSDP. Since 2000s, the fiscal situation of Odisha developed by some major reforms in the fiscal sphere which enhance tax generation, secure financial prudence and make allowances for disbursement. A landmark pillar in the sphere of fiscal federalism was the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 and the reforms like implementation of VAT, then GST, and modification in the tax management system has improved the tax collection process. After the FRBM Act in 2005, Odisha realized an extraordinary success in lowering deficit in fiscal sphere and overthrow the debt-to-GSDP ratio to 20% in current time. Odisha steadily keep going its fiscal deficit beneath the target of FRBM, which manage the borrowing, decrease the financial stress and enhance fiscal resilience. The public disbursement operation has changed its eye from the stagnant to transitional expend, with considerable expenditure health, education and agriculture. PFMS and performance-based budget made the state accountable and transparent in the financial management system. These reformative acts help Odisha in achieving its targets in financial stability and the reduction of financial strains. As a result, if we see it helps in progressing Odisha in the spheres of poverty, literacy, health and the sanitation system. Despite, having all the challenges in the past, in recent time if we see, Odisha now recognised as a model for financial discipline and effective management in the administrative system.<sup>5</sup>

### 1.1 Constitutional Provisions

- **Seventh Schedule (Article 246A):** The 101<sup>st</sup> constitutional amendment Act of 2016 introduced 246A article to the Indian constitution. It empowers the centre and state legislature can make laws on GST (Goods and Service Tax). The parliament also has the unique power to legislate on inter-state GST.
- **Allocation of Taxing power:** Parliament has the power to levy tax on subjects like income tax, central excise and custom duties, while state legislatures on land revenue, sales tax, and agricultural income tax. In concurrent list there are no provision to levy tax, but with the introduction of GST by 101 amendments give power to concurrent list where both central and state legislatures make law to manage goods and service tax.
- **Distribution of Tax Revenues:** (Article 268) this article discusses about the tax collection process by the state governments but it levied by the centre. (Article 269) provides that Taxes are collected and levied by the central government but assigned to states. (Article 269-A) prescribed that the levy and collection of Goods and Service Tax in course of inter-state trade or commerce.
- **Grants-in-Aid towards the states (Article 275):** Article 275 provides the provision that parliament will decide the grants-in-aids to certain states for well-being of tribal regions.
- **Finance commission (Article 280):** Constitutes in every five years by the president of India to make recommendations in the financial matters.

### 1.2 New Developments in Fiscal Federalism

In the current periods, India's fiscal federalism is shifting towards a more dynamic direction. The reformative actions help in enhancing the financial autonomy of states and at the same time it promotes financial stability of the country. The key developments are:

- a) Niti Aayog Succeeded planning commission in 2015
- b) Implementation of Goods and Service Tax (GST), 2016
- c) Giving importance to Fiscal Decentralisation for local bodies



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## 2. Literature Review

**Reddy, Y. V., & Reddy, G. R. (2018)**, the book discuss about that Indian fiscal federalism is dynamic and continuously evolving. It explores how India survives in this changing nature and how Finance commission embraced it; and how Indian fiscal federalism continue for a long period of time. In spite of, these changes, it also discussed that centre-state relations facing numerous challenges and are at a turning point. The imbalances between centre -state can be eradicated by tax sharing or transformation of fiscal by centre.

**Reddy, Y. V. (2019)**, the paper discussed about how current developments like GST introduction, execution of 14<sup>th</sup> Finance Commission award, substitution of the planning commission with NITI Aayog have remarkably framed the Indian fiscal federalism. The paper study the issues which are open out from the developments, evaluates the new approaches recommended by the lawmakers and financial experts and also advise for synthesizing the approaches. The main argument of this paper is that though finance commission is the pillar of fiscal federalism in India, it is also the responsibility of the Finance commission to make sure that resources are sharing by fair means between centre and states.

**Datta, P. (2004)**, the paper shows that Indian fiscal federalism favours the centralised partiality, by creating vertical imbalances (centre-state) and horizontal imbalances (rich-poor states). This imbalances in centre-state relation weakens the poorer states. Like in West Bengal, where their claims of being treated unjustly shaped politics, instead of demanding they try to adjust in the existing system. To realise this completely, it needed to focus on general fiscal imbalances, regional challenges, state-specific problems.

**Oommen, M. A (2021)**, the article discussed about how local governments after having constitutional status by 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments still face the problem of having absence of real fiscal power. India's political system is like, where Local governments have lack of real powers and resources, state faced fiscal imbalances and the important thing is that the system always biased towards centre. In order to strengthen the local government, it need to have sufficient share of resources and a well-built fiscal space. So, giving equal fiscal power to local governments help citizens to acquire services no matter where they live.

