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In Focus

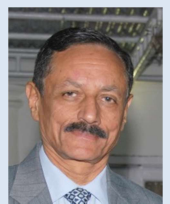
New Delhi

CAPS InFocus: 10/2022

04 February 2022

Defence Budget 2022-23 – Focus Aatmanirbharta

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Keywords: Defence, Budget, India, Atmanirbharta, Indigenisation, MoD, Indian Army, IAF, Indian Navy, DRDO, DPSU.



Image Source: Fin Tech Futures

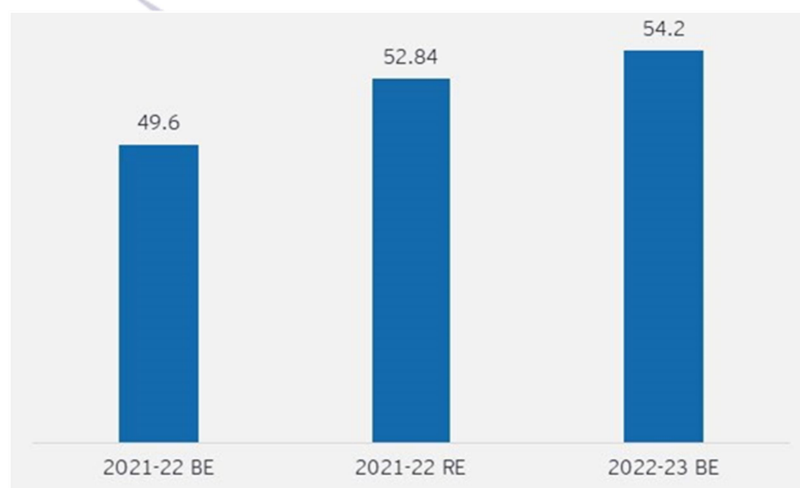


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India's Finance Minister, Shrimati Nirmala Sitharaman, presented the annual budget for 2022-23 on February 01, 2022. ₹5.25 lakh crore (\$70.23 billion) was allocated for military spending in this year's budget. This year's allocation saw an enhancement of ₹46,970 crore, or 9.82% compared to the Budget Estimates for 2021-22, which was ₹4.78 lakh crore (\$63.9 billion). For the financial year 2020-21, the budget allocation was ₹4.71 lakh crore (\$63.0 billion). This year, the defence allocation is 13.31% of the total union budget outlay of ₹39.45 lakh crore. The defence outlay is 2.03% of India's projected Gross Domestic Product (GDP) for 2022-23. Defence allocations traditionally get accounted in four demands for grants: 1) Demand Number 19 - Civil Expenditure of Ministry of Defence (MoD); 2) Demand Number 20 - Defence Services Revenue Expenses; 3) Demand Number 21 - Defence Services Capital Outlay and 4) Demand Number 22 - Defence Pensions.

Figure 1. Defence expenditure in US\$ billion (minus defence pensions)¹



The total defence budget (excluding defence pensions) amounts to ₹4.05 lakh crore (\$54.20 billion) (refer Figure 1). Of the total defence budget, ₹2.3 lakh crore (\$30.7 billion) would be for revenue expenditure. The capital outlay was ₹1.52 lakh crore (\$20.33 billion) for new acquisitions and, in turn, the modernisation of the armed forces. This was higher by 12.82% than the budget estimates (BE) for 2021-22, when it was ₹1.35 lakh crore (\$18.05 billion). The special fact was that a sum of ₹1.03 lakh crore (\$13.7 billion), or 68% of the defence capital budget, was to be spent for acquiring only locally produced weapons and systems. This would thus give a boost to the indigenous defence production sector. Another feature to promote the local private defence industry is that 25% of the defence R&D budget has been set aside to aid academia, startups, and private industry and encourage them to research and develop defence products and systems. Apart from that, ₹1.19 lakh crore (\$15.9 billion) is earmarked for pensions.

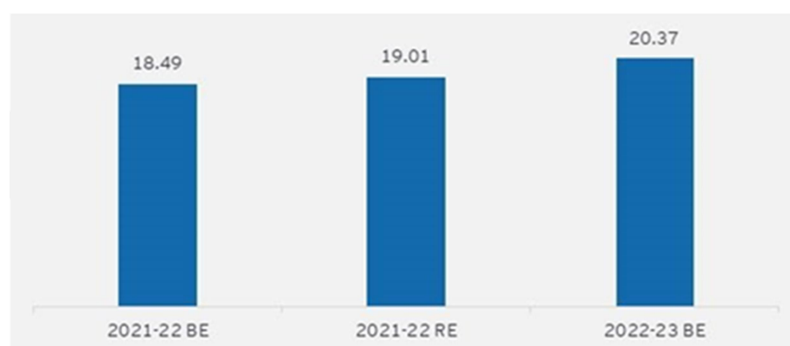
The Revised Estimates (RE) indicate that the armed forces spent over ₹21,000 crore beyond the budget allocations last year to make emergency purchases to cater for the face-off with China in Eastern Ladakh. This included the short-notice purchase of weapons and systems.

