



Analysis of Urban Sector Allocations in the Union Budget 2025-26

01 February 2025



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Key Highlights for the Urban Sector from the FY 2025-26 Union Budget

Overview

- Urban development has been declared one of the six transformative reform sectors that the Government of India will prioritise over the next five years. This move aims to incentivise urban sector reforms on governance, municipal services, urban land, and planning.
- At INR 96,777 crore, budgetary allocation to the Ministry of Housing and Urban Affairs (MoHUA) for FY 2025-26 has increased by almost 52% in comparison with the Revised Estimate (RE) of FY 2024-25, while the increase over the Budget Estimate (BE) of FY 2024-25 is 17%.
- MoHUA's allocation has increased by a Compounded Annual Growth Rate (CAGR) of 15% over the last six years, signalling the union government's focus on urban development.
- Key schemes see notable changes in allocation for FY 2025-26, compared to the Budget Estimate (BE) for FY 2024-25:
 - Allocation to the Mass Rapid Transit System (MRTS) and the Metro Rail Project has increased by 40%.
 - Allocation to the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) has increased by 25.0%.
 - Allocation to the Pradhan Mantri Awas Yojana - Urban (PMAY-U) has dropped by 22.8%.
- While PMAY-U received the highest allocation (BE) of all schemes under MoHUA in FY 2024-25, MRTS and the Metro Rail Project have secured the highest allocation for FY 2025-26.

Urban Infrastructure

- Following the announcement in the last budget, an allocation of INR 10,000 crore is allocated for FY 2025-26 towards the setting up of an 'Urban Challenge Fund' of INR 1 lakh crore. The objective is multi-fold — to develop cities as growth hubs, implement water and sanitation projects, and enable creative redevelopment of cities. The fund will cover a maximum of 25% of project costs; a minimum of 50% must be funded through loans, municipal bonds, and Public-Private Partnerships (PPP) — thus corraling private capital for urban transformation.

- Budget 2025-26 includes, for the first time, an allocation of INR 2,500 crore for industrial housing, demonstrating a focus on providing quality, affordable housing for workers.
- Each infrastructure-related ministry must prepare a three-year pipeline of projects that can be implemented in PPP mode. The availability of a shelf of PPP projects will improve the implementation of the Urban Challenge Fund.
- The provision to develop 50 tourist destinations in the country through challenge mode presents opportunities for urbanisation and economic growth in surrounding regions over the medium to long term.
- The modified UDAN scheme, which aims to enhance regional connectivity to 120 new destinations over the next decade, is expected to drive urbanisation in surrounding regions.

Urban Livelihood, Economic Growth, and Equity

- The upcoming year's budget aims to revamp the PM SVANidhi scheme with enhanced loans from banks and UPI-linked credit cards with INR 30,000 limit, and with capacity-building support. This, however, is not reflected in MoHUA's budgetary allocations, which show a 17% decline compared to the current financial year's RE.
- A new scheme has been proposed for the socio-economic upliftment of urban workers, with the aim of improving their incomes, livelihoods, and quality of life. However, no specific allocation has been mentioned in the detailed budget documents.
- Emerging Tier 2 cities are set to benefit from the national framework for promoting Global Capability Centres. The framework envisions improvements in the availability of talent and infrastructure, building byelaw reforms, and mechanisms for collaboration with industry.

Urban Reforms

- The proposed National Geospatial Mission, aimed at developing foundational geospatial infrastructure and data, can boost municipal revenues, urban planning, and the design of infrastructure projects.
- The government has allocated INR 1.5 lakh crore as 50-year interest-free loans to states for capital expenditure and reform incentives. If linked to urban reforms, this funding could strengthen such initiatives, following the successful pattern of similar loans in recent years.

