

# The Budgetary Conundrum of the Indian Armed Forces

## A Military Perspective

*Dheeraj Kumar Singh\* and Munish Matta\*\**

*India's defence budget is a subject of intense scrutiny and debate, drawing the attention of a diverse range of stakeholders, including economists, defence experts and policymakers. The defence budget must cater for the long-term requirements of defence forces, their equipping philosophy, modernisation requirements and the aspirations of the rank and file of the organisation. This article aims to provide a comprehensive analysis of the key aspects of defence budgeting, allocation and expenditure, with a particular focus on the perspectives of the defence establishments as the end-users of the budget.*

*The article is broadly divided into two parts. The first part examines the quantitative aspects of the defence budget, delving into the composition of the overall allocation, the relative shares of the three armed forces, and the*

---

\* Col Dheeraj Kumar Singh, VSM is an alumnus of the National Defence Academy, Defence Services Staff College and College of Defence Management. He has served as Director in ADG (Tech) in Acquisition Wing in Department of Defence, Ministry of Defence, Government of India. He is currently posted as Dy Cdr in an Bde on the Line of Control.

\*\* Brig Munish Matta is a serving army officer with 26 years of experience. The officer has varied combat experience having served in all the operational theatres over the last two decades. He is currently pursuing PhD in Organisation Behaviour & Human Resource Management (OB-HRM) from IIM Indore.

*distribution between revenue and capital expenditures. The analysis reveals that while the nominal defence budget has been increasing over the years, the share of defence spending in the central government's total expenditure has been declining, raising concerns about the adequacy of resources to meet the long-term requirements of the defence forces.*

*The second part of the article undertakes a qualitative analysis of the defence budgeting process, exploring the challenges and constraints faced by the defence establishments. These include the need to balance manpower costs with equipment procurement and modernisation, the impact of rising inflation on the purchasing power of the defence budget, and the implications of the revenue–capital expenditure mix on the overall readiness and combat effectiveness of the armed forces.*

**Keywords:** *Revenue Expenditure, Capital Outlay, Defence Modernisation*

## BACKGROUND

The priority of a nation towards its national security is reflected in the budget it allocates to its defence. The defence budget accounts for the maximum outlay of all ministries and the maximum percentage of the Central Government Expenditure (CGE) as seen over the years. Defence budget is one of the most visible and significant aspects of central government budget presentation and widely debated by economists, experts in the field of defence and strategy and defence economists.<sup>1</sup> It also remains in focus owing to the opportunity cost of defence spending on areas like development, social welfare and, ultimately, the implications of defence spending on national development, peace and security.<sup>2</sup> The allocations are dictated by the strategic security environment—security situation on the international borders, including the geo-political situation and the demands projected by the armed forces based on their perspective plans. Over the years, reports of various Finance Commissions, CAG Audit and Standing Committee of Defence have contributed towards evolving priorities and procedures in allocations and utilisation of defence budget. The dynamics of defence budgeting are crucial in determining the capabilities, preparedness and modernisation of the armed forces.

## LITERATURE REVIEW

A literature review would reveal a large number of papers on the analysis of defence budget. The literature review on the subject included 27 articles/publications from various sources, including various directories, registers,

websites, think tanks and government websites, including Stockholm International Peace Research Institute (SIPRI) and Ministry of Statistics and Programme Implementation (MOSPI). Findings of existing literature on the subject provided some interesting insights. Fourteen publications/articles were selected for in-depth research and have been referred to in this article. An article by Laxman K. Behera, published by ORF in February 2023, examines the national defence budget in terms of defence allocations, its broad allotment amongst the three services and its impact on defence modernisation.<sup>3</sup> Providing a historical perspective on the subject, Jasjit Singh, in his 2001 book titled *India's Defence Spending: Assessing Future Needs*, highlights a marked decline in allotment since the late 1980s. As per the author, the defence modernisation and preparedness were adversely impacted due to declining allotment towards defence budget and called it a major factor which encouraged Pakistan to initiate the Kargil War. In a recent paper on the subject titled 'Interim defence budget keeps spending below 2% of GDP', Ajay Shukla mentions that inadequate capital expenditure in the military domain is primarily due to a similar trend at the national level in the capital expenditure account. These papers have also been enriched by the authors' experiences over their service in various capacities, which also contributed to the research in making it a holistic review. Amongst the Indian authors, Laxman K. Behera has emerged as an important analyst and author of defence budget and defence economy related subjects and has been given due credence during the review. The existing literature is replete with thorough quantitative analysis represented in the form of figures, charts and tables extracted from the budget document itself as well as data obtained from the websites of defence-related think tanks like SIPRI, Janes and MOSPI. However, there has been limited work on the analysis of the defence budget's impact on the armed forces and on defence planning, budgeting, equipping and resource management from the perspective of the military itself.

### RESEARCH OBJECTIVE

Defence budgeting is more than an exercise in accountancy, and it must cater for the long-term requirements of defence forces, their equipping philosophy, modernisation requirements and the aspirations of the rank and file of the organisation. Defence economics must address the management of defence resources<sup>4</sup> as it has to meet the tangible and intangible requirements of the armed forces towards fulfilling the role of the latter as effective net security providers in times of national security crisis.<sup>5</sup> To that end, this article attempts

to analyse the aspects of defence budgeting, allocations and expenditures from the perspective of the defence establishments which are the end-users of the budget.

### MACRO-DRIVERS OF DEFENCE BUDGET

The defence budgeting process in India is not only complex, but is also influenced by various extraneous factors, such as the compulsions of the national economy, ministerial politics, bureaucratic procedures and the security paradigm. As per the Parliamentary Standing Committee on Defence, the current budgets are inadequate to address the modernisation requirements and sustenance of the armed forces.<sup>6</sup> The comments of various committees, commissions and statutory bodies with respect to management of defence budget and the concomitant effect on capability development are noteworthy. The Standing Committee on Defence (SCD) over a period of time has raised concerns about the inadequate allotment of the defence budget and has desired that a formal mechanism for sharing information on futuristic requirements and user perspectives be put in place, in accordance with the practices adopted by certain advanced countries. The 16<sup>th</sup> Report of the SCD also observed issues regarding synergy between the Ministry of Finance and the Ministry of Defence in the allocation and planning of the defence budget and the mismatch between projections and allocations. It expressed concern over the shortage in allocation to meet committed liabilities expenditure, which has been a recurring phenomenon. The Ministry's inability to spend the allocated budget, particularly for capital acquisition, citing procedural constraints, has been repeatedly under the scanner of Parliamentary Committees and the Public Accounts Committees. Various Committees have also emphasised the need for an outcome orientation of the defence budget and proposed the creation of a nonlapsable fund to address this recurring phenomenon of surrender of capital funds.<sup>7</sup> This would ensure that defence procurement can be carried out without having to rely on supplementary or additional grants. The SCD (2018) had recommended that the Ministry of Defence should be allocated a fixed budget of about 3 per cent of GDP to ensure adequate preparedness of the armed forces. However, over the last decade, India's spending on defence has been consistently lower than this recommended level. Some of the key macro-drivers that influence the defence budgeting are listed below:

