Demand for Grants 2024-25 Analysis
Defence

The Ministry of Defence frames policies on defence and security-related matters, and ensures its implementation by the defence services (Army, Navy, and Air Force). In addition, it is responsible for production establishments such as defence public sector undertakings, research and development organisations, and ancillary services that assist the defence services, such as the Armed Forces Medical Services. This note analyses budgetary allocation and expenditure trends of the Ministry. The note also discusses certain issues such as the falling expenditure on defence as percentage of GDP, high share of pension, continued reliance on imports to meet defence equipment needs, and recruitment of personnel under Agnipath.

Overview of finances

The Budget of the Ministry of Defence includes the allocation towards the three defence services along with the expenditure on research and development and border roads. In 2024-25, the Ministry has been allocated Rs 6,21,941 crore. This includes expenditure on salaries of the armed forces and civilians, pension, modernisation of armed forces, production establishments, maintenance, and research and development organisations. The allocation towards the Ministry is the largest across all ministries and accounts for 13% of the total expenditure of the central government.

India among top global military spenders but expenditure declines as share of budget

As per the Stockholm International Peace Research Institute (SIPRI), India's military spending was the fourth highest in 2023.[1] The military expenditure database maintained by SIPRI also includes spending on paramilitary forces. In 2023, India's military expenditure among the top five countries was higher than only China as a share of GDP. However, China's larger economy implies that it spends over 3.5 times as much as India on its military in absolute terms.

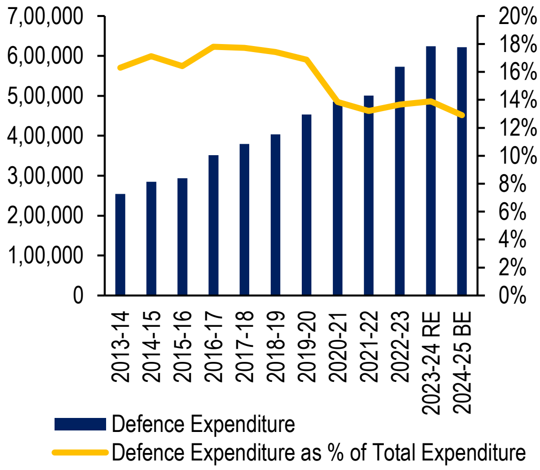
Table 1: Top military spenders in 2023 and Pakistan

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%

Note: India's military spending includes expenditure on paramilitary forces.
Sources: SIPRI Military Expenditure Database; PRS.

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% of its total expenditure on defence. This increased to 17.8% 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% of its total expenditure on defence, as compared to 13.9% 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.[2] It recommended that the depreciation of rupee against the dollar and the inflation rate should be considered while allocating funds for the defence services.[2]

Figure 1: Defence expenditure (Rs crore)



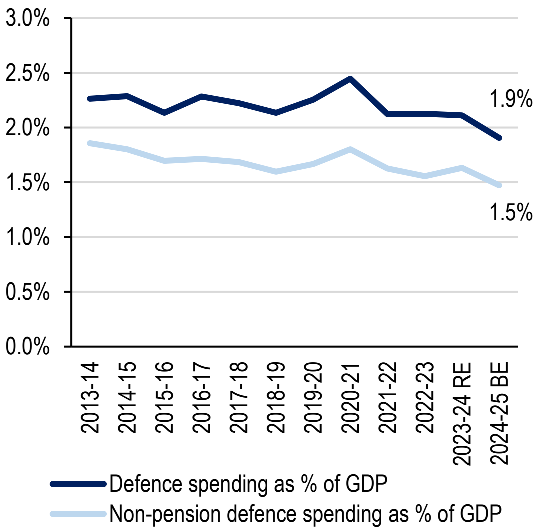
Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

The Standing Committee on Defence (2018) had recommended that the Ministry of Defence should be allocated a fixed budget of about 3% of GDP to ensure adequate preparedness of the armed forces.[3] However, over the last decade, India's spending on defence has consistently been lower than this recommended level. In 2024-25, India is estimated to spend 1.9% of its GDP on defence which is the lowest since 2013-14. This is different from the figure given in Table 1 due to different methodology used by SIPRI. If spending on defence pension is excluded from the total expenditure of the Ministry, the expenditure as a percentage of GDP decreases by about 0.5 percentage point across years. According to the Ministry of Defence, spending 3% of India's GDP on the defence sector will lead to much higher allocations which the defence services may not be able to absorb.[2]

Tushar Chakrabarty
tushar@prsindia.org

July 26, 2024

Figure 2: Defence expenditure as % of GDP

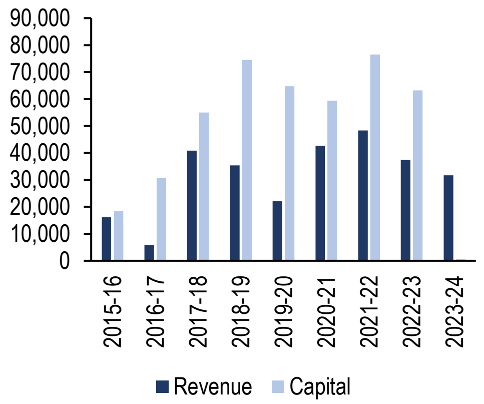


Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); MoSPI; PRS.

Budget allocation lower than projected needs of the armed forces

In addition to the decreasing share of defence spending in the Centre's expenditure, the money allocated to the armed forces has been consistently lower than their projected needs. Between 2015-16 and 2023-24, the money allocated to the armed forces was 22% lower than their projected needs. The shortfall in allocation has been higher for the capital component of the budget as compared to the revenue component in most years. Note that in 2023-24, the allocation for capital expenditure of the armed forces was almost equal to what had been projected by the forces. However, at the revised estimate stage, capital outlay spending by Army, Navy and Air Force is seen to be 4% lower as compared to the budget estimate.

