

## MODEST INCREASE IN DEFENCE BUDGET

*By Gopal Balachandran*

The budget estimate (BE) for defence expenditure announced today (February 26, 2010) for FY 2010-11 is Rs. 147, 344 crores - which is only about 4 percent more than the corresponding figure for 2009-10 that was pegged at Rs. 141, 703 crores. This increase of Rs. 5631 crores will hardly compensate for the inflation during the year 2009-10 and hence in real terms, the fiscal value will be even less.

The revised expenditure (RE) for defence for FY 2009-10 has been announced as Rs 136, 264 crores and with this base figure, the increased allocation for the current fiscal year is a little over 8 percent.. The defence expenditure for 2010-11 is estimated to be around 2.12 percent of GDP and is in line with the projection made by the 13<sup>th</sup> Finance Commission for the year, although in monetary terms it is higher than the estimate given in that report for the coming year ( The FC report recommends defence expenditure for FY 2010-11 to be Rs. 139452 crores). At 2.12 percent of GDP, the current allocation will be third lowest in the decade ending in 2010 and it will be instructive to watch if the defence expenditure continues to fall in a similar fashion in the coming years to reach even lower levels of defence expenditure, as a percentage of GDP.

The shortfall in defence expenditure during the current year (2009-10) is Rs. 5439 crores with an excess expenditure of Rs. 1561 crores on revenue account and a shortfall of Rs. 7000 crores on capital account. The revised estimate for capital expenditure is Rs. 47,824 crores as against the budget estimate of Rs. 54,824 crores. This shortfall in capital expenditure needs close examination. Although in aggregate it is Rs. 7,000 crores, in respect of capital acquisitions for the armed forces, it is only about Rs. 5,200 crores. About Rs. 1800 crores shortfall in the capital head was in respect of construction activities – which from a BE of Rs. 6242 crores came down to a Revised Estimate of 4460 crores. Even in respect of capital acquisitions, the shortfall is distributed in a very uneven fashion. The Navy and Air Force experienced only marginal shortfalls with the Navy faring the best. The Navy's revised capital acquisition budget at

about Rs. 11,500 was only about Rs. 350 crores less than the budgeted estimate of about Rs. 11,850 crores. Even in respect of the Navy's acquisitions, there was excess in respect of Aircraft and Aero engines of more than Rs. 1300 crores. The Navy did, however, have a shortfall in respect of naval fleet of nearly Rs.1700 crores.

As regards the Air Force, it experienced a shortfall of Rs. 1300 crores from a BE of about Rs. 18,900 crores to a RE of Rs. 17,500 crores. Here again the shortfall was not evenly distributed. While the Air Force had excess expenditure on account air craft and aero engines, (RE of Rs. 13348 crores against a BE of Rs.11838 crores) it did experience a shortfall on account of "other equipment".

It was the Army that experienced the bulk of the shortfall on all expenditure heads in the capital acquisition. The shortfall in Army's acquisition program as a whole was nearly Rs. 3700 crores, from a BE of about Rs. 13,150 crores to a Revised Estimate of about Rs. 9450 crores. The shortfall was about Rs. 650 crores in respect of aircraft and aero engines., surprisingly the only service to have shortfall on account of expenditure under this head. It also experienced a shortfall of nearly Rs. 2900 crores on account of "other equipment", from a BE of Rs. 11, 122 crores to a Revised Estimate of Rs. 8,250 crores.

While shortfall in capital acquisition programs no doubt reflects the inadequacies in the Defence Ministry's procurement process, its performance in 2009-10 was slightly better than its performance in the preceding year when the shortfall in capital acquisition was nearly Rs. 7500 crores (RE of about Rs. 30,000 crores against the BE of nearly Rs. 37,500 crores).

The estimated capital acquisition budget for the coming year is about Rs. 47, 000 crores against the BE of about Rs. 43,400 crores during 2009-10 and the RE of about Rs.38,000. All the three services exhibit an increase in capital acquisitions of varying degree during the coming year. Hopefully the defence acquisition process with its continuing learning process will make sure that the procurement program proceeds as planned. Inability by the Defence and Finance Ministry officials to spend defence capital head allocations leading to a shortfall in budgeted acquisition expenditure, along with a planned reduction in the GDP share of the defence expenditure will adversely

impact the long-term acquisition programs of the India's military capacity with consequent effects on the national defence preparedness.

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