- *Competing resource requirements of various ministries and sectors:* The armed forces have to vie for allocation of resources along with ministries

like food, Agriculture, Health, Education, etc. This competition for resources between the defence sector and other critical national priorities, such as social development, infrastructure and economic growth, often results in the defence sector's budgetary demands being overshadowed or constrained.<sup>8</sup>

- *Fiscal constraints and the trend of declining defence expenditure:* There has been a consistent decline in the share of defence expenditure as a percentage of GDP from around 3.5 per cent in the 1960s to around 2 per cent currently. This has led to a situation where the rising equipment and manpower costs are not matched by a corresponding increase in the budgetary allocation, resulting in critical capability gaps.

### ANALYSIS OF DEFENCE OUTLAYS

The defence ministry's demand for grant for a financial year, commonly called as the defence budget, is the fund allocation towards the three defence services, viz. Army, Navy and Air Force, along with the spending towards Border Roads Organisation (DGBR) and Defence Research & Development (R&D). The spending towards the three services can be broadly divided under the categories of modernisation of the armed forces through new induction of equipment, maintenance of existing equipment, including transport fleet, expenditure on salaries of the serving armed forces personnel and civilians, pensions for the ex-servicemen community and spending on research and development. The budget for FY 2025–26 allocated a sum of Rs 6,81,210 crore for defence. This was an increase of 9.53 per cent from the previous year and is touted to take care of major acquisitions planned in the ensuing FY and bolster jointness and integration initiatives. The budget document also mentioned that the 'capital investment in the defence manufacturing sector has a cascading and multiplier effect on the national economy, which will boost the GDP and provide greater job opportunities to the youth'. Defence allocation forms 13.45 per cent of the Union Budget and is the highest amongst all ministries. The defence budget has remained under 14 per cent for the past five years.

As evident from Table 1, the top 13 ministries in terms of allocations account for 53 per cent of the estimated total expenditure. Of these, the Ministry of Defence has the highest allocation in 2025–26, at Rs 6,81,210 crore, accounting for 13.4 per cent of the total budgeted expenditure of the central government. Other ministries with high allocations include Road Transport and Highways (5.7% of total expenditure), Railways

(5.0%) and Consumer Affairs, Food and Public Distribution (4.3%). The Ministry of Defence is more than double the next highest allottee, that is, the Ministry of Railways. While the defence budget is notable for being the largest share of the CGE compared to other ministries, increase in the budgets of several other ministries surpass that of the Ministry of Defence (MoD).

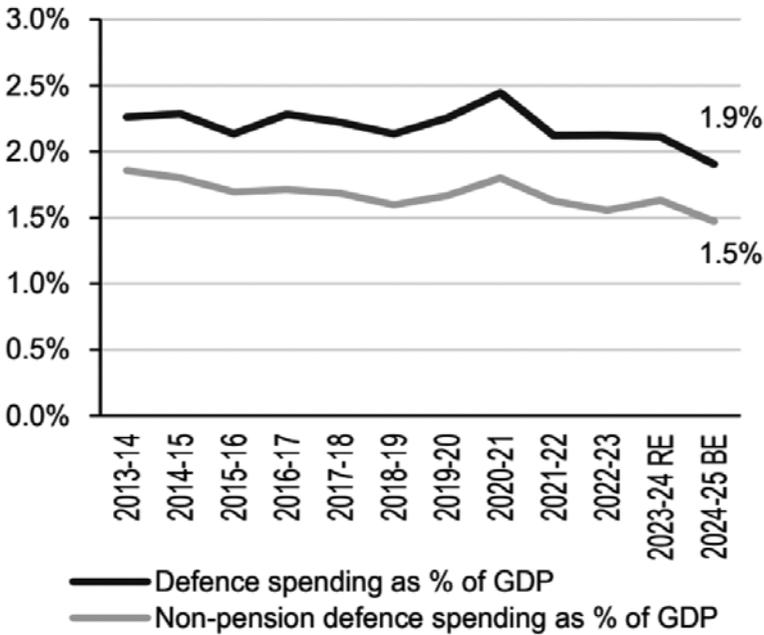
**Table I** Ministry-wise expenditure in 2025–26 (Rs crores)

	Actuals 2023-24	Budgeted 2024-25	Revised 2024-25	Budgeted 2025-26	% change (2024-25 RE to 2025-26 BE)
Defence	6,09,504	6,21,941	6,41,060	6,81,210	6.3%
Road Transport and Highways	2,75,986	2,78,000	2,80,519	2,87,333	2.4%
Railways	2,45,791	2,55,393	2,55,348	2,55,445	0.0%
Home Affairs	1,96,872	2,19,643	2,20,371	2,33,211	5.8%
Consumer Affairs, Food and Public Distribution	2,32,496	2,23,323	2,12,820	2,15,767	1.4%
Rural Development	1,63,642	1,80,233	1,75,878	1,90,406	8.3%
Chemicals and Fertilisers	1,91,165	1,68,500	1,86,653	1,61,965	-13.2%
Agriculture and Farmers' Welfare	1,18,147	1,32,470	1,41,352	1,37,757	-2.5%
Education	1,23,365	1,20,628	1,14,054	1,28,650	12.8%
Communications	1,11,339	1,37,294	1,50,201	1,08,105	-28.0%
Health and Family Welfare	83,149	90,959	89,974	99,859	11.0%
Jai Shakti	95,109	98,714	51,558	99,503	93.0%
Housing and Urban Affairs	68,565	82,577	63,670	96,777	52.0%
Other Ministries	19,28,316	22,10,838	21,33,030	23,69,358	11.1%
<b>Total Expenditure</b>	<b>44,43,447</b>	<b>48,20,512</b>	<b>47,16,487</b>	<b>50,65,345</b>	<b>7.4%</b>

Source: Expenditure Budget, Union Budget 2025–26; PRS, 1 February 2025.

