

# MP-IDSA

## Issue Brief

# Defence Budget 2024-25: Trend Analysis

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## **S**ummary

The interim budget estimates for the Ministry of Defence are largely in line with the broad trends of the past decade in terms of the revenue and capital allocations. The government's focus on improving land and maritime border infrastructure and security has continued in the budget estimates as well. The combined budget heads for modernisation under the Capital Outlay on Defence Services do indicate a focus on integrated defence planning process from the budgetary perspective as well, if the trend continues going forward.

Finance Minister Nirmala Sitharaman presented the interim budget on 1 February 2024. The budget estimates for the Ministry of Defence (MoD) for 2024-25 are Rs 621,540.85 crore, constituting 13.04 percent of the total Union Budget.<sup>1</sup> The allocations to the MoD in BE 2024-25 are an increase of 4.71 per cent from the 2023-24 budget estimates of Rs 593,537.64 crores. As a percentage of Central Government Expenditure (CGE), the average annual percentage of the defence budget since 2014-15 has been 15.6 per cent. The highest it has been in the past decade was in 2016-17, when the defence budget was 17.8 per cent of the CGE.

The following sections give the key highlights of the budget estimates for the Ministry of Defence (MoD) for 2024-25. It then highlights the budget trends relating to some of the major policy focus areas of the government relating to modernisation, defence indigenisation and research and development.

## Key Highlights

The budget estimates for the MoD are provided under four demands. Demand No. 19 (Ministry of Defence Civil), Demand No. 20 (Defence Services Revenue), Demand No. 21 (Capital Outlay on Defence Services) and Demand No. 22 (Defence Pensions). Table 1 gives the key budget estimates for the MoD in 2024-25 and in 2023-24.

**Table 1: Key Allocations (in Crores)**

|                      |   | <b>2023-24<br/>(BE)</b> | <b>2024-25<br/>(BE)</b> | <b>%age<br/>Change</b> |
|----------------------|---|-------------------------|-------------------------|------------------------|
| <b>Demand No. 19</b> | <b>MoD (Civil)</b>                        | 22,612.5                | 25,563.18               | 13.04                  |
| <b>Demand No. 20</b> | <b>Defence Services Revenue</b>           | 270,120.14              | 282,772.67              | 4.68                   |
| <b>Demand No. 21</b> | <b>Capital Outlay on Defence Services</b> | 162,600                 | 172,000                 | 5.78                   |
| <b>Demand No. 22</b> | <b>Defence Pensions</b>                   | 138,205                 | 141,205                 | 2.17                   |
|                      | <b>Total Defence Budget</b>               | 593,537.64              | 621,540.85              | 4.71                   |

**Source:** [Union Budget](#), Ministry of Finance, Government of India, Various Years.

Demand No. 19 (Ministry of Defence Civil), caters to the revenue and capital establishment expenditure of the Border Roads Development Board (BRDB), Coast Guard, Defence Estates Organisation, Jammu and Kashmir Light Infantry, housing expenditure, Canteen Stores Department (CSD), investments in public enterprises, among others. In the Interim budget, Demand No. 19 saw an increase of 13.04 per cent from Rs 22,612.5 crores to Rs 25,563.18 crores. Of the four demands that make up the allocations to the MoD, the biggest percentage increase in BE 2024-25 from BE 2023-24 is seen in MoD (Civil).

<sup>1</sup> [“Union Budget 2024-25”](#), Ministry of Finance, Government of India.

