PRS LEGISLATIVE RESEARCH

Demand for Grants 2026-27 Analysis
Defence

Highlights

- Defence budget as % of GDP is estimated at 2.0% in 2026-27. This is lower than the level recommended by the Standing Committee on Defence (3% of GDP). Excluding pension spending, defence expenditure amounts to 1.6% of GDP in 2026-27.
- Salary and pension are estimated to constitute 44% of the total defence expenditure in 2026-27. The 8th Pay Commission recommendations may increase expenditure pressure on these fronts in the next few years.
- Spending on capital expenditure has averaged 27% of the total defence budget in the last decade, against the recommended 40%.
- India was the second largest importer of arms between 2020 and 2024. In recent years, domestic production has seen a rise. Key challenges include limited presence in high-tech manufacturing, shortfall in R&D spending, and quality concerns.

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). It is also responsible for production establishments such as defence public sector undertakings, and research and development organisations. Additionally, it oversees 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. It also discusses certain issues in the sector.

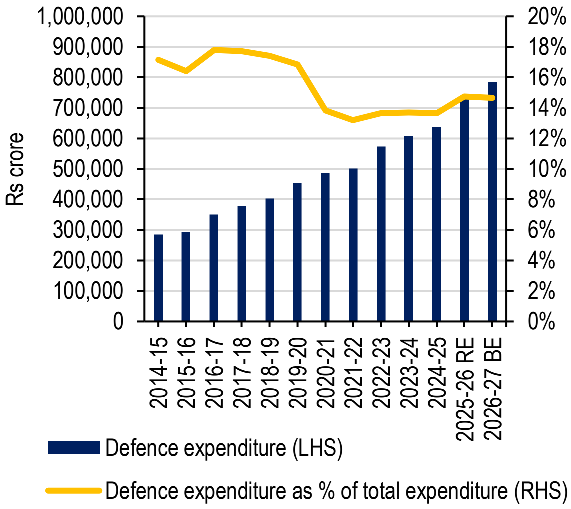
Overview of Finances

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 2026-27, the Ministry has been allocated Rs 7,84,678 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 Defence Ministry is the highest across all ministries and accounts for 14.7% of the total expenditure of the central government (Rs 53,47,315 crore). The Revised Estimates (RE) for 2025-26 are 8% higher compared to the Budget Estimates (BE) for the year. This is mainly due to additional expenditure of Rs 36,131 crore estimated at the revised stage towards spectrum charges. In 2026-27, Rs 37,200 crore has been allocated towards spectrum charges. These include payment of current spectrum charges and previous dues of principal and late fee components payable to the Department of Telecommunications.

Defence spending remains the largest budget head, but its share in government expenditure and GDP has declined

Defence constitutes the highest proportion of the central government's budget. However, the share of central budget spent on defence has decreased over the years. Expenditure on defence has fallen from 17.1% of the total expenditure by the central government in 2014-15 to 14.7% in 2026-27 (see Figure 1). Between 2014-15 and 2026-27, the expenditure of the central government is estimated to increase at an annualised rate of 10.2%. In comparison, the defence expenditure is estimated to increase at an annualised rate of 8.8% during the same period.

Figure 1: Share of defence expenditure in centre's expenditure has seen a decline



Note: BE: Budget Estimates; RE: Revised Estimates.
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.[1] In response, the Ministry of Finance had noted that allocations at the Revised Estimates stage depend on expenditure progress, committed liabilities, and the government's resource position.[1] As resources are allocated based on need and competing priorities, defence expenditure cannot be fixed as a share of total expenditure or GDP.[1] India's spending on defence has consistently been lower than this recommended level. Spending on defence has decreased from 2.3% of GDP in 2014-15 to 2.0% of GDP in 2026-27. If spending on defence pension is excluded, defence expenditure as a percentage of GDP will be about 0.5% lower in each year (Figure 2 on the next page).

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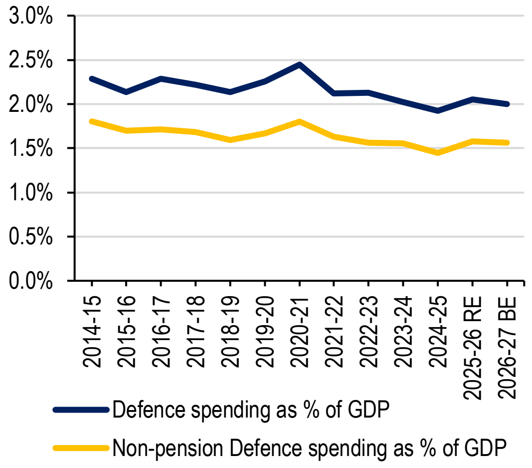
Figure 2: Defence expenditure has decreased as a percentage of GDP



Sources: Union budget documents (various years); PRS.

According to data from the Stockholm International Peace Research Institute (SIPRI), India's spending on defence was the fifth highest in 2024.[2] This includes spending on paramilitary forces. In absolute terms, China's defence spending in 2024 was 3.6 times India's defence spending.

Table 1: Top military spenders in 2024

Country	Defence Expenditure (USD billion)	% of General Government Expenditure
USA	997	9.1%
China	314	5.1%
Russia	149	18.9%
Germany	88	3.9%
India	86	7.6%
UK	82	5.3%
Saudi Arabia	80	22.3%
Ukraine	65	54.0%
France	65	3.6%
Japan	55	3.3%
Pakistan*	10	13.8%

Note: *Pakistan was ranked 29 in military spending in 2024. ^as a percentage of general government expenditure
Sources: SIPRI Military Expenditure Database; PRS.