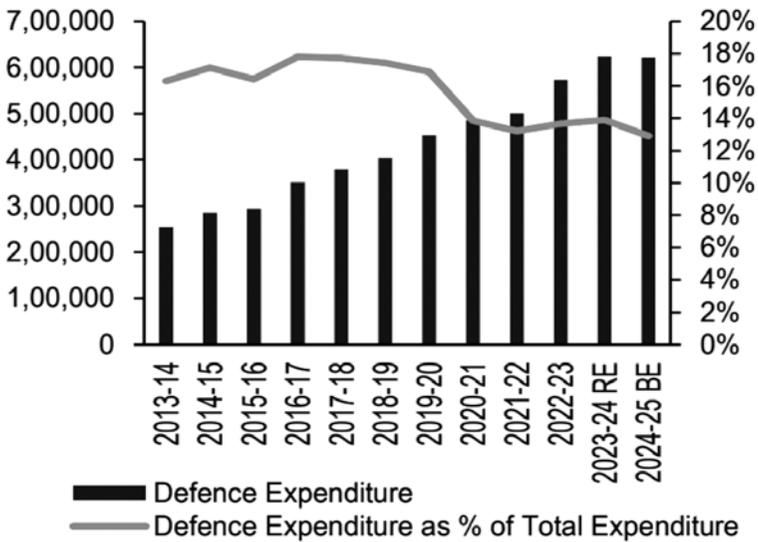
### DECLINING SHARE OF DEFENCE BUDGET

In 2014, the SCD recommended that 3 per cent of GDP be allocated to the MoD to ensure sufficient defence preparedness.<sup>9</sup> Unfortunately, the actual allocation has consistently fallen short of global standards and SCD guidelines. Over the past decade, India has allocated considerably less to its defence budget than recommended (Figure 1). For instance, in the 2023–24 fiscal year, the defence budget represented less than 2 per cent of GDP,<sup>10</sup> which is 1.91 per cent of the GDP in the current year, that is, FY 2025–26. Even this percentage has been steadily declining, the economy and budget allocations have also been rising. Defence was 2.4 per cent of the GDP in 2020–21, 2.1 per cent in 2022–23, 1.98 per cent in 2023–24 year, and now 1.91 per cent. While the overall allocation has grown by 9.53 per cent, however, when compared to the GDP, defence allocation has dropped by 0.07 per cent. The constant demand of the armed forces has been at least 2.5–3 per cent, however, this remains a pipe-dream.



**Figure 1** Defence Spending (2013–14 to 2024–25 BE)

This study of defence budget is also relevant as the Indian economy contracted by 6.6 per cent in 2020–21 due to the catastrophic impact of the COVID-19 pandemic and prolonged lockdown. The recovery soon followed in the following year with a GDP growth of 8.7 per cent. At present, India is the fastest major economy with a projected growth for the financial year 2024–25 at 6.6 per cent and for 2025–26 at 6.80 per cent. On the other hand, the global economy has been impacted by the Russia–Ukraine war, which was followed by the Israel–Hamas conflict. These military campaigns had global impacts due to major players like the US, China and the oil-rich nations of the Islamic World having their national interests aligned with the states involved in these conflicts. Given that India is currently the fastest-growing major economy, with projections of 6.8 per cent growth for the financial year 2023–24 and 7.0 per cent for 2024–25, the reduction in defence spending warrants re-evaluation. In absolute terms, India ranks among the top three military spenders globally; however, the proportion of defence spending relative to the overall national budget has decreased steadily.



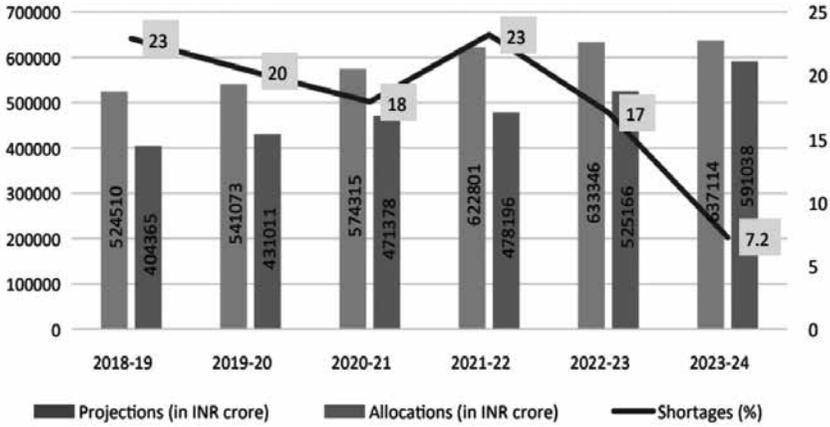
**Figure 2** Defence Expenditure (2013–14 to 2024–25 BE)

The defence budget as a percentage of CGE fell from 17.8 per cent in 2013–14 to 13.2 per cent in 2023–24. During the same period from 2013 to 2023, CGE has grown at an annual rate of 11 per cent. Despite being the largest recipient of CGE, the defence budget allocation as a percentage of GDP remains below global norms, highlighting a disparity between the recommended and the actual funding. Over the past decade, the trend has consistently shown that defence spending lags behind the proposed benchmarks set by the SCD.<sup>11</sup> While India has consistently maintained a high level of absolute military spending, the relative share of the defence budget in the national budget has been declining, when viewed in terms of share of the overall national budget, necessitating further scrutiny and reassessment of fiscal priorities. In recent years, the central government’s expenditure on defence has decreased as a share of its total expenditure. In 2014–15, the Centre spent 17.1 per cent of its total expenditure on defence. This increased to 17.8 per cent in 2016–17. However, since then, the share of defence in total central government expenditure has steadily decreased. In 2024–25, the Centre is estimated to spend 12.9 per cent of its total expenditure on defence, as compared to 13.9 per cent at the revised estimate stage in 2023–24. The Standing Committee on Defence (2023) had observed that most of India’s defence purchases are transacted in dollars. It recommended that the

depreciation of the rupee against the dollar and the inflation rate should be considered while allocating funds for the defence services.

### **Demand–Allocation Gap**

The budget allocated to MoD each year is determined based on various needs of the forces, such as acquisition of weaponry and the payment of salaries and pensions. There has been a yawning gap between the demands of the defence establishment and the defence outlays over the years. For instance, in 2022–23, the amount allocated to the armed forces was 28 per cent lower than what was sought by the forces as part of their projected needs.<sup>12</sup> Between 2016 and 2023, the unmet demand by the services/departments varies between Rs 5,880 crores and Rs 26,150.7 crores, which is nearly 6–27 per cent of the total projected demands.<sup>13</sup> The shortfall on the revenue side ranges between 4 per cent and 13 per cent of the projected amount, and that on the capital side varies from as low as 6.9 per cent to over 49 per cent of the budgetary projections. When this trend continues for successive years, the cumulative effect of this shortfall can have serious repercussions on defence preparedness. This problem of demand–allocation gap has been highlighted by the MoD in various forms to the Finance Commission<sup>14</sup>. The Ministry has placed on record its concern regarding inability of the defence forces to implement big-ticket projects due to lack of funds, particularly the expenditure towards Capital Outlay which as per some estimates is in a deficit of almost 48 per cent. Based on the concerns of the MoD, the 15th Finance Commission recommended that the Government of India can consider creation of a separate fund for the purpose of modernisation and bridging the demand–allocation gap, called as Modernisation Fund for Defence and Internal Security (MFDIS). As per the Finance Commission recommendations, this fund should be non-lapsable and should be utilised for capital investment for modernisation of defence services, Central Armed Police Forces (CAPF) and State Police Forces. This fund is recommended to be sourced from the Consolidated Fund of India, disinvestment from public sector units and monetisation of surplus defence land. For the period 2021–26, the Finance Commission calculated the size of MFDIS as 2.38 lac crores. However, the debate on the subject has remained inconclusive over the last three years due to certain objections from the Ministry of Finance related to the funding pattern of the fund, and a suitable mechanism for operationalising the MFDIS is being worked out in consultation with the Ministry of Finance.



