



Delhi Policy Group

Advancing India's Rise as a Leading Power



POLICY BRIEF

India's Defence Budget 2024-25

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Volume IX, Issue 18

August 2, 2024



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www.delhipolicygroup.org



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Indian Prime Minister Narendra Modi at the Shradhanjali Samaroh organised on the occasion of the 25th Kargil Vijay Diwas at Kargil War Memorial (Dras), in Ladakh on July 26, 2024. (Source: [News on AIR/Official Website](#))

Indian Army deploys T-90 & T-72 tanks along with BMP-2 Infantry Combat Vehicles near Line of Actual Control in Chumar-Demchok area in Eastern Ladakh. (Source: ANI)

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India's Defence Budget 2024-25

by

Deependra Singh Hooda

Geopolitical Environment

India faces a complex array of security challenges across the geopolitical landscape, which shape its defence and foreign policy. Central to these challenges is the strategic rivalry with China. The two countries share a long and disputed border, and a continuing standoff in the Himalayas since 2020 has exacerbated tensions which have not yet subsided. China's growing influence in South Asia and the Indian Ocean region, including its Belt and Road Initiative, poses a strategic dilemma for India. This situation is further complicated by China's close ties with Pakistan, which is often viewed as a strategic counterbalance to India's regional influence.

Another major security challenge is the persistent tension with neighbouring Pakistan, particularly over the Kashmir issue. This long-standing dispute has led to numerous conflicts and continues to be a significant security concern, with the potential for escalation into a broader conflict.

India's internal security landscape also presents challenges, including terrorism in Jammu and Kashmir, insurgencies in northeastern states, and left-wing extremism. These internal issues require significant resources and attention, impacting India's ability to focus on external threats.

These formidable challenges will likely persist in the medium term and beyond, requiring India to maintain a strong dissuasive posture along the borders, while also dealing with internal security problems. The Ukraine conflict has shown the need to plan for protracted hostilities and build a significant military-industrial capacity.

Furthermore, India's strategic environment is shaped by its economic and military capabilities. While India is one of the world's largest economies and maintains a significant military force, it faces limitations in defence technology and self-reliance. Efforts to modernise its military and reduce dependency on foreign arms suppliers are ongoing, but progress has been halting and gradual.

The ongoing Russia-Ukraine war has also impacted India's defence preparedness, with military supplies from Russia slowing down due to Moscow's own requirements and payment issues. In a submission to the Parliamentary Standing Committee on Defence in March 2023, the Indian Air

Force stated that it had reduced its budgetary projection because some deliveries had been delayed.¹

In this prevailing situation, Finance Minister Nirmala Sitharaman, while presenting the budget on July 23, 2024, announced an allocation of Rs 6,21,941 crore for the Ministry of Defence. This is only marginally higher, by Rs 400 crore, than the interim budget presented in February this year. The pattern of Central Government Expenditure (CGE) shows that defence spending has steadily declined from 17.43% of CGE in FY19 to 12.9% in FY25.² In terms of percentage of GDP, the allocation has dropped from 2.3% to 1.9% in the same period.

This policy brief highlights the key aspects of the defence budget and its impact on self-reliance in defence production, modernisation of the services, and defence research and development (R&D).

Key Highlights of the Defence Budget

The overall budget of Rs 6,21,941 crore is 4.79% more than the allocation of 2023-24 but marginally lower than the actual expenditure of Rs 6,23,887 crore incurred last year. The budget estimates for the MoD are provided under four demands - Demand No. 19 (Ministry of Defence Civil), Demand No. 20 (Defence Services Revenue), Demand No. 21 (Capital Outlay on Defence Services) and Demand No. 22 (Defence Pensions). Details of the previous fiscal year (budget estimate and revised estimate) and the current budget are given below.

Demand	In Crore Rupees		
	BE 2023-24	RE 2023-24	BE 2025-25
MoD (Civil)	22612 (4%) USD 2.7 bn *	25896 (4%) USD 3.1 bn	25963 (4%) USD 3.1 bn
Revenue	270120 (46%) USD 32.3 bn	298668 (48%) USD 35.7 bn	282772 (45%) USD 33.8 bn
Capital	162600 (27%) USD 19.4 bn	157228 (25%) USD 18.8 bn	172000 (28%) USD 20.5 bn
Pensions	138205 (23%) USD 16.5 bn	142095 (23%) USD 16.9 bn	141205 (23%) USD 16.9 bn
Total	593537 USD 70.9 bn	623887 USD 74.5 bn	621941 USD 74.3 bn

* Calculated at the current exchange rate of 1 USD = 83.7 INR

A notable feature of the actual defence spending in 2023-24 was that despite the actual expenditure increasing by more than Rs 30,000 crore over what was originally budgeted, the spending on the capital account decreased by approximately Rs 5000 crore. The increase was almost entirely under the revenue head.