The government’s focus on improving land and maritime border infrastructure and security has continued in this year’s budget estimates as well, with Rs 6,500 crores allocated for works under the BRDB, 44 per cent higher than the actual expenditure in 2022-23 and 30 per cent higher than BE 2023-24. This enhanced allocation will cater for the development of strategic infrastructural development in the border areas. Some of the key border infrastructure projects envisaged during FY 24-25 include the development of Nyoma Air field in Ladakh, roads and bridges Andaman and Nicobar island, Shinku La tunnel in Himachal Pradesh and Nechiphu tunnel in Arunachal Pradesh.<sup>2</sup>

The Coast Guard has been allocated Rs 7,651.8 crores in BE 2024-25, which is 6.3 per cent higher than the amounts allocated in BE 2023-24. Revenue allocations amount to over 54 per cent of the total allocations. The cumulative annual growth rate (CAGR) of the Coast Guard’s budget since 2015 has been 9.6 per cent while the average annual growth has been 12.8 per cent. The actual expenditure on the Coast Guard saw a jump of nearly 75 per cent from Rs 2,428.86 crores in 2014-15 to Rs 4,242.22 crores in 2016-17 and another 67 per cent increase to Rs 7,085.69 crores in 2022-23.

Demand No. 20 (Defence Services Revenue) saw an increase of 4.68 per cent from Rs 270,120.14 crores to Rs 282,772.7 crores. This demand caters to the Pay and Allowances to the three services, Stores budget which relates to repair and maintenance of equipment, allocations to the Ex-Servicemen Contributory Health Scheme (ECHS) and the revenue component of budget estimates for the National Cadet Corps, Rashtriya Rifles, the Agnipath scheme, among others.

For BE 2024-25, the total revenue allocations (inclusive of MoD Civil Revenue, Defence Services Revenue and Defence Pensions) account for 70.6 per cent of the total defence budget while capital allocations (inclusive of MoD Civil Capital and Capital Outlay on Defence Services) are at 29.32 per cent. The respective share in 2023-24 BE was 71.1 per cent and 28.8 per cent.

The Army accounts for the bulk of the Defence Service Revenue share, at 68.1 per cent, followed by the Air Force at 16.3 and the Navy at 11.6 per cent, broadly in line with the average annual share for the past decade. As against BE 2023-24, the revenue budget allocated to the Army, Navy and Air Force has seen an increase of 5.5, 1.5 and 4.2 per cent respectively.

In BE 2024-25, Pay and Allowances to the three services (uniformed personnel) accounted for 53.7 per cent of the total revenue budget. In BE 2023-24, it was almost the same at 53.4 per cent. The Pay and Allowances to the civilian employees of the three services is estimated at an additional 4.9 per cent of their revenue budget in BE 2024-25. Nearly 59 per cent of the revenue budget of the three services therefore goes towards Pay and Allowances.

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<sup>2</sup> [“Record Over Rs 6.21 Lakh Crore Allocation to Ministry of Defence in Interim Union Budget 2024-25; 4.72% More than FY 2023-24”](#), Press Information Bureau, 1 February 2024.

The allocations to the ECHS in BE 2024-25 are estimated at Rs 6,968 crores, as against BE 2023-24 estimates of Rs 5,431.56 crores. This 28 per cent increase is the second highest increase in allocations relating to a MoD budget head in BE 2024-25 from BE 2023-24 after the 30 per cent increase seen in budget estimates for BRDB. In RE 2023-24 also, the ECHS allocations were revised by nearly 70 per cent to Rs 9,221.5 crores, while the actual expenditure in 2022-23 was Rs 6,900.43 crores. The ECHS allocations in BE 2024-25 have registered a CAGR of nearly 12 per cent from 2014-15 expenditure of Rs 1,980.9 crores.

As for the Agnipath scheme, in BE 2024-25, the Army’s allocations are estimated at Rs 5,207.28 crores, an increase of 37 per cent from the BE 2023-24 allocations of Rs 3,800 crores. The Navy and the Air Force allocations under the scheme in BE 2024-25 are Rs 352 and Rs 420 crores, an increase of 17.3 and 152 per cent respectively. Rs 208.08 crores were the actual allocations to the scheme across the three services in 2022-23.

Demand No. 21 (Capital Outlay on Defence Services) saw an increase of 5.78 per cent from Rs 162,600 crores to Rs 172,000 crores. Allocated amount under this demand caters to the capital expenditure towards modernisation requirements of the three services. The structure of capital budget allocation has been transformed in this budget. In order to foster jointness and an integrated capability planning process, capital demands of three services have been consolidated into similar items of expenditure such as Land, Aircraft and Aeroengines, Heavy and Medium Vehicles etc. Thus, total capital budget allocation is under a single head of ‘Defence Services’ in place of earlier practice of allocation under separate heads of ‘Army’, ‘Navy’ and ‘Air Force’.