**Figure 3** Shortfall in Budgetary Allocations

Source: Standing Committee on Defence, Demands for Grants 2023–24

### Neighbourhood Comparison

As per US government estimates, NATO members should be expending 5 per cent of their GDP on defence to ensure the creation of requisite capabilities. The US spends about 3.5 per cent of its GDP, which is much higher than India, while China ‘officially’ spends 1.8 per cent of its GDP on defence. It needs to be noted that China’s GDP is five times India’s. What is missing in Chinese figures is dual-use investments in civil and military technologies, as well as the creation of strategic infrastructure. As per SIPRI, the global average is around 1.8 per cent of the GDP. There is no doubt that each nation has its own threats as well as internal development requirements. While the US seeks to maintain a global military edge and China concentrates towards matching the US in military capabilities and regaining Taiwan, India’s social and infrastructure development needs are high. Simultaneously, unless a nation is secure, internally and externally, it cannot attract investments. Balancing these needs is the task of the government. However, marginalising defence expenditure opens doors for increased threats as the nation lacks capabilities to counter them.

India is geo-strategically located with China to its north and east and Pakistan to its west. This geographic disposition of India, with two nuclear states as its neighbours, brings along unique security complexities and challenges that necessitate robust defence preparedness. The allotment of defence budget has to cater for security concerns that flow out from the two

adversaries on the national border, besides the maritime security requirements in the Indian Ocean Region and the Indo-Pacific region.<sup>15</sup>

**Table 2** Top military spenders in 2023 and Pakistan

Country	Expenditure (USD billion)	Expenditure (% of GDP)
US	916	3.4%
China	296	1.7%
Russia	109	5.9%
India	84	2.4%
Saudi Arabia	76	7.1%
Pakistan	9	2.8%

Source: SIPRI Military Expenditure Database; PRS.

Note: India's military spending includes expenditure on paramilitary forces.

### *China*

China has established itself as a global superpower over the last two decades. Its meteoric rise in the 21<sup>st</sup> century has been astonishing with growing GDP, per capita income and military spending. The unresolved Sino-Indian border dispute further complicates the bilateral relationship. The direct effect of this border dispute is on the defence preparedness and defence spending. In terms of military spending, in the year 2022, the United States (39 per cent) and China (13 per cent) remained the two largest spenders on defence-related expenditures. In comparison, India (3.6 per cent) has been the 4<sup>th</sup> largest spender, and its spending is almost one-fourth of that of China.<sup>16</sup> As per SIPRI, China allotted approximately US\$ 292 billion as part of its defence budget in 2022, which was an increase of 4.2 per cent compared to the allotment made in 2021–22. China has increased its defence expenditure for the last 28 years consecutively, which is the largest period of growth in terms of defence spending for any nation worldwide. As per the guiding principles set out in the 14<sup>th</sup> five-year plan (2021–26), which was reaffirmed in the 20<sup>th</sup> Communist Party Congress in October 2022, China has been focusing on emerging military technologies and strengthening its defence-related industrial base with renewed focus on the application of Artificial Intelligence (AI). This uninterrupted growth in defence budget allocation

over a sustained period of time has enabled Beijing to enhance its military capability. China has mastered niche technologies like Inter-Continental Ballistic Missile (ICBM), nuclear-powered submarine, and anti-satellite (ASAT) weapon systems.<sup>17</sup>

### *Pakistan*

As per the details available, Pakistan's defence budget for the year 2023–24 is 1.80 trillion PKR or US\$ 6.27 billion. Comparing with the previous year, the defence budget has increased by 19.5 per cent over the revised allocation for 2022–23, which was 1.51 trillion PKR.<sup>18</sup> The increase of 19.5 per cent appears to be high; however, it gets compensated due to high inflation, devaluation of local currency and diminishing foreign exchange reserves. During the current financial year, the expected rate of inflation is in excess of 20 per cent, and hence a growth of 19.5 per cent in the defence budget is understandable. In line with the allotment of the last few years, Pakistan Army has been allotted a major share of the budgetary allocation, with almost 46 per cent of the allotment. Pakistan Air Force and Navy have been allocated approximately 20.5 per cent and 10.5 per cent, respectively. Although the budgetary support has been constrained, Pakistan's armed forces have managed to continue with its force modernisation plan mainly due to the support received from China, Pakistan's biggest defence supplier.<sup>19</sup>

### **Systemic Challenges**

The Standing Committee on Defence (2018) highlighted that a modern military should maintain a balanced inventory, with one-third of its equipment classified as vintage, one-third as current, and one-third as state-of-the-art. However, the Indian Army's inventory is skewed, with 68 per cent of its equipment falling in the vintage category, 24 per cent in the current category, and only 8 per cent classified as state-of-the-art. The Committee also noted a substantial deficiency in weapons, stores and ammunition, attributing this to inadequate policy focus and insufficient budget allocations for modernisation.<sup>20</sup> Similarly, the Comptroller and Auditor General (CAG, 2019) observed that the Indian Air Force's (IAF) existing acquisition system was inadequate to ensure operational preparedness and recommended structural reforms in the procurement process.<sup>21</sup> In a memorandum to the 15<sup>th</sup> Finance Commission, the MoD highlighted the growing financial strain on defence acquisitions and sought alternative funding mechanisms, emphasising that budgetary allocations have been declining and are insufficient for major procurements.<sup>22</sup>

To address these challenges, the SCD (2022) recommended that Defence Public Sector Undertakings (DPSUs), the Defence Research and Development Organisation (DRDO), and private industries collaborate to develop indigenous alternatives to imports while expanding export potential.<sup>23</sup> The Estimates Committee (2018) also warned that India's heavy reliance on foreign suppliers for military hardware compromises national security, as critical weapons and spare parts may become unavailable during emergencies. In response, the government has been actively promoting a self-reliant and export-oriented defence manufacturing ecosystem. However, bureaucratic bottlenecks, procedural inefficiencies and financial mismanagement continue to hinder timely fund utilisation and slow down modernisation efforts. Addressing these systemic issues remains crucial for achieving long-term defence preparedness and self-sufficiency.

