



Delhi Policy Group

Advancing India's Rise as a Leading Power



POLICY BRIEF

India's Defence Budget 2025-26

Author

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Cover Photographs:

Finance Minister Niramala Sitaraman leaves from the Ministry of Finance for Rashtrapati Bhavan, on February 1, 2025.

Source: [Ministry of Finance/DD News](#)

Chief of the Army Staff General Upendra Dwivedi and Chief of the Air Staff Air Chief Marshal AP Singh took a sortie together in the indigenous Light Combat Aircraft Tejas in Bengaluru, on February 9, 2025. Source: [MOD](#)

Indian made Specialist Mobility Vehicles ATOR N1200 during operational preparedness exercise of the Bald Eagle Brigade in Rann Sector, February 2, 2025. Source: [ADGPI](#)

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India's Defence Budget 2025-26

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Geopolitical Environment

India's security landscape in 2024 has witnessed some notable developments. The standoff at the Line of Actual Control (LAC) has been resolved following diplomatic negotiations and disengagement agreements with China. While border tensions have eased, India remains cautious, enhancing its infrastructure and rapid response capabilities along the border. Addressing a press conference ahead of the Army Day on January 14, the Army Chief, General Upendra Dwivedi, said that there exists a "degree" of standoff with the Chinese armed forces across the LAC in Eastern Ladakh and that there are no immediate plans for reduction in troop levels.¹

Tensions with Pakistan persist, with cross-border terrorism and potential instability in Jammu and Kashmir continuing to be significant security concerns. Additionally, the ongoing ethnic conflict in Manipur and the civil war in Myanmar require dedicated resources for internal security operations and the management of the Indo-Myanmar border.

The evolving geopolitical landscape, including conflicts such as the Russia-Ukraine war and tensions in the Middle East, continues to impact supply chains and defence procurement strategies. The delivery of two of the five S-400 air defence squadrons contracted from Russia has been delayed by two years. As a result, the push for self-reliance in defence production has gained further momentum, driving India to accelerate indigenous manufacturing efforts.

India's strategic landscape is defined by its economic strength and military capability. Although India has one of the world's largest economies and a formidable military force, it still grapples with constraints in defence technology and self-sufficiency. While initiatives to modernise the military and reduce reliance on foreign arms suppliers are ongoing, progress remains slow and incremental.

In this situation, Finance Minister Nirmala Sitharaman, while presenting the Union Budget on February 1, 2025, announced an allocation of Rs 6,81,210.27

¹ "India Not Looking to Reduce Troops along LAC, Says Army Chief - The Tribune." Accessed February 8, 2025. <https://www.tribuneindia.com/news/india/india-not-looking-to-reduce-troops-along-lac-says-army-chief/>.

crore for the Financial Year (FY) 2025-26 for the Ministry of Defence (MoD).² This allocation is 9.53% more than the Budgetary Estimate (BE) of FY 2024-25, and 6% more than the Revised Estimate (RE) for the previous year. In terms of percentage of GDP, the allocation is 1.9%, showing a declining trend over the past few years.

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 MoD's budget estimates 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's budget estimate (BE) and revised estimate (RE), and the current budget, are given below.

In Crore Rupees			
Demand	BE 2024-25	RE 2024-25	BE 2025-26
MoD (Civil)	25963 (4%) USD 2.97 bn *	26656 (4%) USD 3.04 bn	28683 (4%) USD 3.28 bn
Revenue	282772 (45%) USD 32.35 bn	297222 (46%) USD 34.0 bn	311732 (46%) USD 35.67 bn
Capital	172000 (28%) USD 19.68 bn	159500 (25%) USD 18.25 bn	180000 (26%) USD 20.60 bn
Pensions	141205 (23%) USD 16.16 bn	157681 (25%) USD 18.04 bn	160795 (24%) USD 18.40 bn
Total	621940 USD 71.16 bn	641095 USD 73.35 bn	681210 USD 77.94 bn

* Calculated at the current exchange rate of 1 USD = 87.4 INR

In this year's allocation, 26% of the budget goes for capital expenditure, 46% for revenue, 24% for Defence Pensions, and 4% for civil organisations. Under the revenue head, the Army spends about 60% on pay and allowances, the Navy 39%, and the Air Force 42%. The non-salary component of the revenue budget has seen a hike of 24.25% to cater for additional deployment of the forces in the