Composition of defence budget

In 2026-27, the central government has allocated Rs 7,84,678 crore for the Ministry of Defence which is an increase of 7% over the revised estimate of 2025-26 (see Table 2). Within the defence budget, expenditure on salaries is estimated to increase by 3% while that on pension is seen increasing by 1%. Salaries and pension account for 44% of the estimated spending on defence in 2026-27. Between 2014-15 and 2026-27, defence expenditure on salary and pension are estimated to grow at an annualised rate of about 8%. 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. Other expenses have grown in 2025-26 and 2026-27 mainly on account of expenditure towards spectrum charges payable to the Department of Telecommunications.

Capital outlay, which includes spending on acquisition of arms, ammunition, and other equipment, is estimated to increase by 17% in 2026-27 as compared to the revised estimate of 2025-26. Between 2014-15 and 2026-27, capital outlay in defence grew at an annualised rate of around 9%. Other expenses include spending on transportation, Rashtriya Rifles, Agnipath scheme, and other establishment expenditure of the Ministry.

The 16th Finance Commission projects defence pay and allowances to grow at about 6% annually during the award period (2026-31).[3] Non-salary expenditure is expected to grow much faster, at around 15% per annum, to meet increasing defence requirements.

Table 2: Composition of defence budget

Major Heads	2024-25	2025-26 RE	2026-27 BE	% change (25-26 RE to 26-27 BE)
Salaries	1,62,384	1,66,064	1,71,044	3%
Pensions	1,57,654	1,69,187	1,71,338	1%
Capital Outlay	1,70,617	1,97,417	2,31,010	17%
Maintenance	83,220	93,321	92,870	0%
Other Expenses	62,128	1,06,523	1,18,416	11%
Total	**6,36,003**	**7,32,512**	**7,84,678**	**7%**

Note: Salaries include pay and allowances of the armed forces, auxiliary forces, civilians, and research and development. 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 2026-27; PRS.

In 2026-27, revenue expenditure on the army is estimated to increase by 6% over the revised estimate of 2025-26, while for navy it is expected to increase by 7% (see Table 3). The increase in the revenue expenditure of the air force is negligible. Note that revenue expenditure on pension in 2026-27 is adjusted for recovery of Rs 8,000 crore from public account. Its disaggregated impact on the pension expenditure of the three defence services is not provided. From 2024-25, the government has been consolidating capital expenditure demands of the three services into common categories such as Aircraft and Aero engines and Heavy and Medium Vehicles.[4] This is to promote jointness and provide the Ministry of Defence with greater flexibility to reallocate funds across services based on priorities.[4]

Table 3: Revenue expenditure by service (Rs crore)

Service	2024-25 Actuals	2025-26 RE	2026-27 BE	% change (25-26 RE to 26-27 BE)
Army	3,33,761	3,75,416	3,96,977	6%
Navy	45,299	57,060	61,216	7%
Air Force	64,690	80,756	80,796	0%
Others	21,604	16,965	17,601	4%
Total	**4,65,355**	**5,30,197**	**5,56,590**	**5%**

Note: Others include Directorate of Ordnance, research and development, and Ministry of Defence (Civil).
Sources: Expenditure Budget, Union Budget 2026-27; PRS.

Table 4: Salary and pension spending by service in 2026-27 as per budget estimates (Rs crore)

Service	Salary	% of Service Revex	Pension	% of Service Revex
Army	1,29,516	33%	1,51,631	38%
Navy	13,460	22%	10,024	16%
Air Force	22,768	28%	17,646	22%

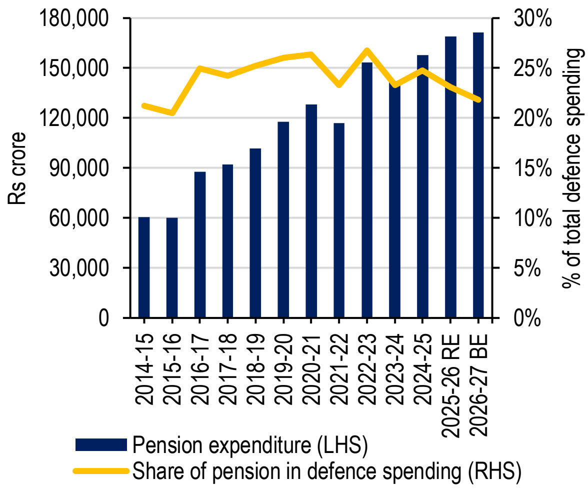
Note: Revex refers to revenue expenditure.
Sources: Expenditure Budget, Union Budget 2026-27; PRS.

Pension payments constitute more than 20% of the defence budget

Defence pension covers pensionary benefits for retired defence personnel of the three services (including civilian employees).[5] It covers payment of service pension, gratuity, family pension, disability pension, commuted value of pension, and leave encashment.[5] The total number of defence pensioners in the country is 32,94,181.[6] Pension payments account for a substantial share of defence spending. Defence pension outlays have grown at an annualised rate of about 20%, increasing from Rs 10,539 crore in 2000-01 to Rs 1,71,338 crore in 2026-27. In comparison, non-pension defence expenditure grew at a slower annualised rate of 17%, rising from Rs 54,800 crore in 2000-01 to Rs 6,13,340 crore in 2026-27. Pensions accounted for 16% of the defence budget in 2000-01 and are estimated to contribute 22% to the total defence expenditure in 2026-27 (see Figure 3).