#### BEYOND THE NUMBERS—SECURITY *VERSUS* FINANCIAL CONSIDERATIONS (QUALITATIVE ANALYSIS)

##### **Affordability and Adequacy of Defence Budget**

An increase of almost 13 per cent in the defence budget is noteworthy but may still not be adequate to meet the demands, considering the defence modernisation plans. Existing shortages also necessitate that additional allotment be made in the defence allocation. The strong performance of the GDP over the years means an enhancement of the country's economic ability to afford more on various sectors, including defence.<sup>24</sup> However, the defence sector, which earlier received a larger share of the national resources, is now receiving a declining share, and is consequently more affordable, in the relative terms. The faster growth of both central government expenditure and total 'general government' expenditure compared to defence expenditure suggests that despite the increased level of defence spending, the government has been able to spend more on non-defence sectors. In other words, defence, from the resource allocation point of view, has remained within the affordable limit, in the sense that it has not hampered the growth prospects of the economy. While the robust growth of the GDP and the consequent rise of government revenues have significantly enhanced the country's spending ability, the decreasing share of defence in these resources indicates that the burden of defence has reduced significantly.<sup>25</sup>

Considering the declining share of defence budget *vis-à-vis* GDP growth, the present allocation is a matter of concern, considering the terminal

objectives in terms of defence preparedness. Some of the factors which need to be considered while analysing the defence budget in terms of its affordability/adequacy are listed below:

- Geo-strategic realities faced by the nation.
- Bilateral relationship in the immediate neighbourhood, especially with adversaries.
- Overall economic condition and futuristic trends.
- Prioritisation of national objectives.
- Overall human development index and living conditions for the population.<sup>26</sup>

### DEFENCE BUDGET AND NATIONAL ECONOMY

The opportunity cost of defence expenditure must also be seen in terms of the other spin-offs and boost that it gives to the national economy. It is a well-established fact that a large portion of the government's public expenditure gets ploughed back into the economy and contributes further to the GDP.<sup>27</sup> The defence expenditure is not strictly a non-development expenditure. It contributes immensely towards research and development and industrial development of the nation.<sup>28</sup> It contributes immensely to nation-building by way of a community of vibrant, educated, disciplined and skilled citizens who continue to provide their services in all departments and establishments even after retirement. Most of the security agencies across the country, including corporate bodies and government establishments, are being run by retired soldiers, contributing to the overall economic growth. The National Cadet Corps, which is inspired and run by the armed forces, is a live example of the way the defence budget is contributing towards nation-building and ensuring a disciplined youth and national character. The growth and development of private sector indigeneous defence industry and DPSUs are not only contributing to self-reliance and independence in sourcing defence equipment and weapons, but they also contribute to the national economy.

### ARMED FORCES' EXPECTATIONS FROM THE BUDGET

The situation on the ground remains challenging from the armed forces' perspective, in spite of a consistent increase in the defence budget every year and the defence expenditure pegged at 9.5 per cent to 13 per cent of the CGE. The size of defence budget continues to remain below the optimum 3

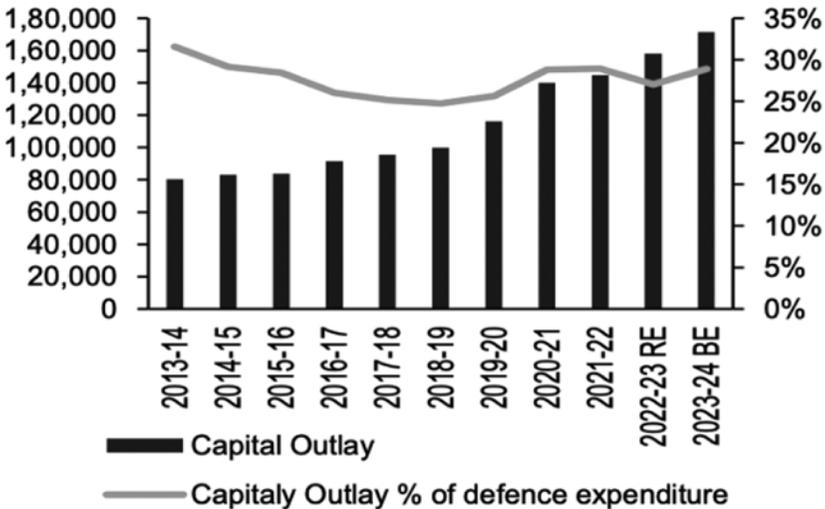
per cent of the GDP.<sup>29</sup> The allocations have been consistently lagging behind the projected requirements for modernisation and for equipping the forces. The inability to spend the capital budget and surrendering a large chunk of it towards the end of financial year cycle, has only spurred the forces to tone down their projections within the spendable limits.<sup>30</sup> This ploy to achieve the dubious distinction of showing 100 per cent expenditure on the account books has itself been ironically eluding the budget holders of the capital budget. In the absence of an outcome and programme-based budgeting, the performance of defence budget is extremely difficult to quantify. Getting an overall picture of budget in financial/physical terms is a subjective exercise, and determination of actual performance is not easy.<sup>31</sup> This requires a lot of derivation, collation of data/information and enormous effort on the part of the ministries/services/departments. It is, therefore, not feasible to gauge the outcome intended from the money spent on various items of expenditure related to defence. Notwithstanding the above, the ultimate outcome of defence budget, that is, national security, is assured in short-term by the armed forces and other instruments of the State, an outcome independent of the defence budget. This is exactly what was echoed in the statement of General VP Malik, the then Chief of the Army Staff, during the Kargil War (1999) “we will fight with what we have” and the armed forces did fight with what they had; the rest is, as they say, History.

### CAPITAL–REVENUE DEBATE

The capital budget is allocated for acquiring new equipment, enhancing capabilities, and for modernising the forces, whereas the revenue budget is designated for sustaining existing platforms and capabilities. Unlike other government ministries, the armed forces do not generate direct revenue, leading to a perception that the defence revenue budget—including salaries and pensions—is disproportionately high. It is essential to recognise that a substantial portion of revenue expenditure is directed towards sustaining and recouping existing inventory, which indirectly contributes to capability development and modernisation.

