Union Budget 2026-27

Push for indigenous readiness and focus on MSMEs and R&D for long-term capability building in the Indian defence sector

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The Ministry of Defence (MoD) allocated an all-time high of ₹7.85 lakh crore in Union Budget 2026–27. The budgetary allocation (excluding pensions) for 2026-27 has seen an increase of 17.9% over the last year and including pensions, the growth stands at 15.2%. Overall, the MoD, with a 14.7% allocation (of the total budget), continues to lead as compared to all other departments.

The defence budget signals a deliberate rebalancing of priorities to ensure both sustenance and transformation. The calibrated allocations across the services for operational sustenance, modernisation, and R&D reflect the government's recognition of the need to maintain readiness while simultaneously investing in next-generation platforms, indigenous production, and technological innovation. This strategic reorientation, shaped by the geopolitical dynamics and Operation Sindoor, places a strong emphasis on bolstering domestic manufacturing through micro, small, and medium enterprises (MSMEs). The budget positions the MoD to pursue a dual-track agenda—meeting near-term operational exigencies while advancing structural reforms and indigenous capacity-building that will strengthen India's defence posture globally.

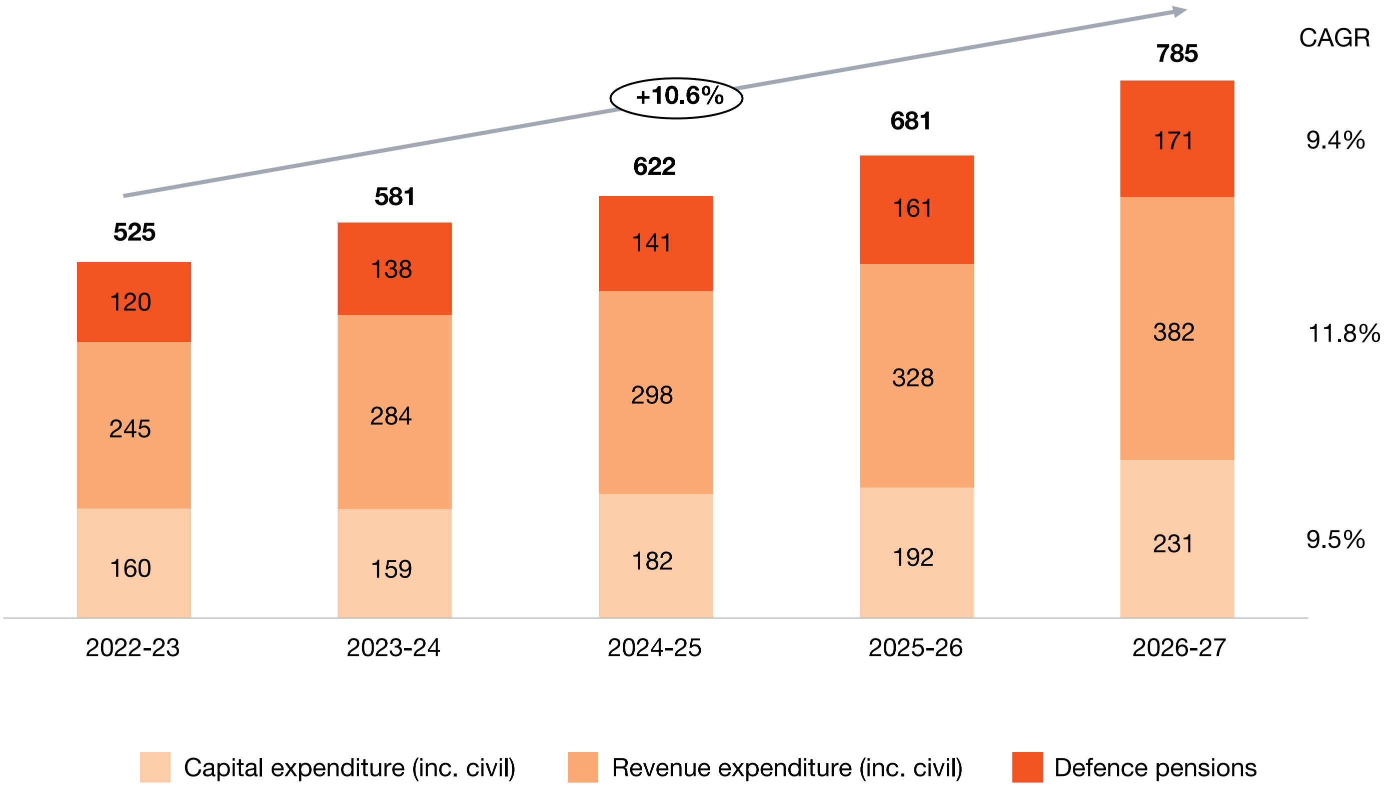
The total budget allocation for the defence sector (including pensions) has increased by 15.2% YoY with capital allocations increasing by ~22% during the same period. Capital budget accounted for 37.7% of the total budget allocation (excluding pensions).