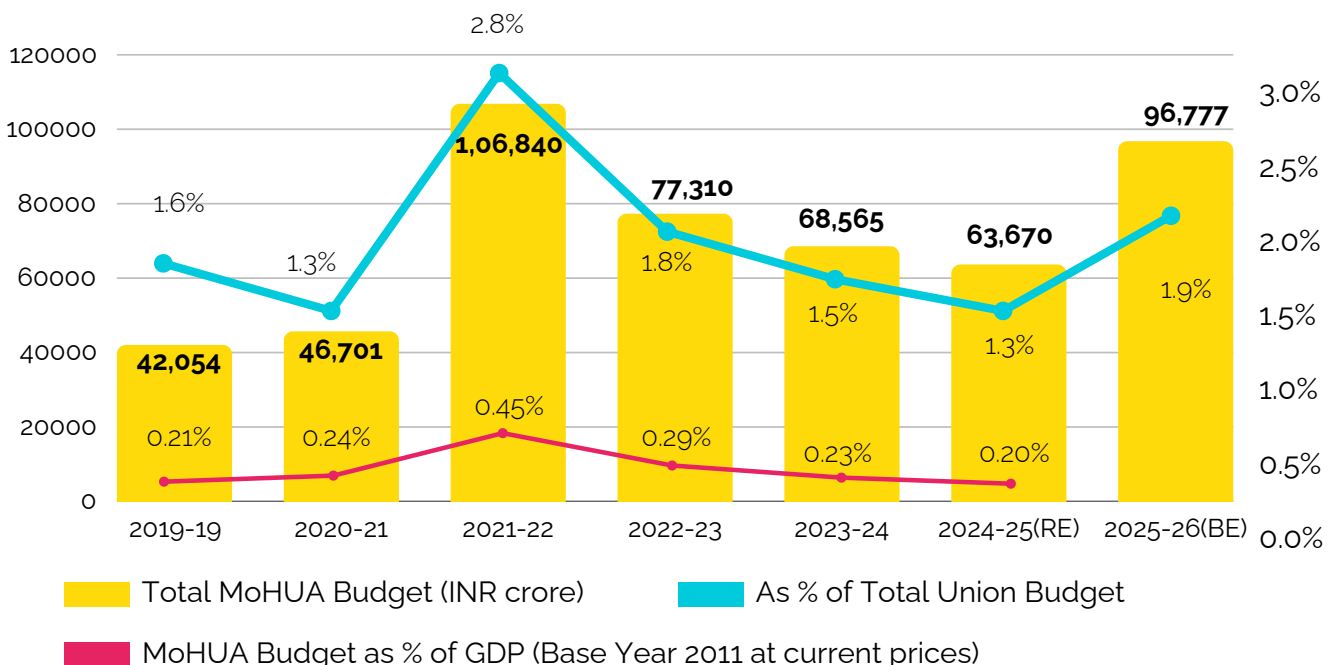
Detailed Analysis of Allocation to the Ministry of Housing and Urban Affairs (MoHUA):

India is undergoing a profound demographic shift, with urbanisation emerging as one of the most defining trends of the 21st century. By 2030, more than half of India's population will be living in cities. The World Bank estimates that the country will require a capital investment of INR 72.7 lakh crore between 2021 and 2036, to fill the gap in urban infrastructure and municipal services¹. Private investments in this sector remain at a nascent stage. In this context, budget allocations by the union government to the Ministry of Housing and Urban Affairs (MoHUA) are critical in anchoring investments and setting policy priorities.

Similar to previous years, the Union Budget 2025-26 maintains urban development as a core priority for the government:

- Since FY 2019-20, allocation to MoHUA has increased at a CAGR of 15%.
- MoHUA's allocation as a proportion of the total union budget has increased from 1.6% in FY 2019-20 (A) to about 1.9% in FY 2025-26 (BE).

MOHUA's Budget vis-a-vis Total Union Budget



Note: Actuals for FY 2019-20 to FY 2023-24.

[1] World Bank. (2022). Financing India's urban infrastructure needs

In comparison with other ministries, MoHUA has received the 14th highest budget allocation in FY 2025-26 (BE). Among ministries with the highest allocation, the ministries of Road Transport and Highways, Railways, and Jal Shakti have recorded a high CAGR (~25%) from FY 2019-20 (A) to FY 2025-26 (BE), with the Ministry of Communication and MoHUA following at 16% and 15%, respectively.

Table 1: Union ministries receiving the highest allocation in FY 2025-26 (in INR, crore)