Figure 3: Shortfall in budget allocation versus projected needs of armed forces (Rs crore)



Sources: 20th Report and 37th Report, Standing Committee on Defence, 17th Lok Sabha; PRS.

Composition of the defence budget

In 2024-25, the central government has allocated Rs 6,21,941 crore for the Ministry of Defence which is 0.3% lower as compared to the revised estimate of 2023-24 (see Table 2). Note that the total central government expenditure is estimated to increase by 9% in 2024-25 over the provisional actuals of 2023-24.[4] As per provisional actuals, the Ministry's expenditure in 2023-24 is 2.3% lower as compared to the revised estimates.[5] Within the defence budget, expenditure on salaries is estimated to increase by 1% while that on pension is seen decreasing by 1%. Salaries and pension account for 51% of the estimated spending on defence in 2024-25. Note that expenditure on salaries could be an underestimate as detailed breakup for revenue expenditure on Rashtriya Rifles, National Cadet Corps, and the Agnipath cadre is not available. Capital outlay, which includes spending on acquisition of arms, ammunition, and other equipment, is estimated to increase by 9% in 2024-25 as compared to the revised estimate of 2023-24. However, capital outlay at the revised estimate stage in 2023-24 is expected to be 2% lower as compared to the budget estimate. Other expenses include spending on transportation, Rashtriya Rifles, Joint Staff, Agnipath scheme, and other establishment expenditure of the Ministry.

Table 2: Defence budget allocation (Rs crore)

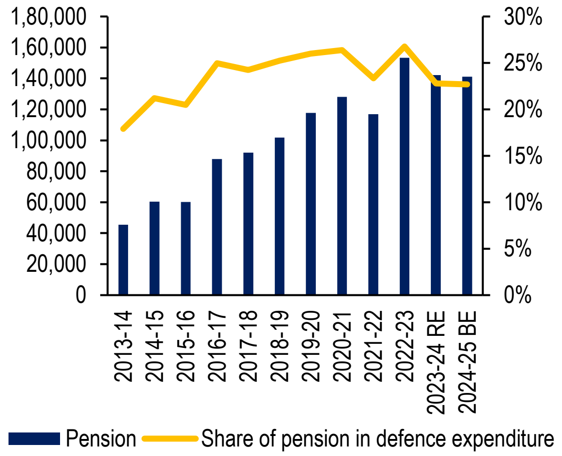
Major Head	Actuals 2022-23	RE 2023-24	BE 2024-25	% change 2023-24 RE to 2024-25 BE
Salaries	1,57,131	1,73,914	1,76,184	1%
Capital Outlay	1,50,896	1,67,771	1,82,241	9%
Pension	1,53,407	1,42,095	1,41,205	-1%
Maintenance	76,673	91,245	73,810	-19%
Other Expenses	34,991	48,864	48,501	-1%
Total	**5,73,098**	**6,23,889**	**6,21,941**	**-0.3%**

Note: Salaries include pay and allowances of the armed forces, auxiliary forces, civilians, research and development, and salary expenditure of the civil estimates. Capital outlay includes capital expenditure of the Ministry and the armed forces. Maintenance includes expenditure on stores, works, repairs, and refits.
Sources: Expenditure Budget, Union Budget 2024-25; PRS.

More than 20% of the defence budget is spent on pension

Defence pension provide for pensionary charges for retired defence personnel of the three services (including civilian employees). It covers payment of service pension, gratuity, family pension, disability pension, commuted value of pension, and leave encashment. Between 2013-14 and 2024-25, defence pension has increased at an annual rate of 11%. This has been higher than the annual growth in total defence expenditure at 8%. Consequently, a substantial share of the defence budget has been spent on pension. In 2024-25, 23% of the total defence budget is estimated to be spent on pension. In 2022-23, 27% of total defence expenditure was spent on pension due to a transfer of Rs 28,137 crore into a deposit account for arrears under One Rank One Pension (OROP). Pension expenditure in 2024-25 is estimated to be lower than in 2023-24 due to a transfer of Rs 8,000 crore from the deposit account to meet pension payments.

Figure 4: Spending on defence pension (Rs crore)



Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

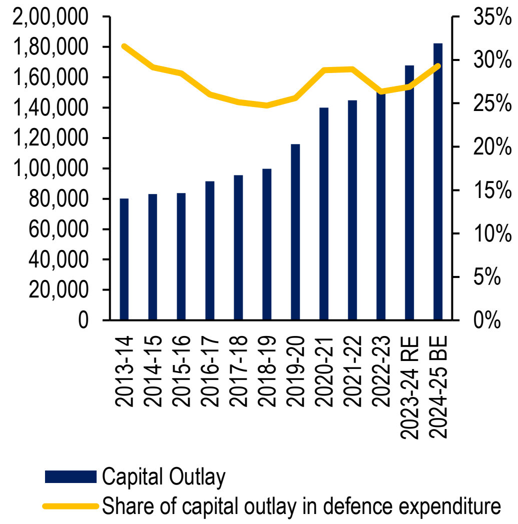
In November 2015, the government decided to implement OROP with benefits effective from July 1, 2014.[6] Under this framework, soldiers of the same rank who have retired after serving for the same length of service will receive the same pension. This applies irrespective of the date and year of their retirement. The pension under OROP is revised after every five years.[6]

The 15th Finance Commission recommended that the Ministry should take steps to reduce salaries and pension liabilities.[7] In June 2022, the Union Cabinet approved the Agnipath scheme for recruitment to the armed forces.[8] Candidates recruited under the scheme will serve for four years and will form a separate rank under the armed forces, known as Agniveers. While the stated aim of the policy is to enhance the youthful profile of the armed forces, it may also help in reducing pension expenditure in the long term. This is because up to 25% of the personnel from each batch of Agniveers will be enrolled in regular cadre of the armed forces. The remaining Agniveers who are not absorbed into the regular cadre will leave the armed forces after four years with a Seva Nidhi package of Rs 11.7 lakh.[8] They will not be entitled to receive pension.