The distribution of capital–revenue expenditure varies between the three services with Army spending much more on revenue, compared to Air Force and Navy. The revenue–capital ratio in the Defence Budget 2023–24 displays a contrasting trend with revenue-heavy utilisation by Army (83:17) and capital-heavy utilisation for Navy (38:62) and Air Force (43:57). Air Force and the Navy have got a higher percentage of capital expenditure in

comparison to the Army due to their high-tech and equipment-intensive profile and big-ticket platforms. The higher number of service personnel, leading to a higher number of ex-servicemen for Army, results in huge volumes of budget allocation getting diverted towards salaries and pensions.<sup>32</sup> Higher life expectancy has further compounded the situation with a greater number of pensioners with longer lifespan.<sup>33</sup> This trend has resulted in a steady decline in capital outlay, particularly in case of Indian Army.<sup>34</sup> The percentage of capital outlay in 2013–14 was 32 per cent, which has now declined to 29 per cent in the current financial year. As per the recommendations of the Standing Committee on Defence in 2021, the ideal ratio of revenue–capital expenditure should be 60:40. If we compare these figures with the present figures, they are far from the desired numbers. However, the distinction between revenue and capital components of the budget and the corresponding expenditures is another complex issue that needs more than an economist or a bureaucrat to comprehend.



**Figure 4** Expenditure on Capital Outlay (in crores) for the period 2013–2023

As per the Government of India General Financial Rules (GFR) definition, capital refers to tangible assets of permanent nature or enhancing the utility of existing assets, whereas revenue refers to charges on maintenance, repair, upkeep and working expenses, as also day-to-day running and administrative

expenses. Revenue also includes all charges for further improvements, additions, renewals, replacements and additions to the existing equipment acquired out of capital budget. However, in practice, capital assets in many cases are being procured out of revenue head. In the recent past, revenue budget came under severe strain when the government, advised by economic experts, instructed to reduce the revenue expenditure and increase the capital expenditure with the ultimate aim of achieving an optimal ratio of 50: 50 between both types of budget heads. Presumably, an increase in the capital expenditure and a marked reduction in the revenue expenditure would ideally reflect the rapid pace of modernisation in the armed forces. Paradoxically, this was done without realising the ground realities wherein the revenue budget was being utilised for maintenance and upkeep of vintage equipment and purchases like ammunition and other items of capital nature through revenue route. The ratio of revenue expenditure to capital expenditure during the last decade and many years before has been in the ratio of 70:30. Due to the capital budget remaining stagnant in last few years, the endeavour to increase the ratio of capital to revenue has further strained the revenue budget, which remains the primary driver of defence capability and upkeep of forces, particularly the Army. The prolonged delays and long gestation period of capital acquisitions severely hampers the capability development perspective plans of the services. In such a scenario, the primary onus of maintaining and sustaining the forces falls back to the revenue procurements. Therefore, the plans to reduce revenue: expenditure would severely hamper the current defence preparedness.

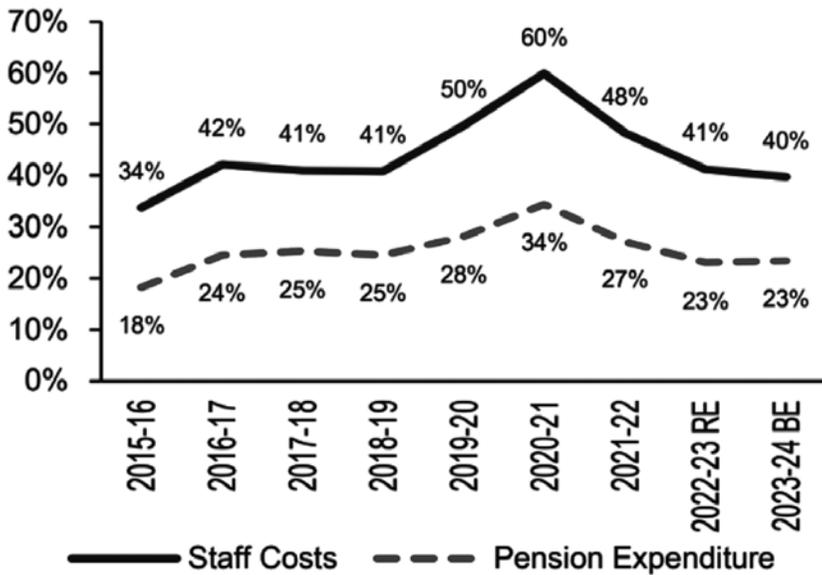
The armed forces have been under considerable pressure to reduce the so-called excessive revenue expenditure, prompting the Army to rigorously optimise its budget and to squeeze out every penny out of an already stressed revenue budget of a 1.6 million strong military. By all indications, it would not be out of place to hypothesise that the allocations to the armed forces are the most frugally spent and well-managed financial assets in the country, given the culture of probity and uprightness in the armed forces. However, soon it was realised that the revenue budget of the armed forces, particularly the Army, is the mainstay of the existing capability as it is being used to keep all the vintage equipment running through upgrades, overhauls and life extensions.

The inability to spend the capital budget due to complex procedures and lack of indigenous capability of the defence industry to meet the demands of the forces has left the onus of current operational readiness on the revenue

budget. The entire system of less-than-optimal allocations, inability to spend capital budget, lack of modernisation, dependence on vintage equipment and dependence on revenue budget form a vicious loop, which has compromised the operational readiness on our active and contested borders on the west and north.

### SALARIES AND PENSIONS

Nowhere else is the misrepresentation of revenue expenses as stark as in the domain of salaries and pensions of the armed forces personnel (salaries include salaries for civilians and auxiliary forces). A major part of the defence budget comprises salaries and pensions, with its share at 52 per cent. Among the minor heads under revenue expenditure, pay and allowances and stores of the three services account for nearly 75–80 per cent of total revenue expenditure.<sup>35</sup> During the last 10 years, the expenditure on pensions has increased at an annual rate of 12 per cent, which is higher than the annual growth rate of CGE, which has grown at 9 per cent. An analysis of inter-service resource allocation reveals that while the Army spends the highest percentage of its revenue expenditure on pay and allowances, the Navy and the Air Force spend most on stores. Being the third-largest standing Army in the world, with vintage equipment and manpower-intensive operations along contested and held borders of 7,800 kilometres, the share of salaries in the revenue budget is expected to be high. A closer look at other ministries' expenses reveals a similar or more stark bias towards expenses on salaries and pensions (although no separate budget head has been allocated for salaries and pensions). For example, the Committee on Restructuring Railways (2015) had observed that the railways' expenditure on staff is extremely high and unmanageable<sup>36</sup> and employee costs (including pensions) is one of the key components that reduces railways' ability to generate surplus, and allocate resources towards operations.<sup>37</sup> The spending towards salaries and pensions as a percentage of revenue receipts has ranged between 63 per cent to 75 per cent.<sup>38</sup> The Standing Committee on Railways (2020) noted that the new pension scheme implemented in 2004 to reduce the pension bill will show results only around 2034–35. The Standing Committee (2022) recommended that the central government should consider providing support for pension expenditure from general revenue till 2034–35. The per capita expenditure on salaries and pensions of defence personnel would be the least, as compared to other government services.