The increase in revenue expenditure is mainly under the heads of pay and allowances, Ex-Servicemen Contributory Health Scheme (ECHS), and stores. The stores budget of the Indian Air Force (IAF) increased by almost 70% from Rs 17,200 crore to Rs 29,060 crore. In spending under the capital head, the Army underspent Rs 3830 crore, the Navy 1752 crore, while the Air Force exceeded its allocation by Rs 974 crore.

In this year's allocation, 27.66% of the budget goes for capital expenditure, 45% for revenue, 22.70% for Defence Pensions, and 4.17% for civil organisations. The Ministry of Defence (MoD) has stated that around one-third of the revenue budget is for expenditure on sustenance and operational preparedness.³

Pay and Allowances account for 30.66% of the total budget. Taking the total revenue and capital allocation for each service, the Army spends about 55% on pay and allowances, the Navy 16%, and the Air Force 23%.

Self-Reliance in Defence Production

75% of the modernisation budget, amounting to Rs 1,05,518 crore, has been earmarked for procurement through domestic industries.⁴ A similar percentage was allocated for the indigenous industry last year. Domestic procurements have steadily increased, from 58% in 2021-22 to 68% in 2022-23.

According to the data provided to the Standing Committee on Defence (2022-23), from 2017-18 to 2021-22, the Army spent 84% of its capital acquisition budget on indigenous procurement, the Navy 64%, and the Air Force 48%.⁵ In order to promote indigenisation, the MoD has notified five Positive Indigenisation Lists (the latest in July 2024) of 5012 items that can only be procured from the Indian industry after the specified timelines of indigenisation.⁶

While the government's push for indigenisation is commendable, it could have a short-term impact on capability development. The Indian defence industry currently lacks sufficiently capable R&D and industrial capacities to develop and produce highly sophisticated conventional arms. The Vice Chief of the IAF, Air Marshal A.P. Singh, alluded to this when he underlined that he fully

supported the drive towards self-reliance in defence, but "atmanirbharta cannot be at the cost of the nation's defence."⁷

Modernisation

The allocation for modernisation of the three services shows an increase of 5.4% over the BE of 2023-24. The increase is primarily under the Aircraft and Aero Engines head. All other heads show a similar allotment as last year.

There is no separate distinction in the modernisation head on the Committed Liabilities for equipment already purchased and the new equipment to be procured during the year. This makes it difficult to assess the pace of modernisation.

Modernisation Head	In Crore Rupees		
	2023-24 (BE)	2023-24 (RE)	2024-25 (BE)
Aircraft and Aero Engines	28,222	24,113	40,277
Heavy and Medium Vehicles	4,038	2,716	4,637
Other Equipment	67,023	71,302	62,198
Joint Staff	1,839	1,396	1,352
Rashtriya Rifles	100	136	200
Rolling Stock	163	200	200
Naval Fleet	24,200	24,445	23,800
Naval Dockyard / Projects	6,725	5,340	6,830
Total	1,32,309	1,29,648	1,39,494

Research and Development

The budgetary allocation to Defence Research and Development Organisation (DRDO) has been marginally increased to Rs 23,855 crore in FY 2024-25 from Rs 23,263.89 crore in FY 2023-24. Out of this allocation, a share of Rs 13,208 crore is allocated for capital expenditure. Of this capital expenditure, more than 50% goes into strategic systems, leaving very little for R&D in other areas.⁸

In the budget of 2022-23, it was announced that 25% of defence R&D would be reserved for academia, industry, and startups. This has not yet been implemented, but if it were, it would further strain DRDO research activities.

The allocation to the DRDO is 3.84% of the total defence budget. This is grossly insufficient to carry out any significant R&D in areas of emerging technologies. The government is in the process of restructuring the DRDO based on the report of the Vijay Raghavan Committee. This is an overdue reform but must be accompanied by allocation of sufficient funds for cutting-edge research.

Infrastructure Development

The ongoing standoff at the Line of Actual Control has prompted the government to focus on improving the border infrastructure. The Border Roads Organisation has been provided Rs 6,500 crore, which is 30% higher than the allocation for 2023-24. Projects such as development of Nyoma Airfield in Ladakh at an altitude of 13,700 feet, permanent bridge connectivity to the southernmost Panchayat of India in the Andaman and Nicobar Islands, the Shinku La tunnel in Himachal Pradesh, and the Nechiphu tunnel in Arunachal Pradesh will be funded out of this allocation.⁹

Looking Ahead

The share of the defence budget as a percentage of the GDP has been declining over the years and currently stands at 1.9%. There are often demands that the defence be allotted a fixed share of the GDP to meet the external and internal security challenges. In 2024, China's defence budget increased by 7.2% over the previous year. This marks nine consecutive years of budget increases since 2015 despite a slowing economy. Pakistan's defence budget for 2024-25 saw a rise of 17.6% from the previous year.¹⁰

The Indian government has been reluctant to commit to an increase in defence spending. In a reply to the Standing Committee on Defence, the MoD stated that current allocations were sufficient, and 3% of GDP is much more than what the defence services can absorb.¹¹ However, even if there is no fixed allocation as a percentage of the GDP, capital expenditure must be provided for based on a long-term capability development plan that is approved by the Ministry of Finance. Currently, there is a glaring disconnect between the services' plans for modernisation and the finances allocated each year.

