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Defence Budget 2026-27 — Record Allocation, But Is India Closing the Indigenisation Gap?

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Defence Budget 2026-27 — Record Allocation, But Is India Closing the Indigenisation Gap?

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INTERVIEW ANGLE

"India allocates a record Rs 7.85 lakh crore to defence in Budget 2026-27, yet remains the world's second-largest arms importer. What structural barriers prevent India from translating defence budgets into domestic industry capability, and what policy levers can close this gap?"

WHY IN NEWS

Union Budget 2026-27 allocated a record Rs 7.85 lakh crore to defence — including Rs 2.19 lakh crore as capital expenditure and Rs 1.39 lakh crore reserved for domestic procurement — raising questions about whether spending increases are translating into genuine indigenisation or continuing to fund imports from a larger budget envelope.

THE PARADOX — MORE SPENDING, STILL HIGH IMPORT DEPENDENCE

India's defence budget has grown steadily over the past decade: from Rs 2.79 lakh crore in FY16 to Rs 7.85 lakh crore in FY27 — a nearly three-fold increase in nominal terms. The government has consistently emphasised indigenisation through the Aatmanirbhar Bharat Defence programme, revised Defence Acquisition Procedure (DAP 2020), and two Defence Industrial Corridors.

Yet India remains the **world's second-largest arms importer** (SIPRI 2024 data), accounting for approximately 9–10% of global arms imports. The **Stockholm International Peace Research Institute (SIPRI)** reports that Russia, France, and the United States remain India's top three arms suppliers — meaning that even as the domestic defence budget grows, a substantial fraction continues to flow offshore.

Why? The paradox has structural roots that budget allocations alone cannot solve.

WHAT THE BUDGET NUMBERS ACTUALLY SHOW

The FY27 defence budget breaks down as follows:

Category	Allocation	Key Note
Total Defence Budget	Rs 7.85 lakh crore	Record; ~2% of GDP
Capital expenditure (Defence Forces)	Rs 2.19 lakh crore	Procurement of new equipment
Domestic procurement earmark	Rs 1.39 lakh crore	~63% of capital; “ring-fenced” for Indian suppliers
ECHS (health scheme)	Rs 12,100 crore	+45.49% YoY
Defence pension	—	+6.56%

The **domestic procurement earmark** (Rs 1.39 lakh crore) is the most significant policy instrument — it creates a mandatory preference for Indian suppliers in capital procurement. But whether this translates to genuine technology development within India depends on what “Indian” means in practice: assembly of imported components with domestic labour, or end-to-end indigenous capability.

THE INDIGENISATION MEASUREMENT PROBLEM

India defines “indigenous content” in multiple ways, creating measurement ambiguity:

Buy (Indian — IDDM): Highest preference category; requires minimum 50% indigenous content for products with Indian technology

Buy (Indian): 60% indigenous content required for standard products

Buy and Make (Indian): Transfer of technology from foreign vendor to Indian entity

Buy Global — Manufacture in India: Foreign vendor + Indian manufacturing JV

The challenge is that “indigenous content” percentages can be met by using **Indian labour for assembly** while the core technology — propulsion systems, avionics, guidance systems, radar electronics — remains imported. A fighter aircraft assembled in India with 50% indigenous content by value might still depend entirely on foreign engines and electronic warfare systems.

The Air Force squadron shortfall illustrates the structural problem: India’s authorised Air Force strength is **42 combat squadrons**; active strength is only **31 squadrons** — a gap of 11 squadrons. This gap has persisted for years despite large capital budgets because fighter aircraft procurement cycles take 10–15 years from requirement finalisation to induction, and India’s domestic fighter (Tejas LCA Mk.2) is still years from full production rate.

THE PRIVATE SECTOR GAP

India’s defence industrial base has historically been dominated by **Defence Public Sector Undertakings (DPSUs)**: HAL, BEL, BEML, BDL, MDL, GRSE, Garden Reach Shipbuilders, etc. These are large, unionised, with capacity constraints, and optimised for producing designs transferred from foreign vendors rather than

originating technology.

The government's goal of **25% private sector contribution** to defence production by 2025 was not met on schedule. The Defence Industrial Corridors — one in Tamil Nadu (Tiruchirapalli-Chennai-Hosur) and one in Uttar Pradesh (Agra-Aligarh-Kanpur-Lucknow-Jhansi) — have attracted investment commitments but actual defence production at scale has been slower to materialise than announced targets suggest.

Start-ups and emerging companies (Sagar Defence USVs, Ideaforge drones, Alpha Design Technologies) are contributing but remain small relative to the procurement scale.