**Figure 5** Expenditure on salaries and pension as % of revenue receipts  
 Source: Union Budget Documents of various years; PRS.

The policy of retaining pension provision for soldiers is a matter of larger government policy. With an increase in life expectancy of the population and improvement in the standard of living, the increase in the pensions budget is a natural fallout. The analysis that ‘substantial expenditure on salaries and pension leaves little room for spending on modernisation’ cannot be farther from the truth. The salaries and pensions are an integral part of the capability of the armed forces, as are the equipment and platforms, and, therefore, it should not be viewed as a liability. After all, the armed forces are also providing gainful employment to 1.4 million people and livelihood to three million veterans and their families. The salaries and pensions of the services personnel provide a skilled workforce to the nation who contribute significantly to the economy, industrial workforce and in nation-building. Although there is no data at present, it would be noteworthy to calculate salaries and pensions of soldiers on a per capita basis *vis-à-vis* personnel in other ministries of the government. Such data, when adjusted for the remoteness and challenges of terrain, weather, and hardships, would be the ideal yardstick to gauge the salaries and pensions budget of the armed forces. It may also be noted that the increase in pension budgets due to One Rank, One Pension (OROP) is only

a correction of a long-pending anomaly, and burden on account of arrears is a one-time case.

### AGNIVEER SCHEME OF RECRUITMENT

The Agniveer recruitment scheme was introduced primarily in response to growing financial pressures, particularly rising manpower costs.<sup>39</sup> The 12th Finance Commission highlighted the growing pension liabilities and the need to implement measures to reduce the pension burden. The Kargil Review Committee (1999) recommended a reduction in colour service (pensionable service) to keep the Army young and fit, which was further reinforced by the Group of Ministers on National Security (2001), which advocated for a younger force profile and releasing personnel to CAPFs and PMFs. The latter also recognised the need to improve the 'teeth to tail ratio' by cutting non-combat and administrative manpower to enhance combat effectiveness and optimise human resources. The current 'Agnipath' scheme was supposedly meant to implement the above recommendations of various studies by introducing short-term service tenure for soldiers, thereby reducing long-term pension liabilities. While 'Agnipath' may help curb pension costs in the long run, it is crucial to evaluate the scheme's sustainability. Rather than implementing ad hoc measures aimed purely at reducing revenue expenditure, the MoD must undertake comprehensive human resource (HR) reforms.<sup>40</sup> In the absence of such broad-based holistic HR reforms, the Agnipath initiative is being seen by some critics through the prism of mere cost-cutting measures to the long-term detriment of morale of the defence forces. The fact remains that India, as an emerging power in Indo-Pacific with two major belligerent neighbours and growing security requirements, is barely able to manage its requirements with a budgetary allocation of a mere 2.1 per cent of GDP. An increase in defence spending to 3 per cent of GDP would help bridge gaps in modernisation and capability development requirements. Additionally, the government must remain flexible in policy implementation, willing to modify or even roll-back initiatives if they fail to yield optimal results in the national security arena.

### CONCLUSION

The ever-increasing revenue burden on account of not just manpower costs (pay, allowances and pensions), but also committed liabilities (replacement and maintenance of acquired equipment and systems) has severely constrained

the financial resources available for modernisation and capital acquisition. Adopting innovative and out-of-the-box solutions has its limitations in terms of the desired impact and the collateral damage to the national security requirements. In order to find a way ahead to ensure modernisation and capability development of the defence forces while maintaining a sound human resource perspective, in tune with economic growth and societal developments, the share of defence outlay must be enhanced as a share of the GDP. This will ensure that national security and defence preparedness are aligned to the aspirations of India as a regional power and a key player at the global arena. Defence spending at an enhanced rate will have spin-offs with larger implications for the overall economic growth of the state. The additional allotment, in the form of a dedicated non-lapsable modernisation fund, can be utilised for larger manufacturing in the domestic market, increased employment opportunities and development of high-end technologies with dual usage, that is, for both defence and civil industrial needs. Economic theory suggests that military spending can lead to some positive effects on economic growth through a Keynesian-type expansion, whereby an increase in aggregate demand results in increased output and employment by generating short-run multiplier effects and higher growth rates. Where positive spin-offs for the economic, technological and social development of the country can be obtained, defence spending will receive stronger national support. It is, therefore, to the advantage of defence strategists and planners to seek positive ways and means to enhance spin-offs on defence spending.

## NOTES

1. S. V. Sessaiah, T. Koti Reddy and I. R. S. Sarma, 'General Government Expenditure and Economic Growth in India: 1980-81 to 2015-16', *Theoretical Economics Letters*, Vol. 8, No. 4, 2018, available at [https://file.scirp.org/Html/6-1501391\\_82933.htm](https://file.scirp.org/Html/6-1501391_82933.htm).
2. S. Samuel C. Rajiv and Abhay Kumar Singh, 'Defence Budget 2023-24: Trend Analysis', Issue Brief, Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), 17 February 2023, available at <https://www.idsa.in/publisher/issuebrief/defence-budget-2023-24-trend-analysis>.
3. Laxman Kumar Behera, 'High on Revenue, Low on Capital: India's Defence Budget 2023-24', Issue Brief, Observer Research Foundation (ORF), 11 February 2023, available at <https://www.orfonline.org/research/high-on-revenue-low-on-capital-india-s-defence-budget-2023-24>.
4. *Ibid.*

