

Union Budget 2026 and Urban India - Spending Cuts and Policy Signals

February 2, 2026 • vajiramandravi.com



Urban India Latest News

- The Union Budget 2026 has reduced central allocations for urban development by 11.6%, triggering debate on the government's commitment to India's cities.

Urban Development in India: Context and Importance

- Urban India is central to the country's economic and social transformation.
- Cities contribute nearly two-thirds of India's GDP and act as hubs for employment, innovation, and service delivery.
- Rapid urbanisation, however, has placed enormous stress on housing, transport, sanitation, water supply, and urban governance systems.
- Managing this transition requires sustained public investment, especially as urban local bodies (ULBs) remain fiscally weak and highly dependent on central and state transfers.

- The Constitution, through the **74th Constitutional Amendment Act**, envisaged empowered municipalities with functional autonomy.
- In practice, inadequate devolution of funds, functions, and functionaries has limited their capacity.
- Central schemes such as PMAY-Urban, AMRUT, Swachh Bharat Mission-Urban, and investments in mass transit were designed to fill this gap and create a baseline of urban services across Indian cities.

Urban Development Financing Framework

- Urban development in India is financed through a mix of central allocations, state budgets, municipal revenues, and borrowing.
- Centrally Sponsored Schemes (CSS) play a dominant role, particularly in housing, sanitation, water supply, and mobility.
- While capital-intensive projects such as metro rail have received consistent support, everyday urban services, waste management, buses, footpaths, drainage, and informal housing depend on sustained, predictable funding.
- In recent years, climate risks such as heatwaves, floods, and water scarcity have further increased the need for resilient urban infrastructure.
- This makes budgetary prioritisation of cities not merely a welfare concern but a macroeconomic necessity.

Union Budget 2026: Overall Urban Allocation

- The Union Budget 2026 has reduced total central outlay for urban development from Rs. 96,777 crore to Rs. 85,522 crore, a nominal cut of 11.6%.
- After accounting for inflation, the real decline in urban spending is even sharper.
- This contraction comes at a time when cities are absorbing large-scale migration, facing infrastructure fatigue, and confronting climate-induced stresses.
- The reduction signals a shift in fiscal priorities, where urban development appears to be treated as a residual sector rather than a growth-critical investment area.

Skewed Spending Priorities within Urban Allocation

- Despite the overall contraction, spending remains heavily skewed towards metro rail projects.
- In 2026-27, metro and mass rapid transit systems account for Rs. 28,740 crore, about one-third of total urban allocations.
- While metro systems are important for large cities, they are capital-intensive, spatially limited, and cater mainly to formal commuters.
- By contrast, bus-based public transport, non-motorised transport, and last-mile connectivity, used by the majority of urban residents, receive relatively limited attention.
- This reflects a policy bias towards high-visibility infrastructure over inclusive and scalable mobility solutions.

Cuts in Flagship Urban Schemes

- All major urban welfare and service schemes have seen budgetary reductions:
 - **Pradhan Mantri Awas Yojana-Urban (PMAY-U)** has faced a cut of nearly 6%, despite persistent urban housing shortages and expanding informal settlements.
 - **Swachh Bharat Mission-Urban (SBM-U)** allocation has been halved, raising concerns about the sustainability of sanitation gains and waste processing infrastructure.
 - **AMRUT**, critical for urban water supply and sewerage, has seen a 20% reduction, even as cities face acute water stress and ageing infrastructure.
- These cuts directly affect the quality of life in cities and risk reversing progress made in basic urban services.

Implications for Urban Governance and Growth

- The Budget does not compensate for reduced central spending through greater fiscal devolution or enhanced revenue-raising powers for municipalities.
- As a result, ULBs remain constrained in planning long-term infrastructure and responding to local needs.
- At a broader level, weakening urban investment undermines India's growth aspirations. Globally, successful development trajectories are built on well-funded, inclusive, and productive cities.
- Treating urban development as a cost centre rather than an engine of growth risks long-term economic and social consequences.

Source: TH

Source: <https://vajiramandravi.com/current-affairs/urban-india-spending-cuts/>

© Vajiram & Ravi. For personal use only.