As a part of broader defence reforms, there are ongoing efforts towards an integrated perspective planning that would change the 15-year planned period of the Long Term Integrated Perspective Plan (LTIPP) with a 10-year Integrated Capability Development Plan (ICDP). The ICDP aims to move away from the individual service approach and instead focus on a holistic military approach to prioritise inter-service and intra-service procurements and capability building. The ICDP would “intricately link” military capability to budgets, attempting to ensure budgetary commitment to plans.<sup>3</sup> This interim budget appears to provide the first glimpse of this key reform in the capability planning process at MoD.

If this trend continues in the future, it indicates that the budget process is being adjusted to meet the long-term planning and futuristic requirements of the armed forces as a whole, rather than only considering the needs of individual services. This integrated approach to budget planning could lead to better optimisation of financial resources.

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<sup>3</sup> Press Trust of India, “New Navy Chief Backs Theaterisation Plan; Watching Chinese Activities”, *Business Standard*, 3 December 2021.

The MoD notes that the BE allocations under Demand No. 21 is more than 20 per cent higher than the actual expenditure in 2022-23 which stood at Rs 142,940.01 crores.<sup>4</sup> The capital outlay budget has seen a CAGR of 9.8 per cent since 2014-15, while the DSE (Revenue) budget has seen a CAGR of 7.9 per cent. The capital outlay expenditure therefore has seen a greater growth than revenue expenditure during this time period. From 2014-24 RE, the average share of the capital outlay to the Army, Navy and Air Force have been 25.5, 27.9 and 39 per cent respectively.

Demand No. 22 (Defence Pensions) saw an increase of 2.17 per cent from Rs 138,205 crores to Rs 141,205 crores.<sup>5</sup> This demand relates to the pension and retirement benefits of the Army, Navy and Air Force. As against BE 2023-24, defence pensions have seen a modest increase of 2.1 per cent. The MoD pension budget in 2024-25 (BE) is 22.7 per cent of the total defence budget and 3.09 per cent of the Central Government Expenditure (CGE). In 2014-15, the pension budget had seen an increase of over 32 per cent due to One Rank One pension (OROP) implementation. In 2016-17, defence pensions rose by 45.8 per cent while a 31 per cent increase was seen in 2022-23 due to transfer of ‘arear component’ of OROP.<sup>6</sup>

## Interim Budget: Key Focus Areas and Trends

### **Modernisation**

The MoD notes that the interim budget of FY 24-25 has maintained an upward trend in the capital outlay allocations to fill the critical capability gaps through the modernisation of the Armed Forces. In the past 10 years, the modernisation budget and the capital outlay on defence services have grown consistently.

In BE 2024-25, an amount of Rs 141,160.9 crores has been allocated under the modernisation heads.<sup>7</sup> This represents an increase of 5.52 per cent over the BE 2023-24 allocations under the same heads, which stood at Rs 133,871.26 crores. Graph 1 shows the modernisation budget for the three services (combined) from 2015-16 to 2024-25 BE and the capital outlay on defence services. The heads constituting the modernisation budget have accounted for 83 per cent of the total capital outlay during 2015-25 BE and have seen an average annual increase of 8.4 per cent and a CAGR of 8.4 per cent also during this time period. The BE 2024-25 modernisation budget is an increase of over 124 per cent from the actual allocations of Rs 62,870.04 crores in 2015-16.

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<sup>4</sup> [“Record Over Rs 6.21 Lakh Crore Allocation to Ministry of Defence in Interim Union Budget 2024-25; 4.72% More than FY 2023-24”](#), n. 2.

<sup>5</sup> [“Union Budget 2024-25”](#), n. 1.

<sup>6</sup> See Notes on Demands for Grants 2024-25, [“Ministry of Defence, Demand No. 21, Defence Pensions”](#), p. 80, Expenditure Budget 2024-25, Ministry of Finance.

