



India Union Budget 2026-27

Point of view

#KPMGBudgetLIVE | #UnionBudget2026

Urban Transformation

KPMG. Make the Difference.

Key announcements for the sector

- **City Economic Regions**
The Budget announced aims to amplify the potential of cities to deliver the economic power of agglomerations by mapping city economic regions (CER), based on their specific growth drivers. An allocation of INR 5000 crore per CER over five years has been proposed for implementing plans through a challenge mode with a reform-cum-results-based financing mechanism.
- **High-Speed Rail Corridors as 'growth connectors'**
Seven high-speed rail corridors will be developed as 'growth connectors' between key cities to promote environmentally sustainable passenger systems. The corridors will connect Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, and Varanasi-Siliguri.
- **Developing infrastructure in Tier II and Tier III cities**
Focus will continue developing infrastructure in cities with populations exceeding 5 lakh (Tier II and Tier III), which have grown into significant centres of economic activity.
- **Municipal bonds**
An incentive of INR 100 crore for a single bond issuance of more than INR 1000 crore is proposed to encourage the issuance of municipal bonds of higher value by large cities. The current scheme under AMRUT, which incentivises issuances up to INR 200 crore, will also continue to support smaller and medium towns.
- **16th Finance Commission grants**
Provisions of INR 1.4 lakh crore will be made to States for FY 2026-27 as Finance Commission Grants. These include devolution of funds to Urban Local Bodies and Disaster Management Grants.
- **Monetization of CPSEs through Real Estate Investment Trusts (REITs)**
It is proposed to accelerate recycling of significant real estate assets of central public sector enterprises (CPSEs) through the setting up of dedicated REITs.
- **Infrastructure Risk Guarantee Fund**
An Infrastructure Risk Guarantee Fund is proposed to be set up to provide prudently calibrated partial credit guarantees to lenders and strengthen the confidence of private developers regarding risks during infrastructure development and construction.

- **Creation of University Townships**
Five University Townships will be created in the vicinity of major industrial and logistic corridors through a challenge route. These zones will host universities, colleges, research institutions, skill centres and residential complexes.
- **Social Infrastructure Development through Girls' Hostels**
Through VGF/capital support, one girls' hostel will be established in every district.
- **Development of sports infrastructure under Khelo India Mission**
Among other aspects, the proposed Khelo India Mission will facilitate the development of sports infrastructure for training and competition, as well as competitions and leagues to promote sports culture.
- **East Coast Industrial Corridor**
An integrated East Coast Industrial Corridor with a well-connected node at Durgapur, the creation of five tourism destinations in the Purvodaya States, and the provision of 4000 e-buses have been proposed.
- **Development of Buddhist Circuits in NE states**
A scheme is proposed for the development of Buddhist Circuits in Arunachal Pradesh, Sikkim, Assam, Manipur, Mizoram and Tripura. It will cover the preservation of temples and monasteries, pilgrimage interpretation centres, connectivity and pilgrim amenities.
- **Hubs for medical value tourism**
A scheme is proposed to support States in establishing five Regional Medical Hubs, in partnership with the private sector.

Implications for the sector

- **Cities positioned as engines of economic growth:** The introduction of CERs with a committed allocation of INR 5,000 crore per CER over five years marks a structural shift from city-centric planning to region-led urban economic development.
 - This is expected to strengthen agglomeration economies, improve spatial efficiency and create differentiated growth trajectories for Tier-II, Tier-III cities and temple towns based on their unique economic drivers.
 - Such support (largely for non-metros) is a significant opportunity to strengthen core infrastructure readiness (water, sanitation, mobility, transit hubs, digital systems, and urban services). Therefore, cities need to identify bankable project pipelines along with enhanced digital governance structure asset management, citizen services, and real-time monitoring for efficient service delivery and financial sustainability.
 - The focus on CERs also calls for integrated planning of multi-city synergy linking industrial areas, logistics hubs, economic corridors, and transport networks. Therefore, State Governments shall be encouraged to shift from metro-driven growth to regional spatial planning through land pooling, freight management, and integrated Land-Use-Transport Planning (LUTP).
 - The challenge-mode, reform-linked financing approach for CER implementation places significant emphasis on institutional capacity, governance reforms and coordinated execution at the state and city levels. Cities that demonstrate readiness through planning reforms, project structuring capabilities and improved revenue mechanisms are likely to attract a disproportionate share of investments.
- **Unlocking fast and seamless connections through High-Speed Rail (HSR) corridors:** The seven new high-speed corridors are expected to improve inter-city commuting, create new secondary economic nodes, and reduce pressure on metros. Improved connectivity can spur development of peri-urban centres, logistics hubs, industrial clusters and transit-oriented development along key corridors. As an implication, states may likely need to plan for HSR station area development, TOD zones, logistics hubs to maximize land value capture.