Defence Minister Shri Rajnath Singh termed the budget ‘growth oriented’. In his tweet, he said that the budget would give a fillip to ‘Make in India’, boost demand & build capacities for a New India². It would give further impetus to the modernisation of the Armed Forces and give a boost to border infrastructure and infrastructure for coastal security.

Modernisation and Indigenisation Push

The Capital outlays grew steadily since 2013-14 from ₹86,740 crore to ₹1.52 lakh crore (\$20.36 billion) in 2022-23, implying a 76% increase. On the other hand, in the same period, the total defence budget, including defence pensions, has increased by 107.29%, from ₹2.53 lakh crore (\$33.8 billion) in 2013-14 to ₹5.25 lakh crore (\$70.23 billion) in 2022-23.

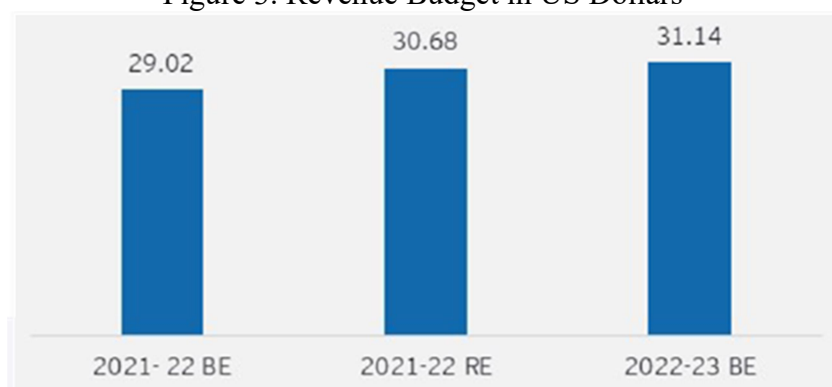
Figure 2. Capital Allocations (US Dollars)³



The general trend indicates that the thrust remains on an increased spend on modernisation and operational infrastructure and a specific push towards indigenisation, or ‘Aatmanirbhar Bharat’. The share of domestic defence purchases has been steadily growing, and this year has gone up to 68% vis-à-vis 64% in the previous year’s budget, amounting to ₹84,598 crore (\$11.29 billion). Dedicated indigenous procurement allotments began being made three years back. Major amounts would go towards Tejas Light Combat Aircraft (LCA) Mk-1A, Light Combat Helicopters (LCH), basic trainer HTT-40 aircraft, Arjun Mk-1A tanks, many missiles and other weapons.

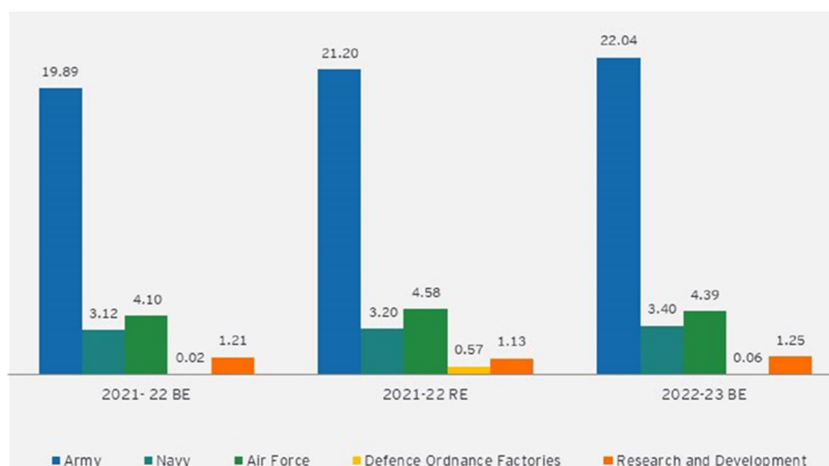
Revenue Allocations

Figure 3. Revenue Budget in US Dollars⁴



At ₹2.3 lakh crore (\$31.14 billion), the revenue budget for 2022-23 (Figure 3) has increased by around 10% compared to the revenue expenditure of 2021-22. More specifically, it is a nearly 10% increase for the Indian Army (IA), 8% for the Indian Navy (IN), and 7% for the Indian Air Force (IAF). The exact breakdown of revenue expenditure is in Figure 4.

Figure 4. Breakdown of revenue expenditure (US\$ billion)⁵



Border and Installation Security

The Capital budget for organisations like the Border Roads Organisation (BRO) and the Directorate General Defence Estates (DGDE) also had a jump of 55.60% to ₹8,050 crore (\$1.07 billion) this year. Most significantly, BRO gets ₹3,500 crore (\$467 million), a 40% increase for infrastructure building for roads, tunnels, and bridges coming up mainly close to the Line of Actual Control (LAC). ₹173.03 crore Capital budget is also provisioned for DGDE, which would be used for improving the boundary security of installations.