Defence pensions are at about the same level as salaries for defence personnel (Table 2 on previous page). In contrast, for the rest of the central government, pension (Rs 1,24,876 crore) is budgeted at about one-third of salaries and allowances (Rs 3,67,182 crore) in 2026-27.

Figure 3: Pensions accounted for about one-fourth of the defence spending between 2014-15 and 2026-27



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

Several factors have contributed to the rise in defence pension expenditure. These include: (i) an increase in the length of colour service, (ii) implementation of the recommendations of successive Pay Commissions, and (iii) the introduction of the One Rank One Pension (OROP) scheme. Colour service refers to the period of service rendered by personnel while on active duty in the Armed Forces. Since 1965, the minimum colour service required of Personnel Below Officer Rank (PBORs) has increased from seven years to 17 years, while the minimum qualifying service for pension has remained unchanged at 15 years.[7,8] As a result, nearly all personnel retiring after completing colour service qualify for a pension.

The implementation of the Seventh Central Pay Commission (CPC) from January 2016 led to a sharp rise in defence pensions, which increased by about 46% between 2015-16 and 2016-17.[9] The revised pay structure as per the recommendations of the Eighth CPC is expected to take effect from January 1, 2026.[10] This will lead to a further increase in defence pension spending.

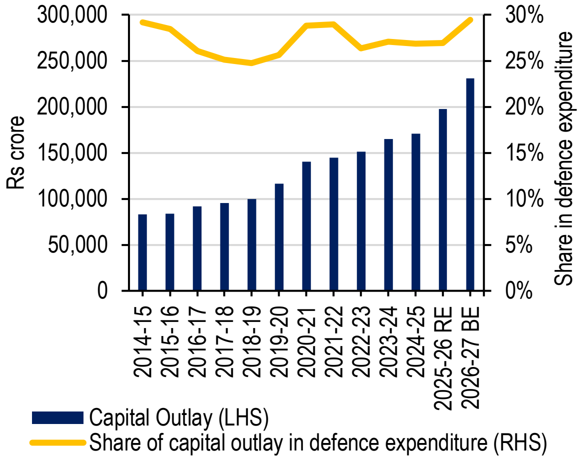
In November 2015, the government approved the implementation of OROP, with benefits effective from July 1, 2014.[11] Under OROP, personnel retiring at the same rank with the same length of service are entitled to the same pension, irrespective of their date of retirement.[12] Pensions under OROP are revised every five years.[12] Over the eight-year period beginning July 1, 2014, expenditure on OROP averaged about Rs 7,123 crore per year.[11] Financial implication of the latest OROP revision, effective from July 1, 2024, has been assessed at Rs 6,703 crore per annum.[13]

The 15th Finance Commission had recommended that the Ministry should take steps to reduce salaries and pension liabilities.[14] The Agnipath scheme for recruiting soldiers, sailors, and airmen into the armed forces may help in reducing pension expenditure in the long term (see page 7).

Capital outlay has remained below 30% of the defence budget

The share of the defence budget spent on capital outlay has decreased in recent years. Capital outlay for defence includes expenditure on construction work, machinery, and equipment such as tanks, naval vessels, and aircraft. It also includes capital expenditure on research and development and construction of border roads. Between 2014-15 and 2025-26, 27% of the defence budget is estimated to be spent on capital outlay. In 2026-27, 29% of the defence expenditure is budgeted towards capital outlay. The Standing Committee on Defence (2021) had observed that the ideal ratio of revenue expenditure to capital outlay was 60:40.[15]

Figure 4: Spending on capital outlay is much lower than the recommended 40% of budget



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

Table 5: Components of capital outlay

Head	2024-25	2025-26 RE	2026-27 BE
Aircraft and aero engines	26%	37%	28%
Other Equipment	31%	26%	36%
Naval Fleet	15%	11%	11%
Research & Development	8%	8%	7%
Ministry of Defence (Civil)	6%	6%	5%
Naval dockyard / projects	3%	2%	2%
Heavy and medium vehicles	2%	2%	2%
Others	8%	9%	10%
Total	**100%**	**100%**	**100%**

Note: Ministry of Defence (Civil) primarily comprises capital expenditure on Coast Guard Organisation and Border Roads Development Board. Others include investment in public enterprises, joint staff, Rashtriya Rifles, assistance for prototype development, and special projects of army and air force.
Sources: Expenditure Budget, Union Budget 2026-27; PRS.

In its submission to the 15th Finance Commission, the Ministry of Defence highlighted the need for alternative funding mechanisms to meet rising requirements.[16] A recurring proposal in this regard has been the creation of a non-lapsable fund for defence capital expenditure, given that acquisition programmes span multiple years. The Interim Budget for 2004-05 proposed a non-lapsable Defence Modernisation Fund with a corpus of Rs 25,000 crore.[17] The Standing Committee on Defence (2017) emphasised that such a fund was essential to improve operational preparedness.[18] The 15th Finance Commission also recommended establishing a non-lapsable Modernisation Fund for Defence and Internal Security.[16]

The central government has, however, stated that constitutional provisions do not permit the creation of a non-lapsable fund, and has opposed setting up such a fund in the Public Account without dedicated revenue streams.[18,19] The Ministry of Defence has indicated that the Ministry of Finance is exploring an alternative mechanism to operationalise a non-lapsable modernisation fund.[19] The 15th Finance Commission had suggested financing the fund through transfers from the Consolidated Fund of India, disinvestment proceeds of defence public sector undertakings, monetisation of surplus defence land, and receipts from defence land transferred for public projects.[16] The 16th Finance Commission (2026) report, however, did not make any recommendations on such a fund.