- Tier-II & III cities as ‘New Growth Engines’: The continued focus on infrastructure development in Tier-II and Tier-III cities reflects a strategy to balance urbanization and reduce the burden on metros. Focus on growth of emerging cities for MSME competitiveness and female workforce participation would necessitate the need for enhanced mobility networks, affordable housing infrastructure (specially women hostels) in these cities. In addition, City-level Mobility Authorities should be established for Tier II–III cities to coordinate bus, metro-lite, shared mobility, urban freight, and Non-Motorised Transport (NMT).
- Strengthening municipal finance and market-based funding: The incentive of INR 100 crore for municipal bond issuances exceeding INR 1,000 crore, along with continued support to smaller issuances under AMRUT, is expected to deepen India’s municipal bond market. This may encourage large cities to improve fiscal discipline, ring-fence revenue streams and adopt stronger governance practices while accessing long-term capital for urban infrastructure investments. Large cities may be able to raise substantial funds for mega infrastructure projects, while smaller towns are like to continue benefitting under the AMRUT scheme. This initiative encourages cities to adopt market-based financing, ensuring long-term sustainability of urban development projects.
- Acceleration of urban infrastructure creation through higher public capex: The increase in public capital expenditure to INR 12.2 lakh crore in FY 2026-27 reinforces the government’s continued focus on urban infrastructure as a growth multiplier. Higher allocations are expected to translate into faster creation of urban assets across transport, logistics, housing, utilities and social infrastructure, with cities acting as primary anchors for this investment.
- Unlocking value through urban land and real estate monetization: The focus on accelerated monetization of Central Public Sector Enterprises (CPSEs) real estate assets through REITs is expected to unlock under-utilized urban land parcels and catalyse redevelopment in prime city locations. This can enable recycling of capital into new infrastructure while improving the quality and intensity of urban land use.
- Improved bankability of urban projects: The proposed Infrastructure Risk Guarantee Fund, offering partial credit guarantees during construction and early operations, is likely to de-risk urban infrastructure projects and improve lender confidence. This can enhance financial closure timelines for projects in water, sanitation, mobility, affordable housing and municipal services, particularly in emerging cities with limited track records.
- Enhancing support systems for large floating populations: The proposed Regional Medical Value Tourism Hubs and University Townships are likely to attract a steady inflow of patients, caregivers, students, scholars, and professionals, thereby increasing demand for high-quality public amenities, mobility infrastructure, and short-term accommodation in urban centres. This influx is expected to stimulate rapid growth in hospitality and allied services—such as hotels, guest houses, serviced apartments, restaurants, recreation facilities, and wellness centres—while also encouraging substantial real estate and commercial investments in surrounding areas.
- Enhanced access to sports infrastructure: The proposed Khelo India scheme is expected to enhance urban well being by expanding access to sports infrastructure, encouraging regular physical activity, and creating spaces where citizens, especially the youth, can engage in fitness, recreation, and social interaction.
- Driving transformation of urban centres in Purvodaya and NE regions through tourism: The development of the East Coast Development Corridor and Buddhist Circuits to support Purvodaya and Northeastern states is likely to result in accelerating infrastructure upgrades, transforming land use for commercial and hospitality purposes, and enhancing the image and identity of urban centres in these regions.

Overall, Budget 2026 focuses on distributed, well-networked and infrastructure-led growth initiatives prioritizing the development of regional economic corridors and strengthening ULB-level infrastructure. Therefore, states need to plan for urban infrastructure roadmaps integrating CERs, mobility corridors, industrial clusters, and housing.

KPMG in India contacts:

Nilachal Mishra

Partner and Head

Government and Public
Services

E: nilachalmishra@kpmg.com

Akhilesh Avanish

Partner and Lead

Urban Transformation
Government and Public Services

E: akhilesh1@kpmg.com

kpmg.com/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi,
Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only.



[Access
Budget microsite](#)