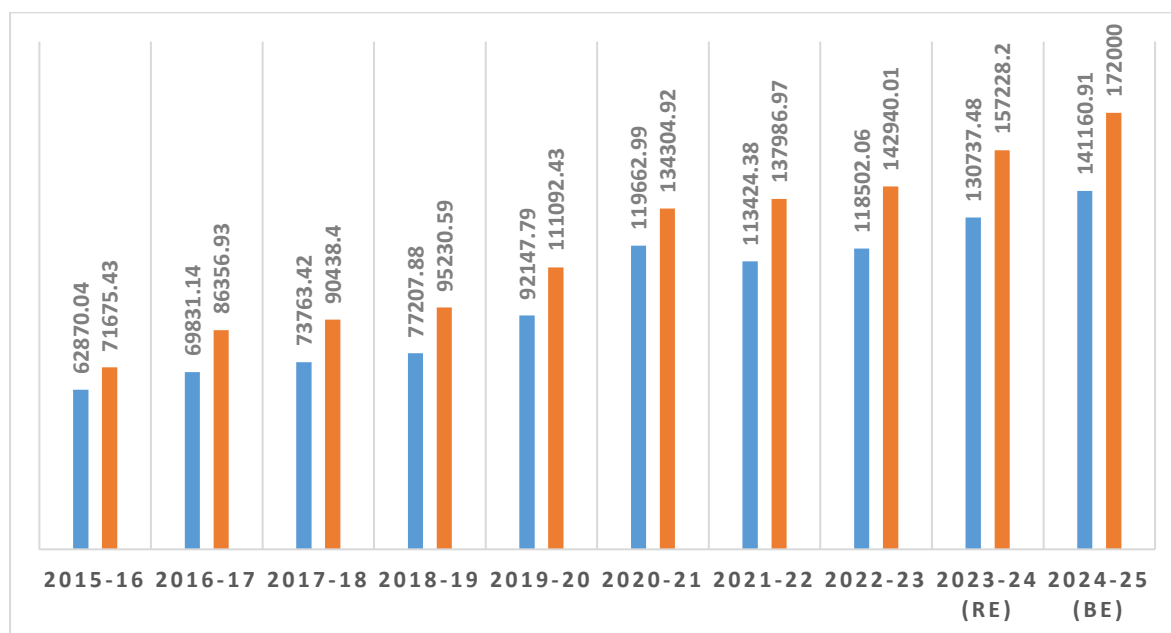
<sup>7</sup> This figure includes allocations for Aircraft and Aero Engines, Heavy and Medium Vehicles, Other Equipments, Joint Staff, Procurement of Rolling Stock, Rashtriya Rifles, Naval Fleet, Naval Dockyard/Projects, and Special Projects.

The Air Force has accounted for nearly 45 per cent of the total modernisation budget during 2013-23, while the Navy and the Army accounted for 32 and 23 per cent respectively. However,

the Army’s modernisation budget saw an average annual increase of 13.6 per cent during this time period, while the Navy and Air Force saw an increase of 11 and 4 per cent respectively. The Army’s modernisation budget specifically saw a massive 57 per cent increase in 2022-23 from 2021-22, rising from Rs 20,202.21 crores to Rs 31,715.03 crores

It is to be noted that budgetary allocations do not provide a clear picture of the actual financial outlay assigned towards the capability enhancement programme during the financial year. The Capital Outlay on Defence Services includes the modernisation budget for the three services which caters to the budget for Committed Liabilities (CL) as well as equipment purchases under New Schemes (NS), among others. To ascertain a clear picture of investment towards NS during a financial year, the Standing Committee of Defence (SCOD) has been raising the necessity of disaggregated data of capital investment in CL and NS in the defence budget.