Committed liabilities: 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. 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.

Table 6: 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.

The Standing Committee on Defence (2019) expressed concern over the shortage in allocation to meet committed liabilities expenditure.[20] The Committee observed that inadequate allocation for committed liabilities could lead to default on contractual obligations, which would not be taken well in international markets.[20] The Committee (2022) has recommended the Ministry to create a dedicated fund for committed liabilities and new schemes.[21] These funds have not been created yet.

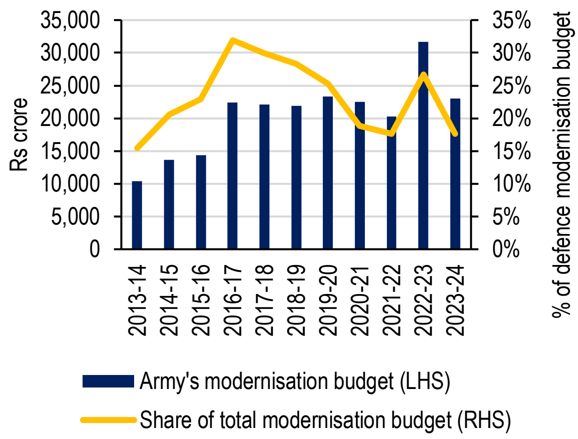
Modernisation budget

Army

The Army is the largest of the three forces, both in terms of its budget as well as the number of personnel. The Army has an authorised strength of around 12.5 lakh personnel, including officers and soldiers. Due to the large number of personnel, Army has consistently spent over 80% of its budget on revenue items.

Modernisation involves acquisition of latest technologies and weapons systems to upgrade and augment defence capabilities.[22] According to the Ministry, the Army is prioritising enhanced firepower, mobility, and night-fighting capabilities, while scaling up the use of drones and counter-drone technologies to address emerging threats.[23]

Figure 5: Spending by Army on modernisation



Sources: Union Budget Documents; PRS.

The Standing Committee on Defence (2023) noted that the Army falls short of the ideal equipment mix, with only 15% new-generation equipment and a higher-than-desired share (45%) of older systems (see Table 7).[24] The Standing Committee on Defence (2025) noted that while personnel salaries are a fixed and essential expense, the budget must prioritise modern weapon systems and critical border infrastructure, which cannot be compromised.[23]

Table 7: Profile of defence equipment

Type	Ideal mix	Indian Army
New generation	30%	15%
Current generation	40%	40%
Older generation	30%	45%

Sources: 36th Report, Standing Committee on Defence, March 2023; PRS.

Provisioning gaps in high-altitude deployments: A performance audit by CAG (2019) found deficiencies in provisioning for troops deployed in high-altitude areas such as Siachen and Ladakh.[25] Delays of up to four years in procuring essential clothing and equipment led to acute shortages, including critical shortfalls in snow goggles and the non-issue of boots, forcing troops to reuse old gear.[25] Lack of research and development by defence laboratory led to continued dependence on import.[25] Special rations were diluted through substitutions, reducing calorie intake by up to 82%.[25] Housing projects were executed in an ad hoc manner, resulting in avoidable costs, delayed asset handover, lack of proper sanctions, and discrepancies between records and assets on the ground, undermining troop welfare in extreme conditions.[25]

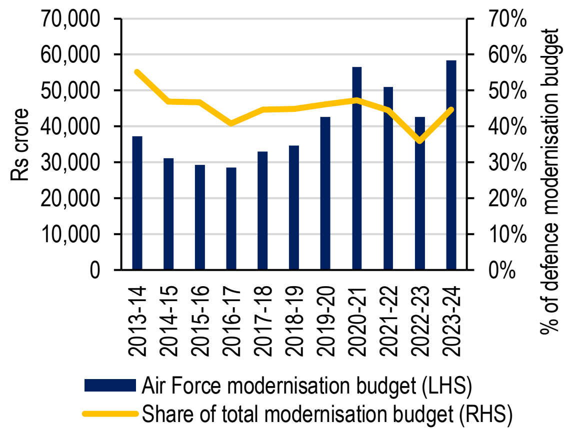
Air Force

The Air Force has consistently accounted for the largest share of the spending on modernisation by the three forces. The Standing Committee on Defence (2024) highlighted that the capital funding provided to the Air Force was inadequate for acquiring a large number of fighter aircraft. [26]

As of December 2024, the Air Force has 31 active fighter squadrons against an authorised strength of 42.[26] Each squadron consists of approximately 20 aircraft.[27] The Standing Committee on Defence (2024) noted that the Air Force needed at least 180 fighter aircraft under present circumstances.[26] The Air Force also has an ageing fleet, including MiG-21, MiG-23 and MiG-27 aircraft, which are nearing phase-out.[26] Their retirement is expected to further accelerate the decline in the Air Force's squadron strength.[26] The Standing Committee on Defence (2024) also noted that the Indian Air Force is short of around 130 trainer aircraft.[26]

On February 12, 2026, the Defence Acquisition Council gave approvals for procurement of 114 Rafale fighter jets for the Air Force.[28,29] The Council is chaired by the Defence Minister. The Ministry of Defence noted that a majority of these Rafale jets will be manufactured in India.[28]

Figure 6: Spending by Air Force on modernisation



Sources: Union Budget Documents; PRS.