Capital outlay has remained below 30% of the defence budget

One of the consequences of high spending on defence pension could be the lower spending on capital outlay. Capital outlay for defence includes expenditure on construction work, machinery, and equipment such as tanks, naval vessels, and aircrafts. It also includes capital expenditure on research and development and construction of border roads. In 2013-14, 32% of the defence budget was spent on capital outlay. This share has declined and between 2014-15 and 2023-24 less than 30% of the defence budget involved spending on capital outlay. In 2024-25, the Ministry is estimated to spend 29% of its budget on capital outlay.

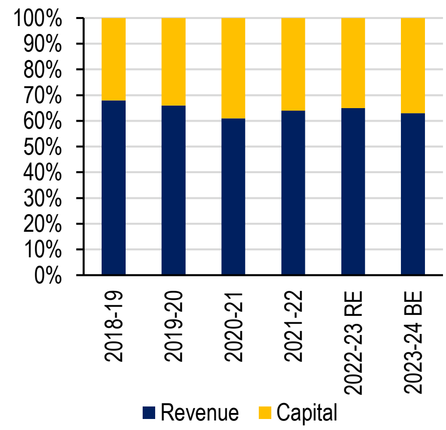
Figure 5: Spending on capital outlay (Rs crore)



Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

The Standing Committee on Defence (2021) had observed that the ideal ratio of revenue expenditure to capital outlay was 60:40.[9] As per the budget estimate of 2023-24, this ratio for the armed forces was seen at 63: 37 with the Army spending over 80% of its budget on revenue expenditure. The Standing Committee on Defence (2023) noted that the higher spending on revenue expenditure could be driven by the implementation of OROP and the recommendations of the 7th Pay Commission.[10] The Committee noted that higher revenue expenditure could adversely affect modernisation of the forces.[10]

Figure 6: Composition of expenditure of the armed forces



Note: BE is budget estimate and RE is revised estimate.
Sources: 37th Report, Standing Committee on Defence, 17th Lok Sabha; PRS.

In a memorandum submitted to the 15th Finance Commission, the Ministry of Defence sought adequate funding through alternate sources for meeting its increasing requirements.[7] The Ministry had pointed out that budgetary allocations have declined over the years and are inadequate to fund large defence acquisitions.[7] For the period 2021-26, the Ministry estimated to receive Rs 9.01 lakh crore for capital outlay against the defence plan projection of Rs 17.46 lakh crore (48% shortfall).[7] The Ministry highlighted that consistent shortfalls in the defence budget over a long period has led to serious capability gaps, including compromising the operational preparedness of the three services.[7]

A long-standing recommendation for defence capital funding has been the creation of a non-lapsable fund. The interim budget for 2004-05 recognised the need for setting up such a fund as defence acquisitions often extend over multiple years.[11] It proposed the creation of a non-lapsable Defence Modernisation Fund with a corpus of Rs 25,000 crore. In 2017, the Standing Committee on Defence noted that creation of a non-lapsable defence capital fund account was imperative for improving the operational preparedness of the armed forces.[12] The 15th Finance Commission also recommended the creation of a Modernisation Fund for Defence and Internal Security which would be non-lapsable in nature.[7]

The central government has maintained that Constitutional provisions do not allow for creation of such a non-lapsable fund.[13] The central government has also opposed the creation of such a fund in the Public Account without a source of matching receipts from taxes, cesses, or other levies.[12] According to the Ministry of Defence, a separate mechanism is being worked out by the Ministry of Finance to operationalise a non-lapsable defence modernisation fund.[13] Note that the 15th Finance Commission had suggested four sources for financing the defence modernisation fund.[7] These sources include: (i) transfers from Consolidated Fund of India, (ii) disinvestment proceeds of defence public sector enterprises, (iii) proceeds from monetisation of surplus defence land, and (iv) proceeds of receipts from defence land likely to be transferred to state governments and for public projects in future.[7]

Committed liabilities

Note that capital acquisition of the armed forces consists of two components: (i) committed liabilities and (ii) new schemes. Committed liabilities are payments anticipated during a financial year in respect of contracts concluded in previous years (as acquisition is a complex process involving long gestation periods). New schemes include new projects which are at various stages of approval and are likely to be implemented in future. Data related to committed liabilities has not been publicly disclosed since 2019-20.

The Standing Committee on Defence (2019) expressed concern over the shortage in allocation to meet committed liabilities expenditure.[14] The Committee observed that inadequate allocation for committed liabilities could lead to default on contractual obligations.[14] It observed that if India were to default on payments, it will not go down well in international markets.[14] The Committee has repeatedly recommended the Ministry to create a dedicated fund for committed liabilities and new schemes.[9,15] So far, these funds have not been created. In 2022, the Committee noted that having a separate fund would ensure that there are no difficulties in meeting deadlines for making payment towards committed purchases of the armed forces.[15]

Table 3: Committed liabilities and modernisation budget (Rs crore)

Year	Committed liabilities	Modernisation budget	Shortfall (in %)
2016-17	73,553	62,619	15%
2017-18	91,382	68,965	25%
2018-19	1,10,044	73,883	33%
2019-20	1,13,667	80,959	29%

Note: Figures for committed liabilities have not been publicly disclosed after 2019-20.
Sources: 3rd Report, Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, December 2019; PRS.