	Name of the Union Ministry	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23 (A)	2023-24 (A)	2024-25 (RE)	2025-26 (BE)	CAGR
1	Ministry of Finance	10,03,202 (37.3%)	11,41,649 (32.5%)	13,83,611 (36.5%)	14,94,247 (35.6%)	16,47,227 (37.1%)	18,05,018 (38.3%)	19,39,001 (38.3%)	12%
2	Ministry of Defence	4,52,996 (16.9%)	4,85,681 (13.8%)	5,00,681 (13.2%)	5,73,098 (13.7%)	6,09,504 (13.7%)	6,41,060 (13.6%)	6,81,210 (13.4%)	7%
3	Ministry of Road Transport and Highways	78,249 (2.9%)	99,159 (2.8%)	1,23,551 (3.3%)	2,17,089 (5.2%)	2,75,986 (6.2%)	2,80,519 (5.9%)	2,87,333 (5.7%)	24%
4	Ministry of Railways	69,972 (2.6%)	1,12,159 (3.2%)	1,35,242 (3.6%)	1,62,410 (3.9%)	2,45,791 (5.5%)	2,55,348 (5.4%)	2,55,445 (5.0%)	24%
5	Ministry of Home Affairs	1,34,978 (5.0%)	1,44,258 (4.1%)	1,68,791 (4.4%)	1,86,839 (4.5%)	1,96,872 (4.4%)	2,20,371 (4.7%)	2,33,211 (4.6%)	10%
6	Ministry of Consumer Affairs, Food and Public Distribution	1,17,096 (4.4%)	5,66,797 (16.1%)	3,06,571 (8.1%)	2,83,954 (6.8%)	2,32,496 (5.2%)	2,12,820 (4.5%)	2,15,767 (4.3%)	11%
7	Ministry of Rural Development	1,23,622 (4.6%)	1,97,593 (5.6%)	1,61,643 (4.3%)	1,77,840 (4.2%)	1,63,642 (3.7%)	1,75,878 (3.7%)	1,90,406 (3.8%)	7%
8	Ministry of Chemicals and Fertilisers	82,063 (3.1%)	1,29,510 (3.7%)	1,54,789 (4.1%)	2,53,563 (6.0%)	1,91,165 (4.3%)	1,86,653 (4.0%)	1,61,965 (3.2%)	12%
9	Ministry of Agriculture and Farmers' Welfare	1,01,775 (3.8%)	1,15,827 (3.3%)	1,22,836 (3.2%)	1,08,277 (2.6%)	1,18,147 (2.7%)	1,41,352 (3.0%)	1,37,757 (2.7%)	5%
10	Ministry of Education	89,437 (3.3%)	84,219 (2.4%)	80,352 (2.1%)	97,196 (2.3%)	1,23,365 (2.8%)	1,14,054 (2.4%)	1,28,650 (2.5%)	6%
11	Ministry of Communications	43,939 (1.6%)	60,903 (1.7%)	51,545 (1.4%)	1,40,976 (3.4%)	1,11,339 (2.5%)	1,50,201 (3.2%)	1,08,105 (2.1%)	16%
12	Ministry of Health & Family Welfare	64,258 (2.4%)	80,694 (2.3%)	84,470 (2.2%)	75,731 (1.8%)	83,149 (1.9%)	89,974 (1.9%)	99,859 (2.0%)	8%
13	Ministry of Jal Shakti	25,683 (1.0%)	23,199 (0.7%)	83,467 (2.2%)	71,618 (1.7%)	95,109 (2.1%)	51,558 (1.1%)	99,503 (2.0%)	25%
14	Ministry of Housing and Urban Affairs	42,054 (1.6%)	46,701 (1.3%)	1,06,840 (2.8%)	77,310 (1.8%)	68,565 (1.5%)	63,670 (1.3%)	96,777 (1.9%)	15%

Note: Parenthesis in the table indicate allocations as a % of the total union budget.

MoHUA's budget is mainly channelled through schemes, with less than 5% allocated to the ministry's establishment expenditure

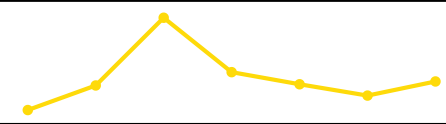

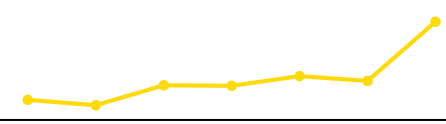


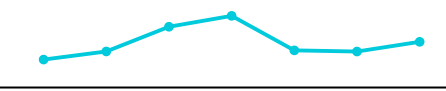
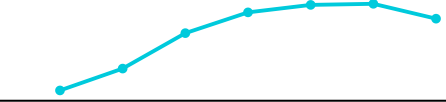


- Seven schemes constitute 90% of MoHUA's budget for the upcoming FY. (See Table 2 below)
- Of these, two schemes are new — the Scheme for Industrial Housing and the Urban Challenge Fund. Others include MRTS and the Metro Rail Project, PMAY-U (including 2.0),² AMRUT, SBM-U, and General Pool Accommodation.³
- For the key schemes, allocations in FY 2025-26, when compared with the current FY's BE, indicate that:
 - Allocation to MRTS and Metro Rail Project has increased by 40%
 - Allocation to PMAY-U has dropped by 22.8%
 - Allocation to AMRUT has increased by 25.0%
 - Allocation to SBM-U has remained at the same level as last year's BE.
 - Allocation to General Pool Accommodation has increased by 7%.
- In the current FY, RE of key schemes dropped significantly in comparison with their BE, implying a potential drop in expenditure as compared to budget allocation. In RE, PMAY-U recorded a drop of about 50%, AMRUT dropped by 25%, and SBM-U dropped by 57%.
- Similarly, although INR 1,150 crore was allocated to the National Urban Digital Mission (NUDM), RE is significantly lower at INR 108.7 crore.
- Two major schemes have been discontinued for the upcoming FY: the Smart Cities Mission⁴ and the Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAY- NULM).