Maritime Security

Giving higher importance to maritime security, the Capital Budget of the IN has gone up by 44.53%, at ₹46,323 crore (\$6.18 billion). Some of it will be spent on naval and island infrastructure in addition to platform acquisitions. The Capital budget of the Indian Coast Guard has gone up by 60.24% to ₹4,246 crore (\$567 million). This will be used for acquiring ships, aircraft, and upgrading infrastructure and security networks.

Defence Industrial Eco System

The newly created seven Defence Public Sector Undertakings (DPSUs) constituting the old Ordnance Factories (OF) have been allocated ₹1,310 crore (\$175 million) for their modernisation. Additionally, ₹2,500 crore (\$334 million) is set aside as an Emergency Authorization Fund. Innovations for Defence Excellence (iDEX) gets ₹60 crore. This will support an improved environment for innovation and technology development by R&D institutes, academia, startups, and innovators. Defence Testing Infrastructure Scheme (DTIS) gets ₹23 crore to create an international standard testing infrastructure that

can also be used by the private sector to boost indigenous defence and aerospace manufacturing. Defence R&D will be given much greater access to the private industry, startups and academia, and 25% of the defence R&D budget will be used for this purpose. Special Purpose Vehicles (SPV) will be encouraged between DRDO and private players. Private industry would also be supported for testing and certification through a nodal umbrella. Clearly, the thrust will be on self-reliant 'Make in India'. Defence Minister Shri Rajnath Singh said that the budget was in line with the 'Vocal for Local' push. The president of the Society of Indian Defence Manufacturers (SIDM), Mr. SP Shukla, welcomed these initiatives.

Key Takeaways

IN and IAF are getting nearly 43% and 4% increases respectively, while the IA is getting a 12% reduction in their capital budgets. This indicates the trust towards greater reach and changing threat perception. Also, aviation and naval platforms are more technology-intensive and require greater obsolescence management.

The Capital outlay for aircraft and aero-engines shows a nearly 50% reduction for IA and 21% and 7% for IAF and IN, respectively. In the previous year, both IN and IAF had actually spent more than their allocations under this code head. IA had spent nearly 69% less. A substantial allotment increase for IN indicates focus on the Indian Ocean and acquisitions of ships, aircraft carriers, and submarines. IA's reduced allotment for aircraft related items would mean more concentration on their organic ground systems such as Main Battle Tanks, AK-203 rifles, amongst others. IAF's Capital budget would perhaps be committed substantially to the committed liabilities of LCA, Rafale, and S-400 Triumph purchases. With the winding down of the OFs, the seven new DPSUs would have to be nurtured, and suitable allocations have been made to corporatize them.

Duty rates have now been re-aligned to allow 'Make-in-India' to be preferred. A simplified customs tariff for some items like helicopters, some parts of aircraft, etc., will come into force on May 01, 2022. Similarly, some of the existing exemptions on the import of defence and security items will stop on March 31, 2023. There are also proposed changes to the Goods and Services Tax (GST) to make it friendlier for local manufacturers.

Aatmanirbharta (self-reliance) gets a boost, and imports will be discouraged. Indigenously Designed Developed and Manufactured (IDDM) items will now get the highest priority. Dedicating 25% R&D allocation for institutions and private entities will bring competition and commitment and create indigenous technologies and intellectual property. The budget also puts greater pressure on Indian industry and defence PSUs to both invest and deliver. Capital outlays promote the modernisation of the armed forces, and they should help bridge the gap for all the services. Increased defence production will also open avenues for exports and amortise costs. It will also generate jobs and support the nation's target of reaching a \$5 trillion economy and ₹1,75,000 crore (US\$25 billion) defence production by 2025.

The new policies would promote industry and armed forces interaction and coordination, and confidence in domestically produced weapon systems. In the high technology areas, the foreign equipment manufacturers would be more inclined to form Joint-Ventures (JV) and bring in Foreign Direct Investment (FDI). Some of these JVs will also support defence exports. With defence manufacturing corridors already getting in place, clearly, the tone and tenor of the defence budget has been to make India a defence production hub.

Notes

1. Graphics are from an Ernst and Young report authored by K. Ganesh Raj, Partner & National Leader – Aerospace & Defence, EY – India, February 01, 2022, https://www.ey.com/en_in/alerts-hub/2022/02/budget-2022-defence-sector Accessed on 03 February 2022.

2 .Ministry of Defence, Union Budget 2022-23, Press Information Bureau, Government of India, <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=1794415> Accessed on 03 February 2022.

3. n1

4. Ibid.

5. Ibid.