**Sahu, P., & Mahamallik, M. (2020)**, this article reviews about the financial performance of Odisha by focusing on expenditure and receipt index. The study finds that cheap own tax position, weak supervision on expenditure and modest political competition are the main reason for fragile fiscal performance. Also, the centre can establish an independent body to ensure equal size of central transfers to the states.

**Kurian, N. J. (1999)**, this paper discussed about the recent declining condition in state finances. The uncontrolled expenditure, fragile revenue endeavours and revenue competitions are the main reason for shortfalls in the state finances and stress in fiscal sphere.

**Darshini, J.S., & Gayatri, K. (2024)**, this article analysed about different types of deficits and financial dependence by focusing on 14 states of India. The study finds that Tamil Nadu, UP, Karnataka and Odisha are able to reduce the basic resource gap (BRG) in recent times, Odisha showing the most sustained states among them. Despite having all the reformative actions financial dependency on central transfers remains a persistent challenge in state finances.

### 2.1. Research Gap

However, there are various existing literatures that focuses on fiscal federalism in India, or on the regional fiscal federalism in India, centre-state relations and recommendations of Finance commission in India. But there is no significant work on Odisha's fiscal federalism and how the reformative actions help Odisha's to reduce its dependence on central transforms and make it a stable financial state. So, there is a strong research gap which can be fill up by properly focusing on expenditure patterns, financial management system and on developmental outcomes of Odisha.



### 3. Research Objectives

- To examine Fiscal dependence of Odisha on central transfers.
- To compare key fiscal indicators of Odisha with selected Indian states to assess its fiscal capacity and autonomy.

### 4. Research Questions

- How Odisha depends on central transfers for its financial support?
- What do inter-state comparisons of key fiscal indicators reveal about Odisha’s fiscal capacity and autonomy?

### 5. Research Methodology

The study basically used a descriptive and analytical research design to examine the changing nature of centre- state relations and the politics of fiscal federalism in Odisha. The study used a descriptive research design because here the research will focus on the patterns of central transfers, revenue compositions and financial indicators over the period. It is also analytical in nature because it explains and interpret how resource dependence, institutional procedures and trends within the structure of fiscal federalism, which affects fiscal outcomes. The study uses secondary sources of data like government reports, books, Finance commission reports, Odisha Finance Department and Budget Documents.

### 6. Analysis and Discussion

#### a) Odisha’s Revenue Structure and Fiscal Indicators

Odisha’s fiscal system can be understood by its revenue structure, which is a combination of its states own revenue (tax and non-tax revenue) and the central transforms (states share in central taxes and grants-in-aid). Odisha’s fiscal autonomy and state’s dependence on central transforms shows the balance between them. Here, the table 1 reflect about the total composition of Odisha’s revenue structure over the periods.

**Table 1: Revenue Composition of Odisha (own vs central)**

Year	Odisha’ own revenue (in crore)	% of Total revenue	Central Transforms (in crore)	% of Total revenue	Total revenue receipt
2014-2015(BE)	27512.65	43.72%	35404.11	56.27%	62916.76
2016-2017(BE)	33022.93	42.26%	45103.78	57.73%	78126.71
2018-2019(BE)	38850.00	38.77%	61350.00	61.22%	100200.00
2020-2021(BE)	56000.00	45.05%	68300.00	54.94%	124300.00
2022-2023(BE)	94200.00	57.45%	69766.52	42.54%	163966.52
2024-2025(BE)	118000.00	55.92%	93000.00	44.07%	211000.00

**Sources: Odisha Budget at a Glance Reports**

The table 1 shows about the composition of Odisha revenue over the decades (2014-15 to 2024-25). During the period of 2014-2015, Odisha’s own revenue was ₹27,512.65 crore (43.72%) and central transfer was ₹35,404.11 crore (56.27%). This clearly shows states dependence on the centre for running its business. Though the state depends on the centre, but during



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the period of 2020-2021 we saw gradual increased in its own revenue system. The turning point in the fiscal sphere of Odisha seen during 2022-2023 period, where Odisha’s own revenue increased to ₹94,200 crore (57.45%) and central transfer decreased to 69,7666.52 (42.54%). In recent period if we see the trend is also in constant during 2024-25. The state’s own revenue is 1,18,000 crore (56.37%) and central transform is 93,000 crore (43.62%). Comprehensively, it reflects a clear picture about Odisha’s transformation from dependence on central transforms to becoming a self-reliant state through its high own revenue system. It not only reduces state dependence on centre but make Odisha an ideal autonomy state in the fiscal sphere.