Analysis of service budgets

In 2024-25, revenue expenditure on the army is estimated to increase by 1% over the revised estimate of 2023-24 while for air force and navy it is seen to be decreasing by 14% and 4% respectively. Note that revenue expenditure on pension of the armed forces is higher by around Rs 8,000 crore in 2024-25 (see Table 4). This is due to a recovery of Rs 8,000 crore from deposit account to meet pension expenditure in 2024-25. However, its disaggregated impact on the pension expenditure of the three defence services is not provided. The analysis in the rest of this section is up to the revised estimate of 2023-24, as service-wise breakup of capital outlay is not provided for 2024-25 in the budget documents.

Table 4: Defence budget allocation (Rs crore)

Major Head	Actuals 2022-23	RE 2023-24	BE 2024-25	% change 2023-24 RE to 2024-25 BE
Army Revenue	2,80,641	3,19,205	3,22,253	1%
Navy Revenue	39,990	46,586	44,662	-4%
Air Force Revenue	56,786	70,051	60,036	-14%
Capital Outlay	1,30,926	1,46,765	1,60,773	10%
Other	64,755	41,282	34,216	-17%
Total	**5,73,098**	**6,23,889**	**6,21,941**	**-0.3%**

Note: Army includes Jammu and Kashmir Light Infantry and Navy includes Coast Guard. Capital Outlay includes capital spending on coast guard. RE is revised estimate and BE is budget estimate.
Sources: Expenditure Budget, Union Budget 2024-25; PRS.

Army: Substantial expenditure on salaries and pension leaves little room for spending on modernisation

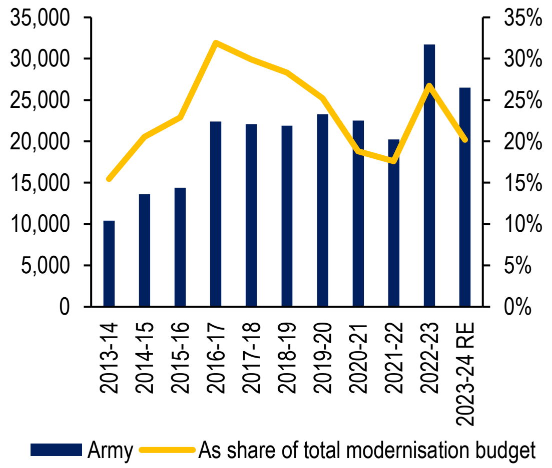
Table 5: Breakup of the Army budget as per 2023-24 RE (Rs crore)

Head	Amount Allocated	% of service budget
Salaries	1,25,321	36%
Pension	1,21,192	34%
Modernisation	26,500	8%
Maintenance	37,785	11%
Other forces	17,566	5%
Miscellaneous	24,253	7%
Total	**3,52,617**	

Note: Salaries include salary for civilians and auxiliary forces. Modernisation funds for the Army is calculated from the following heads of capital outlay: (i) Aircrafts and Aeroengines, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) Rolling Stock, (v) Rashtriya Rifles, and (vi) assistance for prototype development. Other forces include revenue expenditure on Rashtriya Rifles, NCC, Jammu and Kashmir Light Infantry, and Agnipath scheme.
Sources: Expenditure Budget, Union Budget 2024-25; PRS.

The Army is the largest of the three forces, both in terms of its budget as well as the number of personnel. As of January 2022, the Army has an authorised strength of 13.03 lakh personnel (including officers and soldiers).[16] As per the revised estimate of 2023-24, the expenditure on Army is seen at Rs 3,52,617 crore with 70% of this amount being spent on salaries and pension. With substantial amount of the budget spent on these two items, only 8% of the total expenditure in 2023-24 is estimated to go towards modernisation.

Figure 7: Expenditure on modernisation of Army (Rs crore)



Note: RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

Modernisation involves acquisition of state-of-the art technologies and weapons systems to upgrade and augment defence capabilities of the forces. After 2016-17, there has been a decrease in the modernisation funds allocated to the Army as a share of the total modernisation funds of the three forces. Note that in 2022-23, the Army's share in the total modernisation expenditure of the three forces increased to 27%. As per the revised estimate of 2023-24, Army's modernisation expenditure accounted for 20% of the total modernisation expenditure by the defence services and decreased by 16% as compared to 2022-23.

The Standing Committee on Defence (2023) was informed by Army representatives that modern armed forces should have 30% new generation equipment, 40% current generation equipment, and 30% older generation equipment.[17] Against this, the Indian Army currently has 15% new generation equipment, 40% current generation equipment, and 45% older generation equipment.[17] The Committee recommended that the budget allocated to the Army should cater to the induction of state-of-the-art weapon systems. It recommended increasing Army's capital budget to ensure India's deterrence capacity in dealing with two hostile neighbouring countries.[17]

Navy: Significant increase in funds allocated for modernisation over last decade

The total expenditure on the navy according to the revised estimate of 2023-24 is Rs 1,01,439 crore (including the expenditure on pension and coast guard). Almost half of the naval budget is estimated to be spent on modernisation in 2023-24. Note that there has been a decrease of 1% in spending on naval modernisation between the budget estimates and revised estimates for 2023-24. Within the modernisation budget, spending on aircrafts and aeroengines is expected to decrease by 64% to Rs 2,500 crore in 2023-24 while spending on other equipment is expected to increase by 60% to Rs 15,200 crore.

