Replenishment, Not Reorientation: India’s Fy27 Defence Budget

February 13, 2026



On February 1, India’s Finance Minister presented the Union Budget for FY 2026-27 in the Lok Sabha. The Defence Budget, in particular, assumed greater importance, given that this was the first budget presented since the April/May 2025 crisis between India and Pakistan and India’s Operation Sindoor.

Consequently, the Ministry allocated a 15.18% increase in the defense budget, compared to the Revised Estimate of FY26, bringing the defense demand for grants to INR 7.84 lakh crore. Within this, there has been a nearly 22% increase in capital outlay—the allocation for purchasing equipment and platforms for the armed forces, distinct from money allocated for revenue, pensions, and administration. For FY27, capital outlay amounts to INR 2.19 lakh crore. In addition, there has been an increase in revenue expenditure, allocations for repairs, stores, and works, as well as pensions for retired personnel.

This overall increase, both in absolute and percentage terms year-on-year, has been viewed both as a marker of future preparedness and as evidence of the need to replenish war-wastage reserves after the April/May crisis. However, it is also clear that, despite the year-on-year spike, growth in India's defense budget has been steady over the last two decades. As one report shows, capital expenditure as a percentage of the overall budget was steady at around 35% under UPA rule, with 2004-2014 seeing a 213% surge in defense spending to INR 2.79 lakh crore by FY15. Between 2014/15 and 2026/27, this has further surged by 175%.

The FY27 defense budget reflects two principal characteristics of India's approach to defense spending, among others. The first is that April/May represented a stronger trigger for immediate increases in defense allocations than the 2016 and 2019 crises. The second is that this learning only amplifies long-standing perceptions of gaps in India's military preparedness, implying that the manner in which India allocates defense spending is more significant than the sums allocated.

Following the 2016 India-Pakistan crisis, India's defense budget estimate for 2017-18 reflected a 4% increase over the 2016/17 estimates to INR 3.59 lakh crore, even as it shrank to 2.1% of GDP from 2.4% in 2011-12. However, defense spending fell to 16.8% of the overall budget, compared to 17.1% prior to the crisis. Similarly, following the 2019 India-Pakistan crisis, which featured the use of aerial assets bombing each other's undisputed territory, the defense budget grew by 4.67% to INR 4.71 lakh crore in the FY2020-21 estimate.

Hence, even as the FY27 estimate presents the sharpest rise in allocations following a crisis year and a net increase in absolute figures, defense spending has remained consistent as a share of the overall budget each year, under the present government, around the 13-15% mark. Capital outlay, while representing a strong relative increase, does not exceed

historical thresholds. In any case, India has substantial expenditure planned across services, including ongoing negotiations for the purchase of 114 Dassault Rafale fighters (currently estimated at INR 3.25 lakh crore).

Moreover, a 17% increase in revenue expenditure, including salaries for armed forces personnel, indicates India's continued reliance on large force levels, even as it tests modifications to its force structure to enable nimbler, faster operations.

The Real Shift

Arguably, the more significant shift is in how India's armed forces intend to allocate their budget. At least since FY23, actual expenditure has been lower than both the budget and the revised estimates. It is presently assumed that the FY25 estimate presented a pre-2023 figure when actual spending outdid estimates such as between FY2017 and FY2022 (when over 100% of the estimated sum for each service was spent). In the coming months and years, the Ministry of Defense will have to spend both on new platform acquisitions as well as committed liabilities from past deals. However, more crucially, the FY27 budget has been viewed as paving the way for a new form of spending, with at least 75% of the capital outlay earmarked for acquisitions from Indian companies, along with an INR 17, 250 crore fund for research and development by private firms. This is notwithstanding a similar percentage in late 2025.

India also appears willing to adjust its procurement architecture to facilitate more effective implementation of these allocations. For India's Advanced Medium Combat Aircraft project, for instance, the Indian government has removed Hindustan Aeronautical Limited as the principal manufacturing partner, with development and manufacturing now open to bidding, in which the private sector will participate.

Looking to the Future

In the immediate future, India is likely to maintain a dual focus on promoting indigenization and plugging critical capability gaps, with its defense budget continuing to grow concurrently. It is uncertain if defense spending will remain floored at 13-15%, or close in on 3% of India's GDP (an informal NATO-based benchmark for India, recommended by the Parliamentary Committee on Defence in 2018).

While the FY27 budget contains novel elements related to the private sector, it remains true that over half of the defense budget continues to service pensions and revenue. Moreover, 2027-2029 is likely to be the peak payment cycle for major acquisitions, including the Rafale and the MQ-9B Predator drones. This is alongside existing commitments for 2026, such as for the remaining two regiments of the S-400 Triumf system from Russia as part of the approximately INR 40,000 crore deal signed between New Delhi and Moscow in 2018, the remaining three P-17A Nilgiri-class frigates (to be inducted by the end of this year), the expected 2026 induction of the Akash-NG SA Missile, as well as financing for new Tejas Mk1A jets for the Indian Air Force by HAL (given its assertion that GE F404 engine delays are now resolved).

Viewed alongside the ballooning pensions budget, the completion of existing deals, and the potential culmination of negotiations for advanced platforms acquisitions, the FY27 defense budget estimate is arguably more of a checkpoint to set the stage for future changes. Beyond the net increase in capital outlay, the following year's budget estimate will reveal the extent to which these changes manifest, particularly as the private sector matures.

Moreover, because the 2025 crisis ended very differently from 2016 and 2019, it was followed by a greater appreciation of future security challenges. It remains to be seen, however, whether this appreciation translates into more consistent

increases in defense spending. This is especially as it is unlikely that India seeks military solutions to its security challenges, with the need to maintain international focus on India’s economic growth, regional stability, and diplomacy.