### b) Comparative Perspective

Here the table discussed about comparative analysis of fiscal indicators of Odisha with other states of recent periods. This comparison not only provides state’s position in revenue size, fiscal vulnerability, shortfall levels or financial planning but also it evaluates the structural powers and liabilities with other states. The table under describes about fiscal indicators of Odisha along with Chhattisgarh and Bihar on comparative basis during 2024-2025 period.

**Table 2: Comparative Fiscal Indicators: Odisha vs Other States (2024-2025)**

Indicators	Odisha (Crore)	Chhattisgarh (Crore)	Bihar (Crore)	Average (Crore)
States Budget (Excluding debt Repayment)	2,43,908	1,47,440	2,56,333	2,15,893.66
Own Tax Revenue	60,000	49,700	54,300	54,666.66
Central Transforms	93,000	57,500	1,65,173	1,05,224.33
Fiscal Deficit % of GSDP	3.5%	3.2%	3.0%	3.23
Grants to local bodies (Local +Urban)	13,298	8569	29,560	17,142.33

### BE: Budget Estimates

**Source: PRS Legislative Research Budget Analysis report of states 2024-25 and 15<sup>th</sup> FC Reports 2021-26**

Table 2 describes here about Odisha’s fiscal lines as comparison to Chhattisgarh and Bihar during the time period of 2024-25. If we see, Odisha’s state budget was higher than Chhattisgarh and lower than Bihar. In case of Own Tax Revenue, Odisha was higher from both the states (Chhattisgarh and Bihar), which shows a greater volume of revenue mobilization of Odisha. At the same time, if we see Odisha’s dependence on central transform was moderate in form that is (₹93,000 crore). It gave a clear sign that Odisha keeps a balanced revenue structure in fiscal sphere. Odisha’s fiscal deficit was 3.5%, which was higher than the other states (Chhattisgarh and Bihar), implies expanded borrowing and probable fiscal pressure of Odisha. Though Odisha performs well in generating its own revenue resources, but its share to Local Bodies remains low than the national average and face significant challenges in maintaining the grassroot decentralisation in fiscal sphere.

### 7.Findings

- **Moderate Revenue dependence on Central Transforms**

Odisha’s revenue composition system shows that Odisha not highly dependent on the central transforms like other states. Odisha have a moderate reliance on centre for running its business, which shows Odisha’s stronger tax collection system and partial fiscal autonomy.

- **Strong Own Tax Revenue System**



Odisha upgrades its potential of generating internal resources by its own tax system as compared to other states.

- **Lack of Proper Decentralisation to Local Bodies**

There is gap between the recommended transforms to local bodies and the actual transforms by the State Finance Commission. This is the main reason of diminishing the power of local bodies.

- **Problem of Fiscal Deficit and Borrowing Patterns**

Odisha face the problem of fiscal deficit despite having growth in its own revenue generation, which reflects the borrowing constraints and enlarge debt stress.

- **Intergovernmental Transfers and Political Dimensions**

It is seen that, in practice Fiscal federalism of India is affected by political dimensions because the central transform amount is not only decided by the recommendations of Finance Commission but also dependent on the depth of centre-state relations.

## 7.1 Policy Recommendations

Odisha should diversify its revenue sources by generating its own tax, to strength its fiscal autonomy and reducing dependency on central transforms.

- Regulating the fiscal deficits by justified expenditure, well management of debt burden and giving importance to fruitful investments over revenue expenditure.
- Giving importance to fiscal decentralisation by sharing proper transfers to local bodies and enhancing autonomy for local development.
- To line up the fiscal approach with SDGs and inclusive system.

## 9. Limitations of the study

The study is limited because it based on secondary sources of data like government data and reports but lacked about local level deeper analysis. The comparative aspect of the study only focuses on few states, which is unable for proper generalization in whole India. The study here basically focuses on quantitative data, but factors that affecting the fiscal indicators need to emphasis on qualitative points like socio-economic situations, regional disparities and governance system.

## 10. Conclusion

Odisha's fiscal picture provides a paradoxical nature: on one side it improved its own resources by its strong tax collection system and fiscal stability, which helps in decreasing its dependence on central transforms. On the other side, an improper intra-state fiscal decentralisation and fiscal deficits are the main challenges to maintain a stable and long-lasting federalism. Here, Odisha undergo with both the challenges and opportunities in the federal framework system. So, a strong devolution system to local bodies, fully fiscal autonomy and expected central transform will able to attain a balanced and collaborative fiscal federalism in Odisha.

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