Drones

During the India-Pakistan conflict (2025), swarm drones were deployed by Pakistan to target military areas in northern and western India.[30] Swarm drones are autonomous or semi-autonomous UAVs that operate in coordinated groups.[31] They communicate via wireless networks and adjust in real time to achieve shared objectives.[31] They are often used to overwhelm an enemy's radar system.[31] In 2025, 791 drone intrusions were reported along the international border, mainly in Punjab and Rajasthan, of which 237 were neutralised.[32]

The Air Force is advancing unmanned and autonomous aerial technologies through the Mehar Baba Competition, which links industry, academia, and users, and has already led to a Rs 300 crore order to an Indian startup for a swarm drone system.[32] Army has developed in-house drone manufacturing capabilities, producing 819 drones so far.

The Air Force has upgraded its legacy fleets to near fourth-generation capability, though some older aircraft still face maintenance challenges.[26] DRDO is developing a fifth-generation aircraft, but its delivery is only expected in the next decade.[26] Fifth-generation aircraft are the latest operational fighter-jets with advanced features such as stealth technology, and advanced radar and sensors.[33] Examples include F-35 (USA) and Sukhoi Su-57 (Russia). China tested two sixth-generation aircraft prototypes in December 2024.[34] This aircraft is expected to become operational around 2035 for different types of combat missions.[34]

India's air defence systems

India's air defence comprises a range of systems used to detect, track, and neutralise threats. Few systems are illustrated in Table 8. Dedicated defence satellites such as GSAT-7, GSAT-7A, and EMISAT have been launched to enhance communication and defence capabilities.[35,36,37] The Integrated Air Command and Control System (IACCS) of the Air Force integrates data from all air defence systems and the various command centres of the IAF.[38] The Prime Minister announced the launch of Mission Sudarshan Chakra in 2025.[39] It is a multi-layered, indigenous defence and security system to protect critical infrastructure and deter threats, with the ability to strike back effectively.[39]

Table 8: Components of air defence system in India

Type	Name	Supplier	Year of addition
Surface-to-air missiles	Akash	Indigenous	2015
	S-400	Russia	2021-23
Air-to-surface missiles	AASM Hammer	France	2023
Air-to-air missiles	BrahMos ALCM	Russia	2020
	Astra	Indigenous	2023
	R-27R/T	Russia	1995
Fighter aircraft	Tejas Mk-1	Indigenous	2016
	Rafale	France	2019-22
	MiG-29 SMT	Russia	1986-89
	Sukhoi SU-30	Russia	2013-17
Combat Helicopters	AH-64E Apache	USA	2024
Unmanned Aerial Vehicles	Heron	Israel	2002

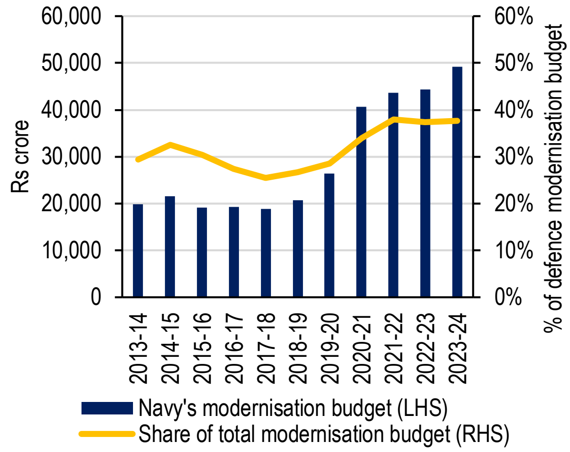
Sources: SIPRI; PIB; PRS.

Navy

The Navy seeks to mitigate two types of threats to India's maritime security.[26] These are threats from: (i) countries such as China and Pakistan, and (ii) non-traditional sources such as piracy and drug trafficking.[26] The Navy has seen a significant increase in its expenditure on modernisation since 2018-19.

The Standing Committee on External Affairs (2025) flagged China's rapidly expanding naval presence in the Indian Ocean as a major security concern.[40] The Committee noted that China now has the world's largest navy.[40] It is rapidly expanding its fleet by commissioning over 15 vessels annually, and regularly deploying submarines to strengthen its strategic presence in the Indian Ocean Region (IOR).[40] Further, Pakistan's navy is modernising rapidly with new vessels and systems from China and Turkey.[40] The Indian Navy currently operates 137 ships and submarines and 264 aircraft.[40] Further, the Indian coast guard operates a fleet of 151 indigenously built ships and 78 aircraft.[40] 53% of the vessels of the navy are more than 15 years old.[40] This is expected to decrease to 20% by 2040.[40] As of 2025, 58 naval ships are under construction and approvals in place for the construction of 62 additional vessels.[40] The Standing Committee on External Affairs (2025) urged for significant upgradation in India's naval capabilities by inducting advanced anti-submarine warfare vessels, surveillance aircraft, and nuclear-powered submarines.[40]

Figure 7: Significant increase in Navy's modernisation expenditure since 2018-19



Sources: Union Budget Documents; PRS.