Key statistics of defence budgets: 2025-26 and 2026-27

All figures are in INR crore	2025-26 (Budget estimate)	2025-26 (Revised estimate)	2026-27 (Budget estimate)
Defence budget - excluding pensions	**5,20,415**	**5,63,325**	**6,13,340**
Growth of defence budget - excluding pensions (%)			8.9%* 17.9%^
Revenue expenditure - including civil expenditure (INR crore)	**3,28,028**	**3,65,908**	**3,82,330**
Growth of revenue expenditure (%)			4.5%* 16.6%^
Share of revenue expenditure in defence budget (excluding pensions) (%)	**63.0%**	**65.0%**	**62.3%**
Capital expenditure - including civil expenditure (INR crore)	**1,92,388**	**1,97,417**	**2,31,010**
Growth of capital expenditure (including civil expenditure) (%)			17.0%* 20.1%^
Capital expenditure - excluding civil expenditure (INR crore)	**1,80,000**	**1,86,454**	**2,19,306**
Growth of capital expenditure (excluding civil expenditure) (%)			17.6%* 21.8%^
Share of capital expenditure in defence budget (%)	**37.0%**	**35.0%**	**37.7%**
Defence budget - including pensions	**6,81,210**	**7,32,511**	**7,84,678**
Growth of defence budget - including pensions (%)			7.1%* 15.2%^

*Growth rate in comparison to revised estimates
^Growth rate in comparison to budget estimates

Key statistics of defence budgets: 2025-26 and 2026-27



Highlights of Budget 2026-27 for the defence sector

- The total defence budget allocation for 2026-27 stands at ₹7.85 lakh crore (including pensions)—about 15.2% higher than last year's budget allocation and accounting for 2% of India's GDP and 15% of the Union Budget.
- It amounts to a total budget of ₹6.13 lakh crore after excluding pensions, which is an increase by around 18% over last year's budget estimate. This underscores a deliberate effort to utilise additional funds towards operational capability, force replenishment, and platform induction.
- The growth in capital budget (including civil) estimates is ~17% and that of revenue budget (including civil) estimates is ~4.5% compared to the 2025-26 Budget over the revised estimates. The higher revenue outlay is primarily to support enhanced, sustained operational readiness after Operation Sindoor across the army, navy, and air force in India.
- Capital outlay on defence services in 2026-27 is ₹2.19 lakh crore, compared to ₹1.8 lakh crore last year—implying growth of ~22%. Out of this, ₹1.85 lakh crore is earmarked for capital acquisition, which is approximately 24% higher than the same budget for FY2025-26. This higher allocation is intended to support both the ongoing modernisation programme and additional requirements arising after Operation Sindoor.
- The capital allocation explicitly includes ₹63,733 crore for aircraft and aero engines, reinforcing airpower and aerospace manufacturing as a key focus area in the modernisation plan.
- MoD has reinforced its policy of promoting domestic industries by earmarking ₹1.39 lakh crore, which is 75% of the capital acquisition budget for procurement from domestic industries during FY 2026–27, in line with the Aatmanirbhar Bharat vision, towards building enduring indigenous industrial and technological depth across platforms, subsystems, and supply chains.
- Border infrastructure continues to see higher priority, with the capital allocation for the Border Roads Organisation increasing to ₹7,394 crore from ₹7,147 crore last year—supporting key tunnel, bridge, airfield, and road projects in sensitive border areas.
- Budget 2026-27 advances sustained domestic manufacturing by linking higher capital outlays with basic customs duty exemptions on raw materials, components, and aircraft parts (including engines) imported by MoD public sector units for aircraft manufacture and defence MRO, lowering lifecycle costs and strengthening domestic supply resilience.

- Building on the strategic thrust, there is reinforcement to defence self-reliance by scaling up domestic rare earth permanent magnet capacity under the ₹7,280 crore Rare Earth Permanent Magnets (REPM) Scheme and proposing rare earth corridors, aimed at reducing India's dependence on imports for critical defence and aerospace systems such as missiles, radars, and fighter aircraft.

- The R&D allocation for defence services has been increased from ₹11,403 crore in 2025–26 to ₹11,850 crore in 2026–27, representing a growth of ~4% over the previous year—highlighting the growing emphasis on self-reliance (or aatmanirbharta) with indigenous defence R&D and test infrastructure.

- As part of the India Semiconductor Mission 2.0, the Electronics Components Manufacturing Scheme has been allocated ₹40,000 crore, alongside plans to set up high-tech tool rooms, strengthening domestic capacity for defence electronics and high-precision components, and reducing import dependence for avionics and mission systems.

- The allocation of ₹500 crore to the SME Growth Fund—a dedicated growth fund for small and medium enterprises (SMEs) to create future champions and incentivise enterprise growth—can potentially deepen the defence aerospace supplier base by enabling SMEs to scale capacity, enhance quality, and improve compliance.