**Graph 1: Capital Outlay on Defence Services and Modernisation Budget 2015-25 (Army, Navy, Air Force Combined) (In Crore)**



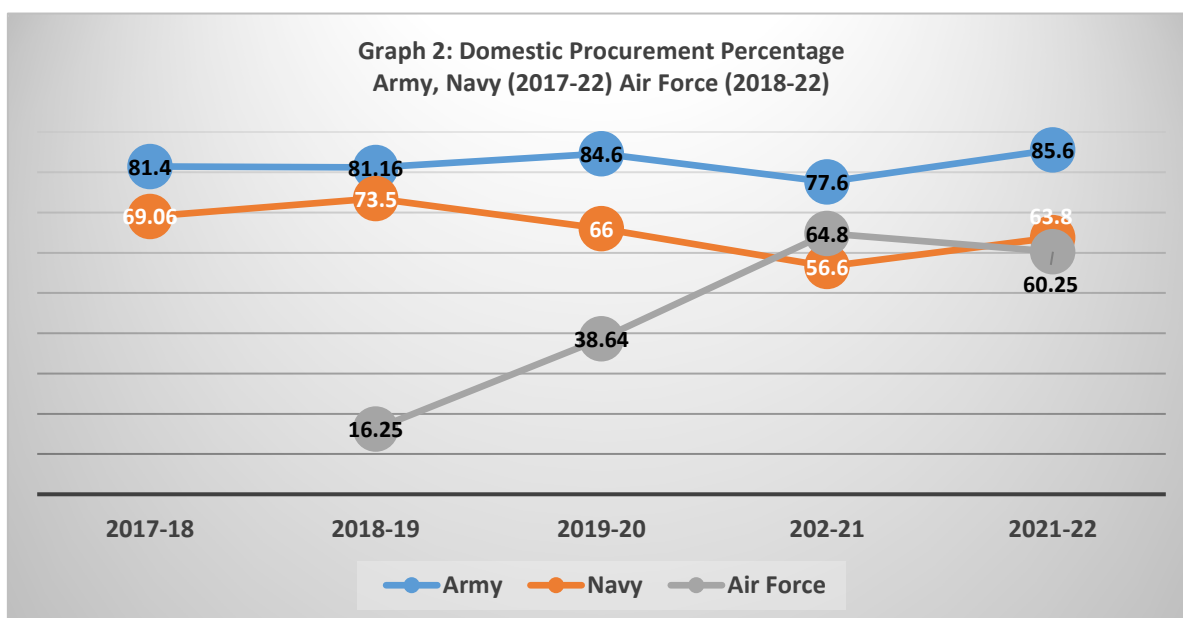
**Source:** “[Union Budget](#)”, Ministry of Finance, Government of India, Various Years.

### **Defence Indigenisation**

The government’s Atmanirbhar Bharat initiative has also focused on India’s defence sector, which aims to promote indigenous production and reduce the country’s dependence on imports. The government is focusing on the defence industry as a key area to achieve self-reliance. The government has taken several policy initiatives in

the past few years under 'Make in India' programme and brought in reforms to encourage indigenous design, development and manufacture of defence equipment in the country, including design and development. During the last three financial years (2020-21 to 2022-23), for instance, 122 contracts have been signed for capital procurement of defence equipment by the MoD. Out of these, 100 contracts accounting for 87 per cent of total contracts value have been signed with Indian vendors for capital procurement of defence equipment.<sup>8</sup>

The Ministry of Defence in March 2023 provided data on capital expenditure on indigenous procurement of the three services for specific time periods before the SCOD.<sup>9</sup> The Army spent Rs 89,945.5 crores on indigenous procurement from 2017-18 till 2021-22. During the same time period, the actual modernisation allocations were Rs 109,651 crores (for the heads taken as constituting modernisation budget for purposes of this Brief). The Army, therefore, spent 82 per cent of its modernisation budget on indigenous procurement.



The Navy spent Rs 96,446.67crores on indigenous procurement from 2017-18 till 2021-22, which is 64.2 per cent of its total modernisation capital allocations of Rs 150,066.77 crores. The Air Force spent Rs 88,659.71 crores on indigenous procurement from 2018-19 to 2021-22, 48 per cent of its total capital allocations under modernisation heads. It is pertinent to note that the Air Force spend on indigenous procurement rose from 16 per cent of its modernisation budget in 2018-19 to 60 per cent in 2021-22 – from Rs 5,648.66 crores to Rs 29,911.37 crores. It was nearly 65 per cent in 2020-21, at Rs 36,638.14 crores.