Estimates suggest that the Indian armed forces will spend \$130 billion on capital procurement over the next five to six years. This expenditure depends upon both imports as also indigenous production. The Ukraine war has already impacted imports from Russia, while efforts to increase purchases from Western nations could also be a challenge considering that their defence

production capacities are already strained by sending supplies to Ukraine and meeting their own domestic requirements.

Indian industry will need to ramp up its capacity to produce defence equipment significantly, but it will require considerable support from the government in the form of policies that streamline and expedite procurement processes, award long-term contracts, and provide financial incentives.

India's expenditure on defence R&D is woefully inadequate to transform the Indian military into a high-technology force prepared for future conflicts. In addition to restructuring the DRDO and providing it with enhanced allocations, the private industry must also be encouraged to invest more in R&D.

Conclusion

Significant strategic challenges mark India's defence landscape, including border tensions with China and Pakistan, internal security threats, and the evolving global security environment. The 2024-25 defence budget reflects a commitment to addressing these issues, with a modest increase in overall allocation. The share of defence spending as a percentage of GDP remains low, highlighting a potential gap in meeting long-term security needs.

Focusing on indigenisation and self-reliance in defence procurement is crucial to reducing import dependency, particularly in light of global supply chain disruptions. The current allocation to defence R&D, primarily through the DRDO, must be increased to achieve significant advancements in emerging technologies. The private sector's role, although growing, also needs more robust support and incentives to foster innovation and capacity building.

Looking ahead, India's defence strategy must balance immediate operational readiness with long-term modernisation and capability development. This includes addressing the challenges of integrating new technologies, enhancing infrastructure, and ensuring sustainable funding for both public and private sector R&D initiatives. As global and regional security dynamics continue to evolve, India must prioritise a comprehensive and forward-looking defence policy to safeguard its national interests.

- ¹ Philip, Snehesh Alex. "War, Payment Issues Impact Military Supplies to India from Russia & Ukraine. IAF Worst Hit." ThePrint, April 26, 2023. <https://theprint.in/defence/war-payment-issues-impact-military-supplies-to-india-from-russia-ukraine-iaf-worst-hit/1540064/>.
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- ³ "Rs 6.22 Lakh Crore Allocated to MoD, Highest among Ministries, in Regular Union Budget 2024-25; 4.79% Higher than FY 2023-24." Accessed July 25, 2024. <https://pib.gov.in/pib.gov.in/Pressreleaseshare.aspx?PRID=2035748>.
- ⁴ Ibid
- ⁵ "Defence Budget 2024-25: Trend Analysis | Manohar Parrikar Institute for Defence Studies and Analyses." Accessed July 26, 2024. https://www.idsa.in/issuebrief/Defence-Budget-2024-25-SSC-Rajiv-ASingh-160224#footnote8_p9z439p.
- ⁶ "Aatmanirbharta in Defence: MoD Notifies Fifth Positive Indigenisation List of 346 Items for DPSUs." Accessed July 26, 2024. <https://pib.gov.in/pib.gov.in/Pressreleaseshare.aspx?PRID=2033571>.
- ⁷ "IAF Red Flag on Atma Nirbhar Bharat: Vice-Chief Concerned over Jet Delays, Defence Primacy." Accessed July 26, 2024. <https://www.telegraphindia.com/india/iaf-red-flag-on-atma-nirbhar-bharat-vice-chief-a-p-singh-flags-jet-delays-defence-primacy/cid/2034905>.
- ⁸ "STANDING COMMITTEE ON DEFENCE (2023-24) A REVIEW OF THE WORKING OF THE DEFENCE RESEARCH AND DEVELOPMENT ORGANISATION"
https://eparlib.nic.in/bitstream/123456789/2963532/1/17_Defence_42.pdf
- ⁹ "Rs 6.22 Lakh Crore Allocated to MoD, Highest among Ministries, in Regular Union Budget 2024-25.
- ¹⁰ The Economic Times. "Defence Budget 2024 Comparison: How India's Defence Allocation for Armed Forces Stack up against China and Pakistan." July 24, 2024. <https://economictimes.indiatimes.com/news/defence/defence-budget-2024-how-indias-defence-allocation-for-armed-forces-stack-up-against-china-and-pakistan/articleshow/111986250.cms?from=mdr>.
- ¹¹ 37th Report: Demands for Grants (2023-24) Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, Lok Sabha, Mach 21, 2023. https://prsindia.org/files/budget/budget_parliament/2024/DFG_Analysis_2024-25_Defence.pdf



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