

# Defence Budget 2025: Capital Expenditure is Concerning

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## Introduction

On 01 Feb, Finance Minister Nirmala Sitharaman presented her eighth annual budget. The existing regional and global security environment today is characterised by volatility, uncertainty, complexity, and ambiguity, with new imponderable being the policies and strategic behaviour of the United States (US) under President Donald Trump who is intent on reshaping America's internal and global order. The ongoing wars in Russia-Ukraine and Israel-Gaza have also been revealing.

With this in mind, the defence budget for 2025-26 has been increased by 9.53 per cent, bringing the total allocation to Rs 6.81 lakh crore (USD 79 bn). This steady expansion reinforces India's commitment to military modernisation and self-reliance in defence production. This is also aligned with the fact that 2025 has been labelled as the 'Year of Reforms' by the Ministry of Defence (MoD).

## The Budgetary Figures

The Rs 6,81,210.27 crore allotted to the defence budget includes Rs 4.88 lakh crore for revenue expenditure, including Rs 1,60,795 crore for pensions and Rs 1.92 lakh crore for capital expenditure (CapEx). This year's defence outlay will be 8 per cent of the total budget, as compared to the previous Financial Year (FY), when Rs 6,21,940 crore was allocated. The MoD, in a statement, said that the overall allocation for defence was 9.53 per cent more than the budget estimates of FY 2024-25 and stood at 13.45 per cent of Budget 2025—the highest among ministries.<sup>1</sup>

The key allocations can be summarised as:

- **Revenue Expenditure:** The revenue budget for all three Services has increased from Rs 2,82,772.67 crore in FY 2024-25 to Rs 3,11,732.30 crore, reflecting a 10.24 per cent increase for FY 2025-26 towards payment of salaries and meeting day-to-day expenses regarding operational, training, and logistics.<sup>2</sup>
- **Pensions:** The pension bill has increased from Rs 1,41,205 crore to Rs 1,60,795 crore, amounting for an increase of 13.87 per cent to cover pensioners payments and increase of Dearness Allowance.<sup>3</sup>
- **Capital Outlay:** The CapEx for military modernisation has been set at Rs 1.8 lakh crore, reflecting a modest 4.6 per cent increase from the previous allocation of Rs 1.7 lakh crore. However, what stands out is that the MoD

returned Rs 12,500 crore as unspent funds under this category. Under CapEx, Rs 48,614 crore has been set aside for aircraft and aero engines, while Rs 24,390 crore has been allocated for the naval fleet. An amount of Rs 63,099 crore has been set aside for other equipment.<sup>4</sup>

- **Defence Research and Development Organisation (DRDO):** The budget for DRDO in FY 2025-26 has been increased by 12.41 per cent to Rs 26,817 crore from the previous Rs 23,856 crore, which includes advanced research in Artificial Intelligence (AI), robotics, and space warfare. Out of this, Rs 14,924 crore has been allocated for CapEx and research projects, with a focus on fundamental research and partnerships with private firms under the development-cum-production partner mode.<sup>5</sup>
- **iDEX (Defence Innovation):** An allocation of Rs 449.62 crore towards iDEX reflects a threefold jump in two years.
- **Border Infrastructure:** The Border Roads Organisation has been allocated Rs 7,146 crore to enhance strategic infrastructure in border areas through the construction of roads, tunnels, and bridges in areas such as Ladakh, Arunachal Pradesh, Jammu and Kashmir, and Rajasthan. These also create employment opportunities in remote areas of India and contribute to the local economies and skill development.<sup>6</sup>
- **Coast Guards:** A budget of Rs 9,676 crore represents a 26.5 per cent increase for acquiring Advanced Light Helicopters, Dornier aircraft, and fast patrol vessels. This will enhance maritime security, while disaster response capabilities will add teeth to its arsenal to address the maritime emerging challenges.<sup>7</sup>

### **Capital Expenditure: Ongoing Defence Acquisitions**

The CapEx component, which funds new acquisitions, has seen a modest rise, signalling continued investments in fighter jets, naval warships, and indigenous missile systems.<sup>8</sup>

It is well known that several high-value procurement projects are in progress or at the final stages of acquisition requiring phased payments. In other words, there are already contractual obligations or committed liabilities.

These include 26 Rafale-Marine fighter jets and three additional Scorpene submarines from France, the S400 Triumf from Russia, C-295 transport aircraft from Spain, and MQ-9B drones and General Electric (GE) engines from the US. Indigenous acquisitions include 156 Prachand Light Combat Aircrafts (LCA) and 307 advanced towed artillery gun systems.

In 2024, significant strides were made towards achieving self-reliance, with the MoD recording its highest-ever indigenous defence production value of Rs 1.26 lakh crore and defence exports reaching Rs 21,083 crore. The launch of TATA Aircraft Complex and the induction of indigenous platforms like the light tank Zorawar showcase this progress.<sup>9</sup>

Despite these acquisitions, operational gaps persist in areas such as fighter aircraft, submarines, helicopters, air defence systems, and anti-tank guided missiles.

### **The Concerns**

Though the capital outlay figure is 4.6 per cent more than the previous year, the question is whether it is adequate to meet India's efforts for modernisation of its Armed Forces to counter the collusive threat faced from both China and Pakistan. As per information available in open domain, China's defence budget for the year 2024 was USD 231 bn. Pakistan, on the other hand, despite borrowing money to pay its interest on debts, has approved the acquisition of China's fifth-generation J-35A stealth fighter jets in Dec last year.<sup>10</sup>

The fact is that Rs 4.88 lakh crore under revenue for operational costs, salaries, and sustenance remains significantly higher, and dwarfs the proposed capital outlay of Rs 1.92 lakh crore.