<sup>8</sup> “[Self-Reliance in Defence Sector](#)”, Press Information Bureau, 4 August 2023.

<sup>9</sup> Standing Committee on Defence, Seventeenth Lok Sabha, Ministry Of Defence, “[Demands for Grants \(2023-24\), Army, Navy, Joint Staff, Ex-Servicemen Contributory Health Scheme, and Sainik Schools, Demand Nos 20 and 21, Thirty Sixth Report](#)”, Lok Sabha Secretariat, March 2023, p. 16, p. 23, p. 35.

The government in FY 2020-21 had bifurcated the capital procurement budget for the MoD between domestic and foreign capital procurement.<sup>10</sup> It had allocated Rs 52,000 crores for domestic capital procurement in 2020-21, which was 40 per cent of the total capital procurement budget. The portion of the capital acquisition budget for domestic procurement has increased in subsequent years, to 58 per cent (Rs 78,334.8 crores) in 2021-22, 68 per cent (Rs 84,598 crores) in 2022-23 and 75 per cent (Rs 99,223 crores) in 2023-24.<sup>11</sup> The outgo on domestic procurement by the three services as provided to the SCOD for 2020-22 stands at Rs. 152,158.2 crores, while the capital budget allocated for domestic procurement during these two financial years was Rs. 130,334.8 crores. The MoD, therefore, spent more on domestic procurement than what was envisaged to be spent during these two years.<sup>12</sup>

### **Research and Development**

While there has been a 2.8 per cent rise in capital allocation for research and development from BE 2023-24, revenue allocations have also seen a similar rise of 2.2 per cent. The average annual capital allocations during 2015-25 BE have been at 53.12 per cent while the revenue allocations have been at 46.8 per cent. The SCOD in its December 2023 report on the working of the DRDO was informed that out of the total allocation of Rs 23,263.89 crores in BE 2023-24, 35 per cent (Rs 8,120.25 crores) was for strategic systems while the remaining 65 per cent of the allocations amounting to Rs 15,143.64 crores was for tactical systems.<sup>13</sup> The SCOD was also informed that the actual R&D budget was only Rs 5,000 crores, which is 21.5 per cent of the total DRDO budget estimates. Moreover, 25 per cent of this amount or Rs 1,300 crores was earmarked for the private sector.<sup>14</sup>

Finance Minister in her budget speech noted that a new scheme will be launched with a corpus of Rs 100,000 crores with a 50 year interest free loan to ‘provide long-term financing or refinancing with long tenors and low or nil interest rates. This will encourage the private sector to scale up research and innovation significantly in sunrise domains’.<sup>15</sup> She further added that a ‘new scheme will be launched for

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<sup>10</sup> [“MoD's Big Push to Atmanirbhar Bharat Initiative”](#), Press Information Bureau, 9 August 2020.

<sup>11</sup> Finance Minister Sitharaman in her budget speech in February 2022 noted that the capital procurement budget earmarked for the domestic defence industry in 2021-22 was 58 per cent. [“Budget 2022-2023: Speech of Nirmala Sitharaman Minister of Finance”](#), Ministry of Finance, Government of India, 1 February 2022, p. 15. See also [“Union Budget 2022-23”](#), Press Information Bureau, 1 February 2022; [“Defence Modernisation”](#), Press Information Bureau, 11 August 2023.

<sup>12</sup> See [“MoD Utilises 65.50 Per Cent of Capital Acquisition Budget on Domestic Procurement in FY 2021-22”](#), Press Information Bureau, 20 April 2022; Mayank Singh, [“Capital Procurement Budget for Domestic Industry Exceeded Target, Says Defence Ministry”](#), *The New Indian Express*, 20 April 2022.