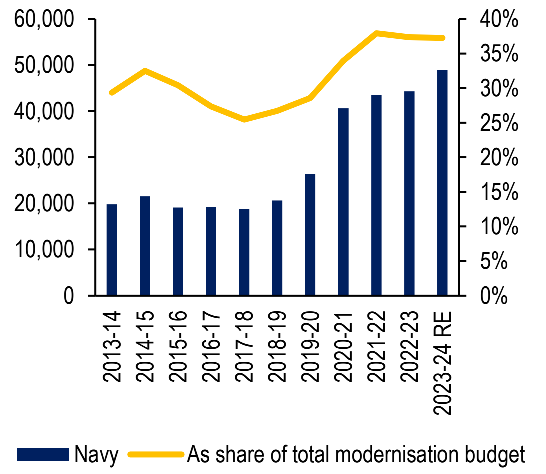
Table 6: Breakup of the Navy budget as per 2023-24 RE (Rs crore)

Head	Amount Allocated	% of service budget
Salaries	12,778	13%
Pension	7,096	7%
Modernisation	48,911	48%
Maintenance	16,298	16%
Others	8,334	8%
Miscellaneous	8,022	8%
Total	**1,01,439**	

Note: Salaries include salary for civilians. Modernisation funds for the Navy is calculated from the following heads of the capital outlay: (i) Aircrafts and Aeroengines, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) Naval Fleet, (v) Naval Dockyards and Projects, and (vi) Joint Staff. Others include revenue expenditure on Joint Staff, Coast Guard, and Agnipath.
Sources: Expenditure Budget, Union Budget 2024-25; PRS.

Since 2018-19, there has been a significant increase in the spending on naval modernisation. From 2020-21 onwards, spending on naval modernisation has consistently been higher than 30% of the total modernisation spending of the three defence services. As per the revised estimate of 2023-24, this share is expected at 37%. The Indian Navy currently has more than 130 ships and submarines.[17] A further 43 ships/submarines are under construction at various shipyards. However, there is a shortfall of planes and helicopters with the Navy for reconnaissance and transport.[17] The Standing Committee on Defence (2023) recommended that planned procurements should be completed as per the schedule to boost India's naval presence in the Indian Ocean Region.[17]

Figure 8: Expenditure on modernisation of Navy (Rs crore)



Note: RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

Air Force: Funds allocated for modernisation may not be sufficient to replace ageing planes

The Air Force's total spending in 2023-24 is estimated at Rs 1,28,551 crore (including pension for retired personnel). Like the Navy, more than 40% of the Air Force's budget is estimated to be spent on modernisation. The Air Force has consistently accounted for the largest share of the spending on modernisation by the three forces. However, the funds allocated for modernisation may not be sufficient for the needs of the Air Force.

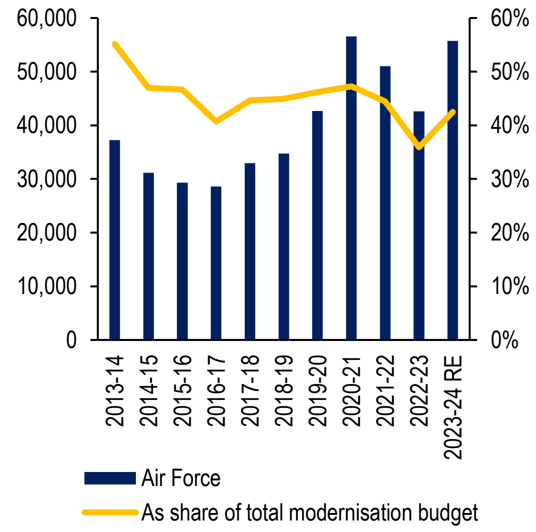
Table 7: Breakup of the Air Force budget as per 2023-24 RE (Rs crore)

Head	Amount Allocated	% of service budget
Salaries	22,797	18%
Pension	13,779	11%
Modernisation	55,716	43%
Maintenance	32,526	25%
Agnipath	186	0.1%
Miscellaneous	3,547	3%
Total	**1,28,551**	

Note: Salaries include salary for civilians. Modernisation funds for the Air Force is calculated from the following heads of capital outlay: (i) Aircrafts and Aeroengines, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) special projects, and (v) assistance for prototype development.
Sources: Expenditure Budget, Union Budget 2024-25; PRS.

The authorised strength of the Air Force is currently 42 fighter squadrons.[17] As against the authorised strength, the Air Force currently has 31 active fighter squadrons.[17] The Standing Committee on Defence (2023) noted that the Air Force needed at least 180 fighter aircrafts under the present circumstances.[17] The strength of the fighter squadron may further be depleted once the ageing fleets of MiG 21 and other aircrafts are phased out from service. The Committee noted that there has been a significant delay in the supply of light combat aircraft from Hindustan Aeronautics Limited. The Committee recommended that if there are delays in the indigenous manufacture of multi-role fighter aircraft, the government should consider over the counter purchase of fifth generation fighter aircraft.[17] The Committee further noted that the capital funding provided to the Air Force was insufficient for buying large number of fighter aircrafts. It recommended that procurement of aircrafts should not be delayed due to lack of adequate funds.[17]

Figure 9: Expenditure on modernisation of Air Force (Rs crore)



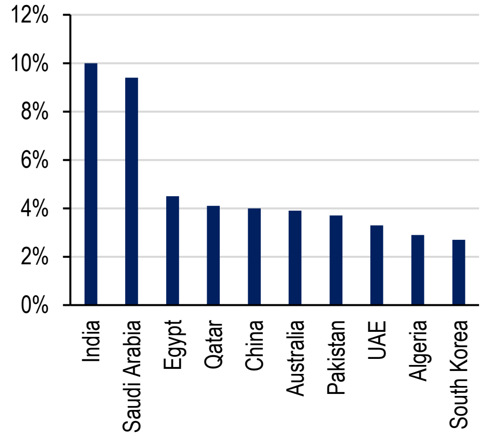
Note: RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