The MoD has earmarked 75 per cent or 1.1 lakh crore of its new capital procurement for domestic industry in accordance with the government's push for self-reliance, with 25 per cent of the domestic share being reserved for the private sector. While this is a step in the right direction, the larger question remains whether the public and private sector have capabilities and capacities to absorb this amount and deliver state-of-the-art equipment on time.<sup>11</sup>

Also, there are a few issues directly related to CapEx—the first being the outlay for committed liabilities, next is the factor of inflation that is greater than the 4.6 per cent increase, and finally is the fact that there has been a weakness in the Rs versus the USD, which will again impact payments particularly to foreign suppliers. Hence, this 4.6 per cent increase is likely to get swallowed up.

The 9.53 per cent increase in the defence budget reflects the government's emphasis on border security, military modernisation, and self-reliance in defence production. However, the defence expenditure as a percentage of Gross Domestic Product (GDP) has been falling. While there is considered to be an invisible barrier of 3 per cent, in recent years, the same has not even been 2.5 per cent and has been below 2 per cent. The average global estimate is approximately 2.3 per cent in terms of GDP.

This year, it is pegged at 1.91 per cent of the GDP. Considering the regional and global threat perception and the need to bridge capability gaps, there is a need to lay

down a figure for the next few years, and a share of 2.5 per cent of the GDP has been suggested by a large number of analysts.

Another area of concern is defence Research and Development (R&D). Currently, approximately 1 per cent of the defence expenditure has been earmarked for R&D in India, compared to 13 per cent by the US. This limits advancements in critical areas like hypersonic weapons, AI, and quantum technologies. If we need to focus on self-reliance, this is an area where we need greater investments.

Finally, the fact that the MoD returned Rs 12,500 crore as unspent funds is reflective of a malaise in the system. The policies and procedures need an urgent review. Some of this can be attributed to difficulties in spending due to supply chain issues to include delays from Russia, GE F-404 issues for LCA, and even the Hindustan Aeronautics Limited is facing delays in already ordered aircraft.

But there must be an urgency in overcoming these hurdles by simplifying the acquisition procedures to ensure that technology obsolescence does not outpace procurement cycles. Time-bound acquisition cycles are vital to align industry investments with the government's goals and to provide state-of-the-art solutions.

## **Conclusion**

In the current geopolitical scenario, where the world is witnessing a changing paradigm of modern warfare, Indian Armed Forces need to be equipped with state-of-the-art weapons and have to be transformed into a technologically advanced combat-ready force. Infusing technology leading to operational effectiveness is imperative. Hence, capital allocation must be aimed at addressing critical capability gaps through major acquisitions in the current and subsequent FYs.

India's 9.53 per cent increase in defence spending is significant and is also a clear signal of intent, but it must be matched by efficiency, innovation, and strategic foresight. It must be allocated effectively to maximise military capability without straining fiscal resources. Unfortunately, much of the hike is likely to be neutralised by inflation and weakening domestic currency.

India has been focusing on strengthening its defence capabilities in recent years. But increases in capital budgetary allocations and re-examination of procedures and policies are imperative for building future-ready Armed Forces. *Surakshit Bharat* (Safe India) is a necessity.

Experts note that a minimum of 2.5 per cent of the GDP is required to effectively counter strategic challenges posed by China and Pakistan. Even with higher spending, the slow speed at which defence deals can be procured is hampering efforts to build up India's military, analysts said.

The country is yet to spend Rs 125 bn from the defence budget for the current fiscal year that ends on March 31, something that Indian analysts suggest showcased the nature of defence deals in general, which involve lengthy negotiations.

## Endnotes

<sup>1</sup> A record over Rs 6.81 lakh crore allocated in Union Budget 2025-26 for MoD, an increase of 9.53% from current Financial Year, Ministry of Defence, *PIB*, 01 Feb 2025

<https://pib.gov.in/PressReleasePage.aspx?PRID=2098485>

<sup>2</sup> Pradip R Sagar, Has Budget 2025 buffed defence up enough against looming China-Pakistan threat?

*India Today*, 02 Feb 2025 <https://www.indiatoday.in/india-today-insight/story/has-budget-2025-buffed-defence-up-enough-against-looming-china-pakistan-threat-2673589-2025-02-02>

<sup>3</sup> Ibid

<sup>4</sup> Ibid, *PIB*

<sup>5</sup> Ibid

<sup>6</sup> Shivani Sharma, Budget 2025: Rs 7,146 crore allocated for boosting border infrastructure, *India Today*, 02 Feb 2025 <https://www.indiatoday.in/budget/story/union-budget-2025-rs-7146-crore-allocated-for-boosting-border-infrastructure-2673411-2025-02-01>

<sup>7</sup> Lt Gen Ashok Bhim Shivane, Defence Budget 2025: Does it Ensure Surakshit Bharat? *Raksha Anirveda*, 02 Feb 2025 <https://raksha-anirveda.com/defence-budget-2025-does-it-ensure-surakshit-bharat/#:~:text=The%20Coast%20Guard's%20budget%20of,address%20the%20maritime%20emerging%20challenges.>

<sup>8</sup> Defence Budget 2025 disappoints, lacks the firepower India needs, *Economic Times*, 01 Feb 2025 <https://economictimes.indiatimes.com/news/defence/budget-2025-defence-budget-allocation-hiked-to-rs-6-81-lakh-crore/articleshow/117813752.cms?from=mdr>

<sup>9</sup> Atmanirbhar Bharat in Defence, Ministry of Defence, *PIB*, 01 Feb 2025

<https://pib.gov.in/PressReleasePage.aspx?PRID=2098431>

<sup>10</sup> Ibid, Pradip R Sagar, *India Today*

<sup>11</sup> Ibid, *PIB*