Conditions right to raise military spend to 2.5% of GDP by FY30: Defence secy

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With the Ministry of Defence (MoD) achieving new milestones in budget utilisation and contract signings, along with the expansion and diversification of the domestic defence industrial base, conditions are now aligning for India's defence budget to ideally rise to a minimum of 2.5 per cent of gross domestic product (GDP) by FY30, up from the current 1.9 per cent, Defence Secretary Rajesh Kumar Singh told *Business Standard*, in the wake of Operation Sindoor and the country's new doctrine treating any cross-border terror attack as an act of war.

The May 7–10 clash with Pakistan, triggered by the April 22 Pahalgam terrorist attack with cross-border linkages, has turned the spotlight on the need for enhancing defence allocations as a share of GDP, taking into account emerging geopolitical challenges.

> "REACHING THE 2.5% MILESTONE WOULD MARK THE FIRST STEP TOWARDS A MEDIUM-TERM TARGET OF 3%, WITH CAPEX ON THE ARMED FORCES INCREASING TO AT LEAST 0.8% OF GDP FROM THE PRESENT 0.5%"
>
> Rajesh Kumar Singh, Defence Secretary

The defence secretary underscored that, having exhausted the military modernisation budget for the first time in five years in FY25 and signed a record ₹2 trillion worth of contracts, the MoD — if it can sustain this level of utilisation — would be confident in approaching the Union finance ministry and the Finance Commission with the assurance that it can effectively absorb higher allocations and justify a larger share of GDP for defence. "This would hopefully lead to a minimum of 2.5 per cent share of GDP for defence in five years," he said.

"Reaching the 2.5 per cent milestone would mark the first step towards a medium-term target of 3 per cent, with capital expenditure on the armed forces increasing to at least 0.8 per cent of GDP from the present 0.5 per cent, at a compound annual growth rate (CAGR) of about 20 per cent per annum," Singh elaborated.

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Additional outlay in FY26, if required, will be addressed at RE stage: Defence secy

Noting that a potential request for higher outlays in the next Budget would be taken up at the appropriate time, the secretary said that any additional requirement for the current financial year, if needed, would be addressed at the revised estimates (RE) stage, as the Budget estimates (BE) have already been finalised.

Between FY20 and FY25, India's defence expenditure has shown a clear decline as a percentage of both central government expenditure (CGE) and GDP, despite rising in absolute terms. Defence's share in CGE fell from 16.86 per cent in FY20 to 12.90 per cent in FY25, while its share of GDP declined from 2.25 per cent to 1.91 per cent over the same period. The government has allocated ₹6.81 trillion to the MoD for FY26. The allocation accounts for 13.45 per cent of the overall FY26 national budget -- the highest among ministries -- and represents 1.91 per cent of GDP.

Between FY20 and FY26, the BE for the armed forces' modernisation budget increased from ₹80,959.08 crore to ₹1.49 trillion, reflecting an overall increase of approximately 83.7 per cent. The CAGR over the six-year period stood at 10.67 per cent.

Between FY20 and FY24, total actual expenditure on the armed forces' modernisation exceeded the RE allocations in three years -- by 0.97 per cent in FY20, 4.06 per cent in FY21, and 0.06 per cent in FY22. Underspending was recorded in two years, with actuals falling short of the RE allocations by 4.37 per cent in FY23 and 0.27 per cent in FY24.

However, a service-wise breakdown presents a clearer picture: Under the capital head in FY21, the Army's actual expenditure was only 79 per cent of the allocation (RE), the Navy's was 112 per cent, and the Indian Air Force's (IAF's) was 106 per cent. In FY22, the figure was 99 per cent for the Army, slightly below 99 per cent for the Navy, and slightly above 100 per cent for the IAF. In FY23, it stood at 112 per cent for the Army, slightly below 98 per cent for the Navy, and just above 83 per cent for the IAF.

In FY24, the Army spent just shy of 86 per cent, the Navy just above 100 per cent, and the IAF 104 per cent.

Highlighting how prolonged procurement procedures had earlier caused decade-long acquisition delays and capability gaps for the armed forces -- and had led the MoD to surrender portions of capital acquisition allocations in several years -- the secretary told the Confederation of Indian Industry's (CII's) annual business summit in New Delhi last week that in FY25, the ministry had, for the first time in five years, fully exhausted the military modernisation budget. "More importantly, we signed contracts worth ₹2 trillion, double the previous record of about ₹1 trillion in FY24," he said, expressing hope that this momentum would accelerate the pace of military modernisation.

While acknowledging that the defence budget is substantial even at 1.9 per cent of a \$4 trillion GDP, he said that compound growth on a \$4 trillion economy would mean that even a 2-2.5 per cent share of GDP would be more than sufficient for military modernisation, provided the MoD can absorb it through timely contracting and provided the industry is geared up to fulfil these contracts.

Industry sources said that higher allocations will support "atmanirbharta (self-reliance)", as the MoD began earmarking a portion (75 per cent) of the defence modernisation budget for domestic industries in 2021 to promote self-reliance in defence manufacturing and technology.

For FY26, the MoD has earmarked ₹1.12 trillion -- 75 per cent of the modernisation budget -- for domestic procurement. Of this, ₹27,886 crore (25 per cent) was allocated to private industry and about ₹83,659 crore (75 per cent) to the public sector. In FY25, ₹1.05 trillion -- also 75 per cent of the modernisation budget -- was set aside for domestic sourcing, with ₹26,379 crore (25 per cent) for private firms and about ₹79,139 crore (75 per cent) for public sector entities.

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