² "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." Accessed February 8, 2025.
<https://pib.gov.in/pib.gov.in/Pressreleaseshare.aspx?PRID=2098485>.

border areas, an increase in expenditure on longer sea deployment of ships, and an increase in flying hours for the aircraft.³

Analysis of 2024-25 Spending

While budget estimates provide broad expenditure trends, the revised estimate gives a more accurate picture of how the money is spent. In FY 2024-25, the MoD spent approximately Rs 20,000 crore more than budgeted. This increase is entirely in the revenue head, which saw a rise of Rs 14,450 crore, and pensions, which increased by Rs 16,476 crore.

The Army and Air Force's store expenditures saw a significant increase over the BE, indicating that the deployment of troops at the border and increased operational costs of the Air Force were coming at a higher price than budgeted.

While the revenue expenditure increased, there was an underspending of Rs12,500 crore in the capital expenditure. Apart from the procurement of aircraft and aero engines and the naval fleet, almost all other modernisation projects were unable to utilise the funds allocated. There was a similar trend last year, with the MoD unable to spend its capital budget. There is, therefore, a need to review a whole range of procurement processes, including correct planning, timely approvals, and avoiding delays in trials and deliveries.

Self-Reliance in Defence Production

For the FY 2025-26, Rs 1,11,544.83 crore, i.e. 75% of the modernisation budget, has been earmarked for procurement through domestic sources and 25% of domestic share, i.e. Rs 27,886.21 crore, has been provisioned for procurement through domestic private industries.

According to the data provided to the Standing Committee on Defence (2024-25), from 2019-20 to 2023-24, the Army spent 88% of its capital acquisition budget on indigenous procurement.⁴ In July 2024, the Department of Defence Production (DDP) notified the fifth Positive Indigenisation List (PIL) consisting of 346 items. Earlier, four PILs comprising 4,666 items were notified by the DDP for DPSUs, of which 2,972 have already been indigenised. These five lists are in

³ Ibid

⁴ Standing Committee on Defence (2024-25).

https://sansad.in/getFile/lsscommittee/Defence/18_Defence_2.pdf?source=loksabhadocs

addition to the five PILs of 509 items notified by the Department of Military Affairs.⁵

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 Indian Air Force Chief, Air Chief Marshal A P Singh, referred to this when he stated that Hindustan Aeronautics Limited has yet to deliver the first 40 Tejas fighters, deliveries of which started in 2016.⁶ The delivery of Tejas Mk1A fighter jets has also been delayed, as GE Aerospace has been unable to supply the aircraft's engines.⁷

Modernisation

The allocation for the Defence Services shows an increase of 3.87% over the BE of 2024-25. Of the total Rs 161528 crore for the services, Rs 148723 crore is planned to be spent on Capital Acquisition for modernising the Armed Forces. The only major increase this year is for aircraft and aero engines. All other heads show a similar allotment as last year.

The modernisation head has no separate distinction 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.

In Crore Rupees

Defence Services	2024-25 (BE)	2024-25 (RE)	2025-26 (BE)
Land	2329	843	1021
Aircraft and Aero Engines	40278	46592	48614
Heavy and Medium Vehicles	4638	4093	3651
Other Equipment	62198	46589	63099

⁵ "Aatmanirbharta in Defence: MoD Notifies Fifth Positive Indigenisation List of 346 Items for DPSUs." <https://pib.gov.in/pib.gov.in/Pressreleaseshare.aspx?PRID=2033571>.

⁶ Deshpande, Smruti. "IAF Chief Expresses Frustration with Sluggish Pace of Tejas Production. 'Tech Delayed Is Tech Denied.'" ThePrint, January 7, 2025. <https://theprint.in/defence/iaf-chief-expresses-frustration-with-sluggish-pace-of-tejas-production-tech-delayed-is-tech-denied/2435334/>.

⁷ Standard, Business. "Govt Imposes Fine on US Firm over Delays in Delivery of Tejas Mk1 Engines," November 4, 2024. https://www.business-standard.com/industry/news/govt-imposes-fine-on-us-firm-over-delays-in-delivery-of-tejas-mk1-engines-124110400621_1.html.