Issues to consider

India continues to be the largest importer of arms in the world

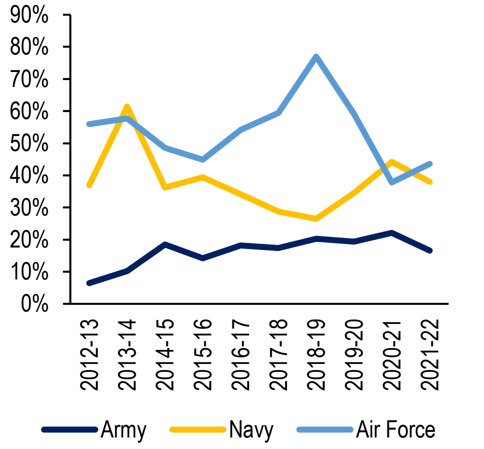
According to data maintained by SIPRI, India was the largest importer of arms between 2013 and 2023, followed by Saudi Arabia, Egypt, and Qatar. India accounted for 10% of the total volume of arms imported in the period from 2013 to 2023. Between 2017-18 and 2022-23 (up to December 2022), 264 capital acquisition contracts were signed for the defence forces out of which 88 contracts were signed with foreign vendors.[10] These vendors are from various countries including Russia, USA, and Israel. The major defence equipment which is imported include aircrafts, guns, missiles, and assault rifles.[10]

Figure 10: Top 10 importers of arms between 2013-2023 (as % of global imports)



Sources: SIPRI; PRS.

Figure 11: Share of spending on imports for capital acquisition by armed forces



Sources: 37th Report, Standing Committee on Defence, 17th Lok Sabha; PRS.

Between 2012-13 and 2021-22, defence equipment sourced from foreign vendors accounted for almost 40% of the total defence equipment acquired for the armed forces. In this period, acquisition of defence equipment from foreign sources increased at an annual rate of 5% while indigenous acquisition increased at an annual rate of 6%.[10] In 2021-22, India had sourced 36% of its defence equipment acquisitions from foreign vendors.[10]

However, there is significant variation in the import dependence of the three defence services over the last decade. This could be because warships and planes are more capital intensive in nature and hence may require to be imported if domestic supplies are not available. Note that between 2012-13 and 2021-22, 53% of the acquisitions for the Air Force and 38% of the acquisitions for the Navy were from foreign sources.[10] For the Army, foreign acquisitions accounted for 17% of the total defence acquisitions.[10]

The Standing Committee on Defence (2023) noted that the value of India's defence imports has been increasing consistently.[10] It recommended the Ministry to take measures so that the public and private sector can domestically manufacture defence equipment. This can involve extending concessions to domestic companies at various levels so that they can cater to domestic defence needs and also improve exports of such equipment.[10] The Estimates Committee (2018) had noted that dependence on foreign suppliers, especially for military hardware, makes India's security vulnerable as during emergency situations the supplier may not provide the required weapons or spare parts.[18]

The Defence Acquisition Procedure (DAP), 2020 seeks to enhance indigenous content in the manufacturing of defence equipment.[19] DAP is applicable for the acquisition of capital goods and services. It also provides for leasing of assets as another category of acquisition which can substitute huge initial capital outlays with periodical rental payments.[19] In November 2023, the DAP was amended to provide for at least 50% indigenous content (for material, components, and software) in all procurement categories.[20] For reducing imports, the Ministry has also released five positive indigenisation lists.[21] These lists include 5,012 defence equipment which are placed under import embargo in a staggered manner. According to the Department of Defence Production, so far, 59% of the items notified across the five lists have been indigenised.[21]

Defence exports have increased but India's share in global exports miniscule

Between 2016-17 and 2023-24, defence exports have increased at an annual growth rate of 46%. This has largely been driven by the increase in defence exports by private companies (see Table 8). Note that the growth in India's defence exports has happened over a low base in 2016-17 when India exported defence goods worth Rs 1,522 crore.[22] In 2023-24, India's defence exports were at Rs 21,083 crore.[23] India exports items such as missiles, radars, armoured vehicles, and ammunitions to over 85 countries.[22]

Table 8: Share of private sector in defence exports (Rs crore)

Year	Exports by Private Companies	Total Exports	Share of Private Companies
2016-17	194	1,522	13%
2017-18	3,163	4,682	68%
2018-19	9,813	10,746	91%
2019-20	8,008	9,116	88%
2020-21	7,271	8,435	86%
2021-22	5,965	12,815	47%
2022-23	9,051	15,918	57%
2023-24	13,119	21,083	62%

Sources: Department of Defence Production; PRS.

The central government aims to achieve defence exports worth Rs 35,000 crore by 2025 and Rs 50,000 crore by 2028-29.[24,25] For achieving defence exports worth Rs 35,000 crore by the end of 2024-25, exports would have to grow by 66% over 2023-24. While defence exports have increased, India accounts for a miniscule share of global volume of arms exports. According to SIPRI, between 2016 and 2023, India accounted for 0.2% of volume of arms exported globally. In this period, USA, Russia, and France accounted for 39%, 15%, and 9% of the total volume of global arms exports.[26]