5. N.S. Sisodia, 'Planning for Sound Defence Budgets', *Journal of Defence Studies*, Vol. 3, No. 2, 2009, available at [https://idsa.in/about-mp-idsa/system/files/jds\\_3\\_2\\_nssisodia.pdf](https://idsa.in/about-mp-idsa/system/files/jds_3_2_nssisodia.pdf).
6. John Baylis, "Greenwoodery" and British Defence Policy', *International Affairs*, Vol. 62, No. 3, 1986, pp. 443–457, available at <https://academic.oup.com/ia/article-abstract/62/3/443/2405963?redirectedFrom=fulltext>.
7. P.R. Sivasubramanian, 'Defence Budget: Towards an Outcome and Programme Based System', *Strategic Analysis*, Vol. 30, No. 4, October–December 2006, available at [https://idsa.in/about-mp-idsa/system/files/strategicanalysis\\_prsivasubramanian\\_1206.pdf](https://idsa.in/about-mp-idsa/system/files/strategicanalysis_prsivasubramanian_1206.pdf).
8. Laxman Kumar Behera, 'The Armed Services and the Indian Defense Budget', 2009.
9. 'Demand for Grants 2018-19 Analysis: Defence', PRS Legislative Research, available at <https://prsindia.org/budgets/parliament/demand-for-grants-2018-19-analysis-defence>.
10. S. Samuel C. Rajiv and Abhay Kumar Singh, 'Defence Budget 2023–24: Trend Analysis', n. 2.
11. '2nd Report: Demand for Grants (2014–15) General Defence Budget', Standing Committee on Defence, 22 December 2014, available at [http://164.100.47.193/lsscommittee/Defence/16\\_Defence\\_2.pdf](http://164.100.47.193/lsscommittee/Defence/16_Defence_2.pdf).
12. 'Demand for Grants 2023-24 Analysis : Agriculture and Farmers Welfare', PRS Legislative Research, p. 2, available at <https://prsindia.org/budgets/parliament/demand-for-grants-2023-24-analysis-agriculture-and-farmers-welfare>.
13. 'Chapter 11, Defence and Internal Security, Volume-I Main Report', 15th Finance Commission, Ministry of Finance, Government of India, October 2020, available at [https://fincomindia.nic.in/writereaddata/html\\_en\\_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf](https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf).
14. 'Report of 32<sup>nd</sup> SCOD 2022–23'; 20th Report and 27th Report, Standing Committee on Defence, PRS Legislative Research, pp. 9–13.
15. Tushar Chakrabarty, 'Demand for Grants 2023–24 Analysis Defence', Institute for Policy Research Studies, PRS Legislative Research, 17 February 2023, available at <https://www.studocu.com/in/document/velu-thampi-memorial-nair-service-society-college/commerce/df-g-2023-24-analysis-defence/96387174>.
16. 'Trends in World Military Expenditure, 2022', SIPRI Factsheet, April 2023, available at [https://www.sipri.org/sites/default/files/2023-04/2304\\_fs\\_milex\\_2022.pdf](https://www.sipri.org/sites/default/files/2023-04/2304_fs_milex_2022.pdf).
17. Namya Manchanda, Ananya Kalra, Harshul Singh and Susri Padhi, 'Analysis of the Global Defence Budget and Its Economic, Social and Environmental Impacts', *South Asian Research Journal of Humanities and Social Sciences*, Vol. 3, No. 4, July–August 2021, available at [https://sarppublication.com/media/articles/SARJHSS\\_34\\_166-175\\_FT\\_by6iV4X.pdf](https://sarppublication.com/media/articles/SARJHSS_34_166-175_FT_by6iV4X.pdf).

18. 'Pakistan Increases Defence Budget But Gains Offset by Inflation', Janes, 14 June 2024, available at <https://www.janes.com/osint-insights/defence-news/industry/pakistan-increases-defence-budget-but-gains-offset-by-inflation>.
19. Laxman Kumar Behera, 'India's Defence Budget 2010–11: An Analysis', *Journal of Defence Studies*, Vol. 4, No. 2, April 2010, available at [https://idsa.in/publisher/system/files/jds\\_4\\_2\\_lkbehera.pdf](https://idsa.in/publisher/system/files/jds_4_2_lkbehera.pdf).
20. '47<sup>th</sup> Report of SCOD 2018–19', para 11, p. 13, available at [https://sansad.in/getFile/lssccommittee/Defence/16\\_Defence\\_47.pdf](https://sansad.in/getFile/lssccommittee/Defence/16_Defence_47.pdf).
21. 'Capital Acquisition in Indian Air Force', PRS Legislative Research, available at <https://prsindia.org/policy/report-summaries/capital-acquisition-indian-air-force#:~:text=CAG%20Report>.
22. 'Report of the 15th Finance Commission for 2021–26', PRS Legislative Research, available at <https://prsindia.org/policy/report-summaries/report-15th-finance-commission-2021-26>.
23. 'Defence Research and Development Organisation—Standing Committee Report Summary', PRS Legislative Research, available at <https://prsindia.org/policy/report-summaries/defence-research-and-development-organisation>.
24. Laxman Kumar Behera, 'India's Affordable Defence Spending', *Journal of Defence Studies*, Summer 2008, available at [https://idsa.in/publisher/system/files/jds\\_2\\_1\\_lkbehera.pdf](https://idsa.in/publisher/system/files/jds_2_1_lkbehera.pdf).
25. Laxman Kumar Behera, 'India's Defence Budget 2010–11: An Analysis', n. 19.
26. Namya Manchanda, Ananya Kalra, Harshul Singh and Susri Padhi, 'Analysis of the Global Defence Budget and Its Economic, Social and Environmental Impacts', n. 17.
27. S.V. Seshaiyah, T. Koti Reddy and I.R.S. Sarma, 'General Government Expenditure and Economic Growth in India: 1980–81 to 2015–16', n. 1.
28. Len Le Roux, 'The Defence Sector and the Defence Budget: Minimising Costs and Maximising Benefits', in *Civil Military Relations in Zambia*, pp. 57–75.
29. Namya Manchanda, Ananya Kalra, Harshul Singh and Susri Padhi, 'Analysis of the Global Defence Budget and Its Economic, Social and Environmental Impacts', n. 17.
30. Laxman Kumar Behera, 'India's Defence Budget 2010–11: An Analysis', n. 19.
31. P.R. Sivasubramanian, 'Defence Budget: Towards an Outcome and Programme Based System', n. 7.
32. Laxman Kumar Behera, 'High on Revenue, Low on Capital: India's Defence Budget 2023–24', Issue Brief, Observer Research Foundation, 11 February 2023, available at <https://www.orfonline.org/research/high-on-revenue-low-on-capital-india-s-defence-budget-2023-24>.
33. Tushar Chakrabarty, 'Demand for Grants 2023–24 Analysis Defence', n. 15.
34. Laxman Kumar Behera, 'India's Defence Spending: A Trend Analysis', *Journal of Defence Studies*, April 2009, available at [https://idsa.in/publisher/system/files/jds\\_3\\_2\\_lkbehera.pdf](https://idsa.in/publisher/system/files/jds_3_2_lkbehera.pdf).

35. S. Samuel C. Rajiv and Abhay Kumar Singh, 'Defence Budget 2023–24: Trend Analysis', n. 2.
36. Sources: CAG, Union Budget Documents of various years, PRS Legislative Research, 16 February 2023.
37. Sources: Union Budget Documents of various years, PRS Legislative Research.
38. Prachee Mishra, 'Indian Railways: Analysing the Budget', PRS Legislative Research, 12 March 2018, available at <https://prsindia.org/theprsblog/indian-railways-analysing-the-budget>.
39. Tushar Chakrabarty, 'Demand for Grants 2023–24 Analysis Defence', n. 15.
40. Todd Sandler and Keith Harley, *The Economics of Defence Spending*, Cambridge University Press, 1995.