- The Department of Space has been allocated ₹13,705 crore—a ~2% increase from 2025–26 budget estimates, but a ~10% increase compared to revised estimates of 2025–26—with higher capex signalling renewed investment in satellites/launchers/infrastructure capabilities that also serve national security enablers like satcom and space-derived situational awareness.

- The budget for the space programme highlights a renewal of funding for space sciences, which points to significant missions like Gaganyaan and upcoming planetary missions—including Chandrayaan-4, LUPEX, and the Venus Orbiter—demanding substantial capital.

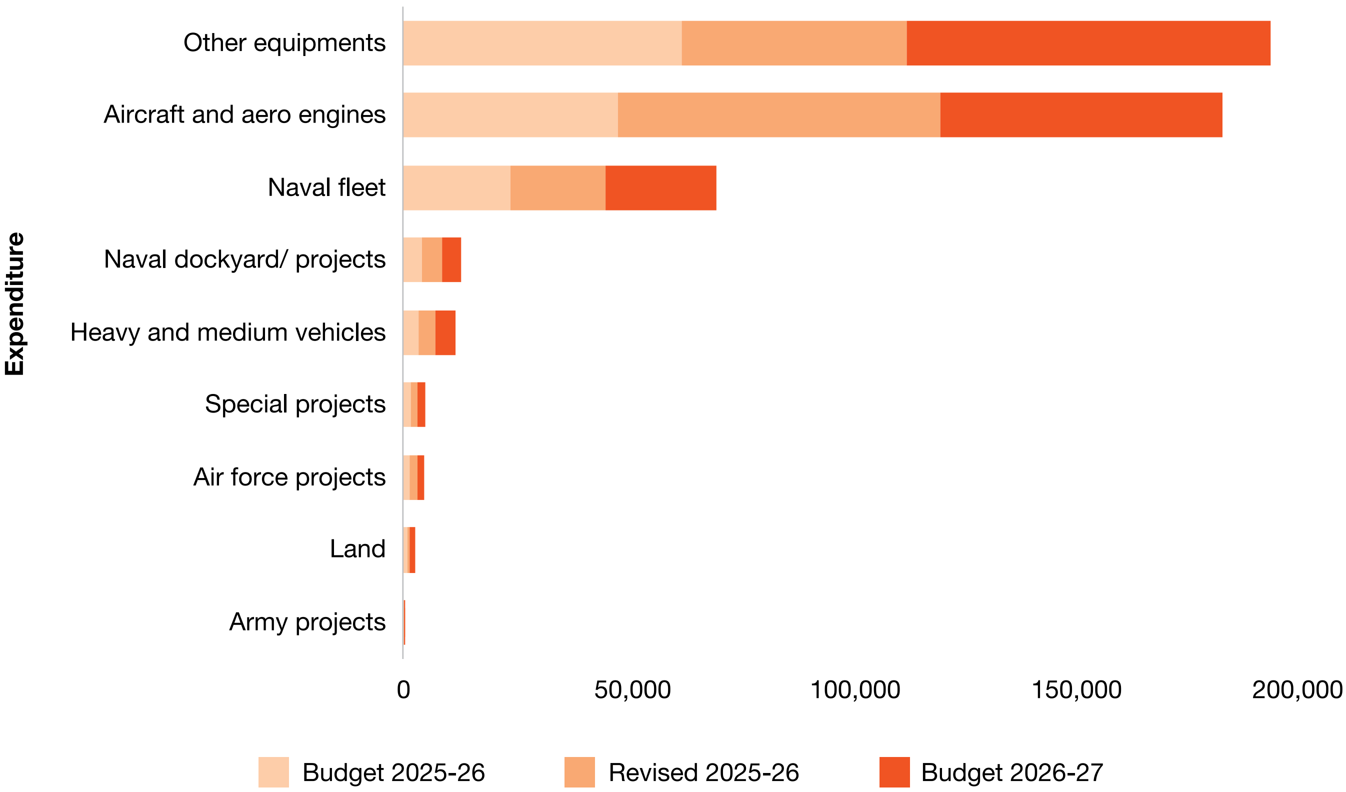
- Healthcare for veterans has received a sharp boost, with the Ex-Servicemen Contributory Health Scheme allocation rising to ₹12,100 crore—45% higher than last year and more than 3x the level in 2021-22—significantly strengthening medical support for ex-servicemen and their dependents.

- Defence pensions have been provided ₹1.71 lakh crore—around 6.6% higher than the previous year—to support monthly pension payments for over 34 lakh beneficiaries.

- GST laws: The place of supply for intermediary services will now be determined as per the location of the recipient of services. Accordingly, such services provided from India to overseas entities may now qualify as export of services, subject to other conditions.

Defence capital expenditure by category

Aircraft and aero engines, other equipment, and the naval fleet collectively dominate defence capital outlay in FY2026–27, signalling a decisive strategic pivot towards force modernisation and hardware upgrades. This concentration of capital spend reflects India's intent to accelerate combat-readiness across land, air, sea and modernisation amid an evolving global security landscape.



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