Recruitment under Agnipath

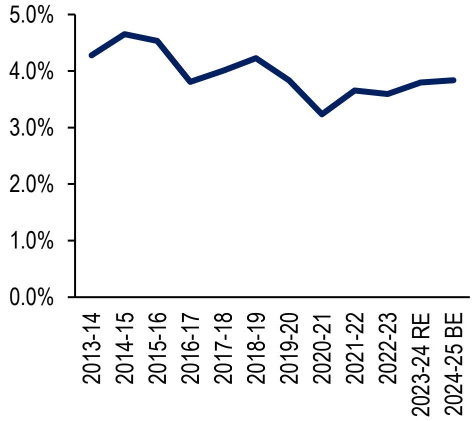
As discussed earlier, in June 2022, the central government introduced the Agnipath scheme for recruitment to the armed forces.[8] It applies to the recruitment of personnel below officer's rank (PBOR) in the three armed services.[27] PBORs (soldiers/sailors/airmen) form the bulk of the personnel in the defence services. The Agnipath scheme will significantly reduce the service tenure of at least 75% of the recruits (Agniveers) to four years. From each batch of Agniveers, up to 25% of the personnel will be enrolled in regular cadre of the armed forces. These individuals will have to serve a further period of at least 15 years. The remaining Agniveers will not be retained by the armed forces. Recruitment through Agnipath is expected to reduce the average age profile of the armed forces by around four to five years.[8]

Currently, PBORs employed across the Army, Navy, and Air Force, serve for a time period of 19 years to more than 30 years, depending upon their rank and retirement age. The Report of the Group of Ministers on National Security (2001), had observed that there was a need to have a younger profile for the armed services so that they are at their fighting best at all times.[28] The Kargil Review Committee had recommended that in order to have a young and fit army, the minimum service period should be reduced from 17 years to seven to 10 years.[28] Note that the length of engagement for a majority of Agniveers will be well short of this recommended service period. The impact that recruitment under Agnipath will have on the operational preparedness of the armed forces is not clear. According to the central government, the scheme will enhance operational preparedness.[29] A younger profile of the armed force will be more fit for fighting and would have a higher risk-taking capability.[29] However, letting go of at least 75% of Agniveers in a batch would mean that the armed forces will see a higher churn in personnel. As per media reports, the Army has been conducting an internal survey of the Agnipath scheme to assess any changes that may be required in recruitment.[30]

Share of defence budget spent on R&D has decreased in recent years; several projects marred by delays

The Defence Research and Development Organisation (DRDO) is involved in the production of strategic and tactical military hardware in areas such as aeronautics, armaments, combat vehicles, and missiles.[31] In recent years, the share of the defence budget allocated for research and development has decreased. In 2014-15, 4.7% of the total defence budget was allocated for research and development. In 2020-21, this ratio decreased to 3.2% and is seen to be increasing to 3.8% as per budget estimates of 2024-25. Between 2013-14 and 2024-25, spending on defence related research and development is estimated to increase at an annual rate of 7%, largely similar to the annual increase in the total defence budget.

Figure 12: Share of defence budget spent on R&D (in %)



Source: 42nd Report; Standing Committee on Defence, 17th Lok Sabha; Union Budget Documents (various years); PRS.

The Standing Committee on Defence (2023) noted that research and development is a robust and modern defence mechanism.[32] This involves providing funds for in-house projects of DRDO along with outsourcing of defence research and development. The Committee recommended providing adequate funds to DRDO for its ongoing and future projects.[32]

In addition to decrease in research and development funding, several projects undertaken by DRDO have been marred by delays. In an analysis of 178 DRDO projects, CAG observed that 119 projects did not adhere to the original timeline.[31] In 49 projects, the additional time taken was more the original schedule which was envisaged. Projects have been declared as successful despite them not meeting one or more key objectives and parameters.[31] The Standing Committee on Defence noted that delay in completion of DRDO projects has become frequent. These lead to cost overruns and deprive the armed forces of critical capabilities.[31] The Committee recommended: (i) revisiting DRDO's internal review mechanisms, and (ii) ensuring the presence of technical personnel in the review mechanism.[32]

[1] Trends in World Military Expenditure 2023, SIPRI Fact Sheet, April 2024, https://www.sipri.org/sites/default/files/2024-04/2404_fs_milex_2023.pdf.

[2] 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://sansad.in/getFile/lsscommittee/Defence/17_Defence_37.pdf?source=loksabhadocs.

[3] 40th Report: Demands for Grants (2018-19) General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions, Ex-Servicemen Contributory Health Scheme, Standing Committee on Defence, Lok Sabha, March 12, 2018, https://loksabhadocs.nic.in/lsscommittee/Defence/16_Defence_40.pdf.

[4] Provisional Accounts for 2023-24, Union Government Accounts at a Glance, Controller General of Accounts, Ministry of Finance, as accessed on July 26, 2024, https://www.cga.nic.in/MonthlyReport/Published/3/2023-2024.aspx.

[5] Total Expenditure, Provisional Accounts for 2023-24, Union Government Accounts at a Glance, Controller General of Accounts, Ministry of Finance, as accessed on July 26, 2024, https://www.cga.nic.in/MonthlyReport/Published/3/2023-2024.aspx.

[6] "Union Cabinet approves revision of pension of Armed Forces Pensioners/family pensioners under One Rank One Pension w.e.f. July 01, 2019", Press Information Bureau, Ministry of Defence, December 23, 2022, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1886168.

[7] Chapter 11, Defence and Internal Security, Volume-I Main Report, 15th Finance Commission, October 2020, https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/Reports/XVFC%20VOL%20I%20Main%20Report.pdf.

[8] "In a transformative reform, Cabinet clears 'Agnipath' scheme for recruitment of youth in the armed forces", Press Information Bureau, Ministry of Defence, June 14, 2022, https://www.pib.gov.in/PressReleseDetailm.aspx?PRID=1833747.

[9] 21st Report, Demands for Grants (2021-22) Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodation Project, Standing Committee on Defence, Lok Sabha, March 2021, https://loksabhadocs.nic.in/lsscommittee/Defence/17_Defence_21.pdf.