THE PENSION PROBLEM — REVENUE VS CAPITAL SQUEEZE

A persistent structural issue in India's defence budget is the **high revenue expenditure** — particularly defence pensions, which consume a disproportionate share. In FY27, defence pension alone is estimated at over Rs 1.5 lakh crore (approximately 20% of the total defence budget), leaving relatively limited capital for actual equipment procurement relative to the headline number.

The **OROP (One Rank One Pension)** scheme, implemented in 2015, significantly increased pension liabilities. Future growth in pension expenditure will continue to squeeze capital allocation unless overall defence budgets grow faster than pension liabilities.

WHAT WOULD ACTUALLY WORK

Closing the indigenisation gap requires not just more money but structural changes:

Long-term production contracts: Unlike a one-time purchase, multi-year committed production contracts (e.g., 200 Tejas aircraft over 10 years) give Indian industry the confidence to invest in machine tools, supply chains, and skilled workforce — comparable to how South Korea built its domestic defence industry in the 1980s-90s

Technology absorption mandates: FTA-style agreements that require foreign vendors to genuinely transfer design IP (not just manufacturing processes) as a condition of market access

Defence R&D investment: India's defence R&D expenditure (~Rs 23,000 crore, less than 6% of defence budget) is low relative to comparable military powers; raising this and directing it at critical technology gaps (propulsion, EW, hypersonics) is essential

Reforming DRDO: The Defence Research and Development Organisation has a mixed record; moving to output-based funding with external peer review would improve accountability

UPSC RELEVANCE

Defence Budget FY27 (Rs 7.85 lakh crore total; Rs 2.19 lakh crore capital; Rs 1.39 lakh crore domestic); SIPRI (India 2nd largest arms importer); IAF squadrons (31 active / 42 authorised); OROP (One Rank One Pension — implemented 2015); ECHS (Ex-Servicemen Contributory Health Scheme); DAP 2020 (Defence Acquisition Procedure); Defence Industrial Corridors (Tamil Nadu: Tiruchirapalli-Chennai-Hosur; UP: Agra-Aligarh-Kanpur-Lucknow-Jhansi); DRDO budget (~Rs 23,000 crore); DPSUs: HAL, BEL, BEML, BDL, MDL, GRSE.

Defence indigenisation policy; DAP 2020 categories; defence budget structure (revenue vs capital); DRDO's role in domestic defence R&D; private sector in defence; Defence Industrial Corridors; gap between budget allocation and actual capability delivery; SIPRI rankings and strategic implications.

📌 FACTS CORNER — KNOWLEDGEPEDIA

DEFENCE BUDGET 2026-27:

Total: **Rs 7.85 lakh crore** (record; ~2% of GDP)

Capital (equipment): **Rs 2.19 lakh crore**

Domestic procurement earmark: **Rs 1.39 lakh crore** (~63% of capital)

ECHS allocation: **Rs 12,100 crore** (+45.49%)

Defence pension: **Rs 1.5+ lakh crore** (~20% of total)

DRDO allocation: ~**Rs 23,000 crore** (~6% of total)

DEFENCE INDIGENISATION FRAMEWORK (DAP 2020):

Buy (Indian-IDDM): Highest priority; 50%+ indigenous content with Indian technology

Buy (Indian): 60%+ indigenous content

Buy & Make (Indian): Technology transfer to Indian entity

Buy Global-Manufacture in India: Foreign vendor + Indian manufacturing

INDIA'S DEFENCE INDUSTRIAL BASE:

DPSUs: HAL, BEL, BEML, BDL, MDL, GRSE, GSL (Goa Shipyard), OFB-successor entities

Defence Industrial Corridors: **Tamil Nadu** (Tiruchirapalli-Chennai-Hosur) + **Uttar Pradesh** (Agra-Aligarh-Kanpur-Lucknow-Jhansi)

Active IAF squadrons: **31** (authorised: **42**)

Domestic defence production target: Rs 1.75 lakh crore by 2025 (revised to Rs 3 lakh crore by 2029)

Private sector target: 25% of defence production value

SIPRI RANKINGS:

India arms import rank: **2nd globally** (SIPRI 2024)

India's top arms suppliers: Russia (1st), France (2nd), USA (3rd)

India's share of global arms imports: ~9–10%

OTHER RELEVANT FACTS:

OROP: Implemented **November 2015**; revised periodically; ~**34 lakh ex-servicemen** pensioners

Tejas LCA Mk.1A: 83-aircraft order with HAL; deliveries ongoing

Tejas LCA Mk.2: Development phase; larger, more powerful engine; 5th-generation features

BrahMos: India-Russia JV supersonic cruise missile; export to Philippines confirmed 2022; range versions to 450–800 km after MTCR membership

India's MTCR membership: June 2016 (Missile Technology Control Regime)

Sources: The Hindu, Drishti IAS

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