India signed a Rs 63,000 crore deal with France in April 2025 for 26 Rafale-Marine jets.[41] These jets can operate from aircraft carriers and are built for naval missions.[41] The Navy informed the Standing Committee on Defence (2024) that many of its aviation assets are of Russian origin, leading to continued dependence on original equipment manufacturers (OEMs) for maintenance and spares.[42] Although there is an embargo on engaging OEMs, an Empowered Committee under the Ministry of Defence grants case-by-case waivers to allow overseas maintenance and procurement.[42]

Defence personnel

All three forces face personnel shortages across ranks

Recruitment in the armed forces is undertaken under two broad categories: (i) officers, and (ii) Personnel Below Officer Rank (PBOR). PBORs are classified as Junior Commissioned Officers (JCOs) or Other Ranks (ORs) in the Army, and as Sailors and Airmen in the Navy and Air Force respectively. Recruitment for both officers and PBORs is conducted through multiple entry routes. For instance, officer recruitment in the Army takes place through institutions such as the National Defence Academy, the Indian Military Academy, and the Short Service Commission.[43]

About 60,000 vacancies arise annually across the three services due to superannuation, premature retirement, medical reasons, and casualties.[44] Taken together, the three services are short of approximately 1.19 lakh personnel (see Table 9), amounting to about 8% of their sanctioned strength.

Table 9: Shortage of personnel

Force	Rank	Sanctioned	In Position	Shortfall	
				In number	in %
Army	Officers	50,538	42,095	8,443	17%
	PBORs	11,97,520	11,05,110	92,410	8%
Air Force	Officers	12,929	11,916	1,013	8%
	Airmen	1,46,030	1,39,876	6,154	4%
Navy	Officers	11,979	10,202	1,777	15%
	Sailors	76,649	67,530	9,119	12%
Total		**14,95,645**	**13,76,729**	**1,18,916**	**8%**

Note: Data on officer shortfall in the Army is as of July 2024. Data on manpower shortfall in Navy is as of October 2023. Remaining data is as of October 2024.
Source: Eighth Report, Standing Committee on Defence, March 2025; Unstarred Question No. 1005, Lok Sabha, Answered on December 8, 2023, PRS.

The Ministry of Defence has stated that it is taking steps to address personnel shortages. These include: (i) expanded publicity campaigns, (ii) outreach through career fairs and programmes in educational institutions, and (iii) the grant of Permanent Commission to eligible Short Service Commission officers to improve career progression.[44]

Service tenure reforms to lower the age profile of the armed forces

The Report of the Group of Ministers on National Security (2001) had noted the need for ensuring a younger profile of the services to ensure that the armed forces are at their fighting best at all times.[45] To achieve this, the Kargil Review Committee (1999) had recommended the reduction in colour service from 17 years to 7-10 years.[45]

In June 2022, the Union Cabinet approved the Agnipath scheme for recruitment to the armed forces.[46] All recruitment at the level of PBORs is now being done under the Agnipath Scheme.[47] Candidates recruited under the scheme will serve for four years and will form a separate rank under the armed forces, known as Agniveers.[46] From each batch of Agniveers, up to 25% of the personnel will be enrolled in regular cadre of the armed forces.[46] The scheme is expected to reduce the average age profile of the armed forces by four to five years.[46] PBORs comprise over 95% of the sanctioned strength of the armed forces (see Table 9). Compared to PBORs of various ranks, who serve for 15-37 years, the service tenure of 75% of Agniveers is limited to four years.[48] While the impact of the Agnipath scheme on the operational preparedness of the armed forces is not yet clear, it is expected to reduce pension expenditure over the long term. As at least 75% of Agniveers will exit service without pension, the scheme is likely to lower personnel-related expenditure. On completion of four years of service, those released from the armed forces will receive a Seva Nidhi package of Rs 11.7 lakh.[46] 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.[49]

The officer cadre of the Armed Forces is predominantly manned by Permanent Commissioned officers.[48] As per the Seventh Central Pay Commission (2015), the exit options for officers enrolled on Short Service Commission (SSC) are not attractive, resulting in limited uptake for SSC.[48] A large number of these officers are absorbed into the permanent commission stream, raising the average age of officers.[48] The Pay Commission recommended allowing SSC officers to exit between 7-10 years of service, with the option to opt for permanent commission in the seventh year instead of the tenth. However, the government has stated that SSC officers serve for 10–14 years primarily to address officer shortages, and that there is no proposal to revise this tenure.[50]

In USA, military enlistment is for an initial term of eight years, while in UK, this term is 12 years. [48] In USA, pension eligibility requires 20 years of service, resulting in about 19% of active-duty personnel retiring with a pension.[48]

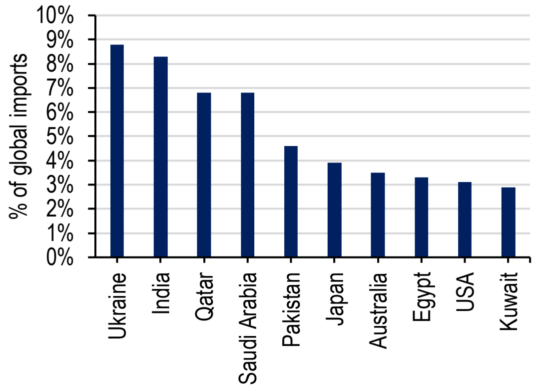
Defence production and procurement

India is the world's second largest arms importer, but the reliance on foreign sources for defence modernization is decreasing

India's arms imports decreased by 9.3% between 2015–19 and 2020–24.[51] According to data maintained by SIPRI, India was the second largest importer of arms between 2020 and 2024 (see Figure 8 on next page).[52] India accounted for 8.3% of the total volume of arms imported during that period.[52] Ukraine, which is at war with Russia since February 2022, was the largest arms importer from 2020-24.[52] Russia accounted for 36% of India's arms imports during this period, but its share has fallen sharply from 72% in 2010–14.[51] India is increasingly sourcing major defence equipment from suppliers such as France, Israel, and USA.[51]