[10] 37th Report: Demands for Grants (2023-24), Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, Lok Sabha, March 21, 2023, https://sansad.in/getFile/lsscommittee/Defence/17_Defence_37.pdf?source=loksabhadocs.

[11] Speech of Finance Minister, Interim Budget 2004-2005, February 3, 2004, https://www.indiabudget.gov.in/doc/bspeech/bs200405(I).pdf.

[12] 32nd Report: Creation of Non-Lapsable Capital Fund Account, Instead of the Present System, Standing Committee on Defence, Lok Sabha, August 2017, https://sansad.in/getFile/lsscommittee/Defence/16_Defence_32.pdf?source=loksabhadocs.

[13] Unstarred Question No. 1110, Lok Sabha, Ministry of Defence, December 8, 2023, https://sansad.in/getFile/loksabhaquestions/annex/1714/AU1110.pdf?source=pqals.

[14] 3rd Report, Demands for Grants (2019-20), Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodation Project, December 2019, http://164.100.47.193/lsscommittee/Defence/17_Defence_3.pdf.

[15] 28th Report: Capital Outlay on Defence Services. Procurement Policy, Defence Planning and Married Accommodation Project (Demand No. 21), Standing Committee on Defence, Lok Sabha, March 2022, https://loksabhadocs.nic.in/lsscommittee/Defence/17_Defence_28.pdf.

[16] Strength of Officers in Defence Forces, Unstarred Question No. 1121, Lok Sabha, July 22, 2022, https://sansad.in/getFile/loksabhaquestions/annex/179/AU1121.pdf?source=pqals.

[17] 36th Report: Demands for Grants (2023-24), Army, Navy, Air Force, Joint Staff, Ex-Servicemen Contributory Health Scheme and Sainik Schools, Standing Committee on Defence, Lok Sabha, March 21, 2023, https://sansad.in/getFile/lsscommittee/Defence/17_Defence_36.pdf?source=loksabhadocs.

[18] 29th Report: Preparedness of Armed Forces- Defence Production and Procurement, Committee on Estimates, July 25, 2018, https://loksabhadocs.nic.in/lsscommittee/Estimates/16_Estimates_29.pdf.

[19] Defence Acquisition Procedure, 2020, Ministry of Defence, https://www.mod.gov.in/dod/sites/default/files/DAP202013Apr22.pdf.

[20] "Defence Acquisition Council approves capital acquisition proposals worth Rs 2.23 lakh crore to enhance the operational capabilities of the Armed Forces", Press Information Bureau, Ministry of Defence, November 30, 2023, https://pib.gov.in/PressReleasePage.aspx?PRID=1981135#:~:text=It%20has%20been%20decided%20that,that%20are%20manufactured%20in%20India.

[21] Status of Positive Indigenisation List of DPSUs, Srijan Dashboard, Ministry of Defence, as accessed on May 19, 2024, https://srijandefence.gov.in/DashboardForPublic.

[22] "Aatmanirbharta on the rise: Defence exports reach an all-time high of approx. Rs 16,000 crore in Financial Year 2022-23; Over 10-times increase since 2016-17; India exporting to over 85 countries", Press Information Bureau, Ministry of Defence, April 1, 2023, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1912885.

[23] "Defence exports touch record Rs 21,083 crore in FY 2023-24, an increase of 32.5% over last fiscal; Private sector contributes 60%, DPSUs - 40%", Press Information Bureau, Ministry of Defence, April 1, 2024, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2016818#:~:text=Defence%20exports%20have%20touched%20a,compared%20to%20FY%202013%2D14.

[24] "Raksha Mantri reviews working of seven defence companies, carved out of OFB, on completion of one year of operations", Press Information Bureau, Ministry of Defence, September 30, 2022, https://pib.gov.in/PressReleseDetailm.aspx?PRID=1863733.

[25] "India's defence stronger than ever as the Govt is bolstering it with Indianness: Raksha Mantri Shri Rajnath Singh", Press Information Bureau, Ministry of Defence, March 7, 2024, https://pib.gov.in/PressReleasePage.aspx?PRID=2012132.

[26] Arms Transfers Database, SIPRI, as accessed on July 25, 2024, https://armstransfers.sipri.org/ArmsTransfer/CSVResult.

[27] "Agnipath is a game changer scheme for the Armed forces, Raksha Mantri Shri Rajnath Singh during MoU Exchange Ceremony 'Outreach Programme with MoE & MoSDE' in New Delhi", Press Information Bureau, Ministry of Defence, January 3, 2023, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1888329#:~:text=The%20Government%20had%20launched%20Agnipath,to%20apply%20for%20the%20scheme.

[28] Report of the Group of Ministers on National Security, February 19, 2001, https://www.vifindia.org/sites/default/files/GoM%20Report%20on%20National%20Security.pdf.

[29] Agnipath Booklet, Ministry of Defence.

[30] "Army conducts own survey on scheme for Agniveers, may recommend tweaks", The Indian Express, May 23, 2024,

https://indianexpress.com/article/india/army-conducts-own-survey-on-scheme-for-agniveers-may-suggest-tweaks-9346007/.

[31] 38th Report: Demands for Grants (2023-24), Directorate of Ordnance (Coordination and Services) – New DPSUs, Defence Research and Development Organisation and National Cadet Corps, Standing Committee on Defence, Lok Sabha, March 21, 2023, https://sansad.in/getFile/lsscommittee/Defence/17_Defence_38.pdf?source=loksabhadocs.

[32] 42nd Report: A Review of the Working of the Defence Research and Development Organisation (DRDO), Standing Committee on Defence, Lok Sabha, December 20, 2023, https://sansad.in/getFile/lsscommittee/Defence/17_Defence_42.pdf?source=loksabhadocs.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.