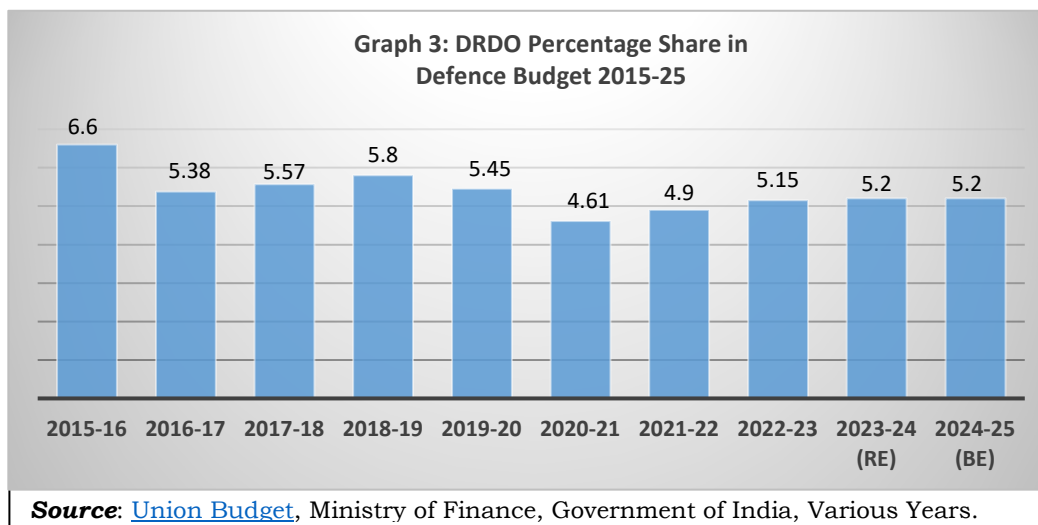
<sup>13</sup> Standing Committee on Defence, Seventeenth Lok Sabha, Ministry Of Defence, [“A Review of the Working of the Defence Research and Development Organisation \(DRDO\), Forty-Second Report”](#), Lok Sabha Secretariat, December 2023, p. 10.

<sup>14</sup> *Ibid.*, p. 48.

<sup>15</sup> [“Interim Budget 2024-2025: Speech of Nirmala Sitharaman, Minister of Finance”](#), 1 February 2024, Ministry of Finance.



strengthening Deep-tech technologies for defence purposes and expediting ‘atmanirbharta’.<sup>16</sup>



The Ministry of Defence in its press release on the budget noted that the Rs 100,000 crore corpus for ‘Deep Tech for long term loan to tech-savvy youth/companies and the tax advantage to the start-ups will give further impetus to innovation in the defence sector’.<sup>17</sup> The continuing focus on defence innovation, in the context of the recent report submitted by the High Powered Committee on DRDO reforms, is indeed noteworthy. The nodal ministry/department to operate this corpus needs to ensure that the Standard Operating Procedure (SOP) for implementation of the mechanism of this corpus needs to be target-oriented and crafted keeping in view the primary objective of ease of doing business for the industry.

## Conclusion

The interim budget estimates for the Ministry of Defence are largely in line with the broad trends of the past decade in terms of the revenue and capital allocations. The government’s focus on research and development is evident in the announcement of the new Rs 100,000 crore corpus while the combined budget heads for modernisation under the Capital Outlay on Defence Services do indicate a focus on integrated defence planning process from the budgetary perspective as well, if the trend continues going forward. The announcement of a new scheme to strengthen deep technologies (deep-tech) for defense purposes would further aim to expedite ‘atmanirbharta’ (self-reliance). While the interim budget provides a preview of India’s ongoing defence priorities and showcases a consistent approach in implementing policy initiatives towards the modernisation of the armed forces and to promote a domestic ecosystem for defence manufacturing, the final budgetary picture will be provided by the full budget of FY 24-25 expected in June-July 2024.

<sup>16</sup> Ibid.

<sup>17</sup> [“Record over Rs 6.21 lakh crore allocation to Ministry of Defence in Interim Union Budget 2024-25; 4.72% more than FY 2023-24”](#), n. 2.

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