In 2023-24 and 2024-25 (up to December 2024), 337 defence capital acquisition contracts were signed. Out of these, 12 contracts were signed with foreign vendors (Russia, USA, and France).[6] Between 2020-21 and December 2024, procurement from foreign vendors amounted to Rs 1,65,881 crore.[6]

Figure 8: Top 10 importers of arms between 2020-2024



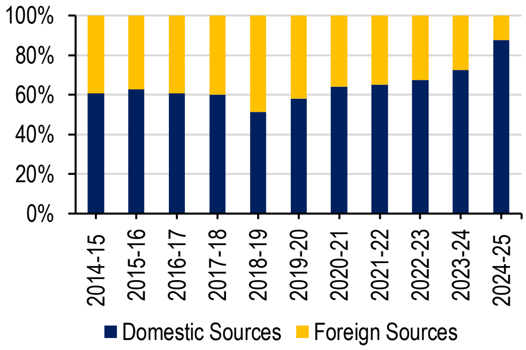
Sources: SIPRI; PRS.

Between April 2014 and December 2024, the defence forces spent over 35% of their total modernisation expenditure on procurement from foreign sources (Figure 9). In 2023-24, 28% of the total modernisation expenditure was incurred on procurement from foreign sources. 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.[53]

The Standing Committee on Defence (2023) had observed that most of India's defence purchases are transacted in US dollars.[54] It noted that any depreciation of the rupee against the dollar increases the effective cost of these purchases and must be accounted for when assessing the real increase in financial sanctions for defence compared to the previous year.[54] Between January 1, 2025 and February 4, 2026, the Indian rupee has depreciated by almost 5.6% against the US dollar.[55]

For reducing imports, the Ministry has also released five positive indigenisation lists.[6] These lists include 5,012 defence equipment which are placed under import embargo in a staggered manner.[6] As of December 2024, 61% of the items notified across the five lists have been indigenised.[6]

Figure 9: Share of domestic and foreign sources in defence modernisation expenditure

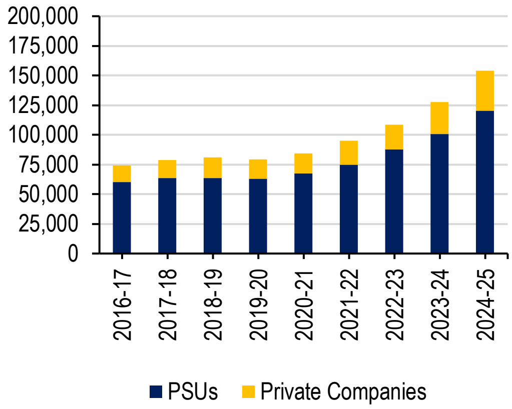


Note: 2024-25 data is till December 2024
Sources: 3rd Report, Standing Committee on Defence, March 2025; PRS.

Defence production has grown but issues reported with quality

India's domestic defence production has increased at an annualised rate of 8% between 2016-17 and 2024-25. In 2024-25, domestic defence production amounted to Rs 1.54 lakh crore. PSUs accounted for an average of 80% of the domestic defence production during this period. The Ministry aims to achieve indigenous defence production of three lakh crore rupees by 2028-29.[56] For this, domestic defence production would have to increase by an annualised rate of 18% over 2024-25. SIPRI (2022) has observed that India's domestically designed defence platforms continue to rely on imported critical components, such as engines and radars.[57]

Figure 10: India's defence production (Rs crore)



Source: Department of Defence Production; PRS.

In 2021, the production units of the Ordnance Factory Board were converted into seven new defence PSUs.[58] These PSUs are engaged in the production of different items for the defence services such as: (i) ammunition and explosives, (ii) vehicles, (iii) weapons and equipment, and (iv) parachutes. For the period between 2021-22 and 2026-27, the government has allocated Rs 8,745 crore to these PSUs for capital expenditure.[59] Up to 2024-25, Rs 5,757 crore had been disbursed for modernization and research and development (R&D).[59] As of December 31, 2024, these PSUs had an order book of Rs 78,984 crore for the next five years.[59]

Concerns have been raised about the quality of equipment produced by ordnance factories. A CAG audit noted that between 2015-16 and 2019-20, the Army reported several accidents involving small arms manufactured by these factories.[60] This was attributed to component defects and the use of materials not conforming to specifications.[60] CAG also observed high overhead costs in small arms factories, which raised unit production costs.[60] Between 2016-17 and 2018-19, the armed forces had to import small arms after indigenous R&D efforts failed to deliver intended outcomes.[60]

Delays and long procurement timelines

According to the Ministry of Defence (2024), acquisition of defence equipment can take between 19 to 26 months.[61] The Standing Committee (2024) noted that this was a stretched timeline given the strategic risks involved.[61] This could lead to the technology that is being acquired becoming obsolete, impacting India's security. The Committee recommended that the Ministry identify ways to accelerate defence procurement.[61]

In July 2020, the Defence Acquisition Council approved emergency procurements for the Army under the Fast Track Procedure, with additional waivers to enable faster acquisition.[62] CAG (2025) found that in 72% of the contracts examined, deliveries were delayed beyond the stipulated timelines.[62]

The Light Combat Aircraft (LCA), sanctioned in 1983 to replace the ageing MiG-21 and MiG-27 fleets within 8-10 years, was inducted into the Air Force only in 2016 due to prolonged technical delays.[63,64] In 2021, the Air Force contracted 83 Tejas Mk-1A aircraft from HAL, with deliveries scheduled from February 2024. [26,65] The programme has since been delayed due to design and development issues.[26] The Standing Committee on Defence (2024) advised that if delays in indigenous fighter production persist, the government should consider purchasing fifth-generation fighter aircraft off-the-shelf.[26] CAG (2024) noted that aircraft upgrades contracted in 2008, originally scheduled for completion by 2014, were delayed and finished only in 2022.[66]