[2] All reference to PMAY in this note include allocation (or expenditure) to PMAY-U and PMAY-U 2.0.

[3] General Pool Accommodation includes provision for construction and maintenance of government residential buildings and non-residential office buildings including the Rashtrapati Bhavan, the Parliament, and the Supreme Court of India.

[4] PIB. (2024, July 3). Smart Cities Mission extended till March 2025. Release ID: 2030491.

Table 2: Allocations to MoHUA's key schemes and items, FY 2025-26*

Key Schemes/Items	Budgeted 2025-26 (INR crore)	Trend (2019-20 to 2025-26)
Centrally Sponsored Schemes		
PMAY-U and PMAY-U 2.0	23,294 (24.07%)	
AMRUT	10,000 (10.33%)	
Urban Challenge Fund	10,000 (10.33%)	New scheme for FY 2025-26
SBM-Urban	5,000 (5.17%)	
Scheme for Industrial Housing	2,500 (2.58%)	New scheme for FY 2025-26
Other Centrally Sponsored Schemes	2,810 (2.90%)	
Central Sector Schemes		
MRTS & Metro	34,807 (35.97%)	
General Pool Accommodation	3,957 (4.09%)	
PM SVANidhi	373 (0.38%)	
Establishment and Other Central Sector Expenditure		
Establishment Expense of the Centre	3,857 (3.99%)	
Other Expenditure	176 (0.18%)	

*Note 1: Parenthesis in the table indicate allocations as a % of MoHUA's total budget.

Note 2: General Pool Accommodation includes provision for construction and maintenance of government residential buildings and non-residential office buildings, including the Rashtrapati Bhavan, the Parliament, and the Supreme Court of India.

Note 3: The trend provides actuals for FY 2019-20 to FY 2023-24, RE and BE for FY 2024-25 and FY 2025-26, respectively.

Note 4: PMAY-U 2.0 was budgeted for in FY 2024-25 (RE) and 2025-26 (BE). For this analysis, PMAY-U and PMAY-U 2.0 have been taken together for these two years.

Other Allocations to Urban

Beyond MoHUA allocations through schemes, fiscal devolution to Urban Local Governments (ULGs), through the 15th Finance Commission (FC) Grants, is a key source of revenue for ULGs. These are budgeted for within the Ministry of Finance.

For FY 2025-26, INR 26,158 crore has been allocated to ULGs through the 15th FC Grants. This is in line with recommendations of the 15th FC, upholding the spirit of the 74th Constitutional Amendment.

Experts' Perspectives

"As with budgets of the last few years, the Union Budget 2025-26 continues to spotlight urban development, with increased allocations to the sector. Several notable announcements signal acceleration in urban development, particularly in mobilising private capital for infrastructure. However, institutional reforms have not been adequately prioritised in this budget. These reforms are crucial to sustain rapid urbanisation, enable private sector participation, and drive long-term urban economic growth.

The lack of robust governance frameworks, inadequate financial decentralisation and weak urban institutions could limit the intended impact of these investments. For India's cities and towns to achieve their true potential, financial commitments must be complemented with systemic changes that empower cities as engines of growth."

Prabhat Kumar

Head – Public Finance Management
Janaagraha



"The Union Government's urban development strategy represents a critical intervention in addressing India's complex urbanisation challenges. Innovative financing mechanisms, including Public-Private Partnerships (PPP), offer a promising pathway to reimagine public infrastructure development. By introducing market-driven approaches, we can potentially accelerate project delivery, enhance quality, and create space for transformative solutions.

However, successful urban transformation requires more than financial investment. A nuanced, context-sensitive approach is essential. By structuring urban development challenges with differentiated strategies for metro, large, and small cities — each with pre-approved project pipelines — we can align interventions more precisely with local urban ecosystems.

A place-based approach that recognises distinct urban realities will be fundamental in driving sustainable, inclusive development across India's diverse urban landscape."

Nithya Ramesh

Director of Urban Design
Jana Urban Space Foundation



About Janaagraha

Janaagraha is a Bengaluru-based not-for-profit institution working to transform the quality of life in India's cities and towns. It defines quality of life as comprising quality of infrastructure and services, and quality of citizenship. To achieve its mission, Janaagraha works with councillors and citizens to catalyse active citizenship in city neighbourhoods, and with governments to institute reforms to city-systems. Janaagraha has worked extensively on urban policy and governance reforms for over two decades including on JnNURM, and with XIII, XIV, XV Finance Commissions, and the Comptroller and Auditor General of India. Janaagraha's current portfolio of work includes engagements with the XVI Finance Commission, Ministry of Housing and Urban Affairs (MoHUA), NITI Aayog, Capacity Building Commission, state governments of Odisha, Assam, Uttar Pradesh and the 5th State Finance Commission of Karnataka.

Find out more at www.janaagraha.org



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