Defence Services	2024-25 (BE)	2024-25 (RE)	2025-26 (BE)
Joint Staff	1353	2465	2353
ECHS	41.5	41.5	20
Rashtriya Rifles	200	227	150
NCC	17	17	46
Rolling Stock	200	176	500
Construction works	12017	10562	11452
Naval Fleet	23800	25605	24391
Naval Dockyard / Projects	6830	5418	4500
Special Projects	1574	1151	1732
Total	155476	143778	161528

Research and Development

The budgetary allocation to Defence Research and Development Organisation (DRDO) has increased to Rs 26817 crore, which is 12.4% higher than the BE of 2024-25. Out of this, Rs 14924 crore has been allocated for capital expenditure and to fund the R&D projects. Of this capital expenditure, more than 50% goes into strategic systems, leaving 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 the government has earmarked Rs 450 crore for the iDEX scheme for startups and MSMEs to fund projects in defence technology,

The allocation to the DRDO is 3.94% of the total defence budget. This is insufficient to carry out any significant R&D in emerging technologies. Estimates for China and the US indicate that the two countries spend 15 to 18 per cent of their defence budget on R&D. The government is currently in the process of implementing the recommendations of the Vijay Raghavan Committee on reforms in the DRDO. This is a much-needed step but must be accompanied by allocating sufficient funds for cutting-edge research.

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

Infrastructure Development

The government's focus on improving the border infrastructure continues. Rs 7,146.50 crore has been allocated to Border Roads Organisation (BRO) under capital head which is 9.74% higher than the BE of 2024-25. The improvement in infrastructure will not only enhance military capability but also boost socio-economic development, provide employment opportunities and encourage tourism.

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 MoD be allotted a higher 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. Estimates indicate that China spends at least 40% more than it announces in its public defence budget, which equates to about \$330 to \$450 billion in total defence spending for 2024.⁹

The Indian government has been reluctant to commit to an increase in defence spending. However, even if there is no fixed allocation as a percentage of the GDP, funds under the capital must be allocated based on a long-term capability development plan that the Ministry of Finance approves. There is a clear disconnect between the Services' plans for modernisation and the finances allocated each year.

Indian industry will need to significantly ramp up its capacity to produce defence equipment. This will require considerable government support through policies that expedite procurement processes, award long-term contracts, and provide financial incentives.

India's expenditure on defence R&D is inadequate to transform the Indian military into a high-technology force prepared for future conflicts. India must exploit commercial technologies in the private sector by streamlining procurement practices that could bring agility and significantly reduce timelines for adopting emerging technologies.

⁹ McLeary, Paul. "Pentagon Report: China to Build 1,000 Nukes by 2030." POLITICO, December 18, 2024. <https://www.politico.com/news/2024/12/18/pentagon-report-china-nuclear-weapons-00195031>.

Conclusion

The 2025-26 Defence Budget reflects the Indian government's attempt to balance modernisation, operational readiness, and self-reliance amid a dynamic geopolitical environment. While the overall allocation has seen a 9.5% increase over the previous year, the budget as a percentage of GDP remains at 1.9%, continuing a declining trend that raises concerns about long-term defence capability.

The capital budget continues to face underspending, with procurement bottlenecks delaying modernisation plans. The lack of clarity in distinguishing committed liabilities from new acquisitions hampers a transparent evaluation of India's modernisation trajectory. Meanwhile, operational expenses continue to rise, with the revenue expenditure exceeding the budgetary estimate.

A key highlight of this budget is the continued push for indigenisation, with 75% of the modernisation budget earmarked for domestic procurement. However, challenges persist in India's defence industrial base, with delays in critical platforms such as the Tejas Mk1A fighter jets, and defence R&D spending remaining at a modest 3.94% of the total budget.

A long-term capability development plan, approved and backed by the Ministry of Finance, is essential to align military modernisation with budgetary allocations. India must also enhance private sector participation, streamline procurement timelines, and leverage commercial technology to bridge gaps in defence manufacturing.

Ultimately, while the 2025-26 defence budget provides incremental improvements, India's ability to meet emerging security challenges will depend not just on increased funding but also on structural reforms, strategic planning, and technological innovation.



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