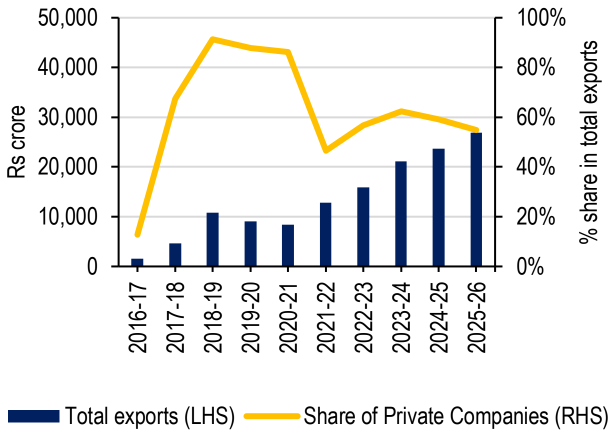
Several naval acquisitions have faced prolonged delays. Under Project-75, six submarines scheduled for induction by December 2017 were commissioned only by January 2025 after repeated extensions.[26]

Despite growth in defence production, India's share in global exports is low

Between 2016-17 and 2025-26, defence exports have increased at an annualised growth rate of 38%. Private companies have contributed an average of 63% to defence exports during this period (see Figure 11). 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.[67] In 2025-26, India's defence exports were at Rs 26,848 crore.[67] India exports items such as radars and armoured protection vehicles to more than 80 countries.[68]

While defence exports have increased, India accounts for a small share of global volume of arms exports. According to SIPRI, between 2020 and 2024, India accounted for 0.2% of volume of arms exported globally.[69] In this period, USA, France, and Russia accounted for 43%, 10%, and 8% of the total volume of global arms exports respectively.[69] Further, China accounted for 6% of the total volume of global arms exports.[69]

Figure 11: Private sector plays a major role in defence exports

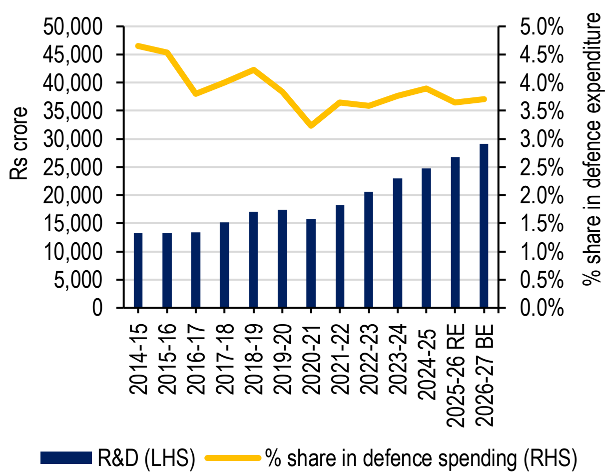


Sources: Department of Defence Production; PRS.

Share of research and development (R&D) in defence spending has seen a decline

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.[70] In recent years, the proportion of the defence budget devoted to R&D has declined (see Figure 12). R&D accounted for 4.7% of total defence expenditure in 2014-15. As per the budget estimates for 2026-27, R&D is projected to account for 3.7% of the defence expenditure. Over the period from 2014-15 to 2026-27, expenditure on defence-related R&D is estimated to grow at an annualised rate of 7%.

Figure 12: Share of defence budget spent on R&D has seen a decline



Sources: Union Budget Documents (various years); PRS.

Since 2022, 25% of the defence R&D budget has been earmarked for industry, start-ups, and academia, leading to a corresponding funding gap for DRDO's own projects.[71] Expenditure under this initiative exceeded allocations in 2023–24 and is likely to do so again in 2024–25.[71] Alongside this, the Union Budget 2024 announced new deep-tech initiatives for defence, with about Rs 2,000 crore being spent from DRDO's existing R&D budget.[71] In view of this, the Ministry of Defence has sought a progressive increase in R&D spending to about 10% of the defence budget over the next decade.[71]

DRDO has undertaken certain measures to promote indigenous defence research. As per the Ministry, DRDO has earmarked 183 systems for development by industry, which DRDO will not pursue.[71] Going forward, DRDO will concentrate on developing technologies for major weapon systems, platforms, and sensors.[71]

Under the Technology Development Fund, grants are provided to Indian companies and institutions to develop defence and dual-use technology.[72] 81 projects have been sanctioned under the scheme, involving a commitment of Rs 344 crore.[73] Other initiatives by DRDO to support domestic research include: (i) free access to DRDO patents for Indian industries, (ii) transfer of technology to private and public enterprises, and (iii) support to academia for research in certain identified areas.[72] DRDO has signed 1,918 licensing agreements for transfer of technology to Indian industries.[73]

Delays in DRDO projects

Several DRDO projects have faced persistent time overruns. A CAG (2022) review of 178 projects found that 119 failed to meet their original timelines, and in 49 cases, the delay exceeded the initially approved project duration.[74] Further, some projects were declared successful despite falling short of key objectives and performance parameters.[74]

The Standing Committee on Defence (2023) has observed that such delays have become routine, resulting in cost escalations and delayed induction of critical capabilities for the armed forces.[74] It recommended strengthening DRDO's internal review processes and ensuring greater involvement of technical experts in project monitoring.[75]

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