The Daily Star
FOUNDER EDITOR: **LATE S. M. ALI**

BB must confront bad loans' true scale

Regulatory forbearance, systemic evergreening of bad debt must end

Irrespective of the semantic disputes over distressed debt, the numbers for Bangladesh's banking sector speak for themselves. In 2025, the industry recorded a net loss of Tk 1.36 lakh crore—its first aggregate deficit in more than a decade. Sector-wide net interest income turned negative. These are the inevitable consequences of years of politically directed lending.

The damage is highly concentrated. Five Islamic lenders—First Security, Social Islami, EXIM, Global Islami, and Union—are being merged into a single entity after catastrophic losses. First Security alone swung from a modest profit to a Tk 66,386 crore deficit. These banks share a common, fatal history: their governance was captured by interests tied to the S Alam Group and the political networks of the administration that collapsed in August 2024. While other lenders, including state-owned Janata Bank, also posted heavy losses, the deepest rot is found where political interference was most acute.

Against this backdrop, Bangladesh Bank has aggressively contested media estimates that distressed assets consume 60 percent of total credit, preferring a narrower non-performing loan (NPL) figure of 30.6 percent. It arrives at this lower number by excluding written-off debt, loans stalled by court orders, and—crucially—rescheduled loans. This accounting defence is flimsy. Global standards, such as those set by Basel III and the International Monetary Fund, dictate that rewriting a loan contract does not automatically cure its non-performing status. A borrower must prove they can service the debt under the new terms. Yet, Bangladesh Bank allows lenders to instantly reclassify rescheduled loans as "performing." The IMF explicitly criticised this practice, saying that "BB regulations allow immediate reclassification of restructured exposures, masking underlying asset quality."

The consequences of this regulatory forbearance are severe. Many recently rescheduled loans carry grace periods of up to two years, generating zero income for the lenders holding them. Combined with the heavy provisioning required for rising bad debts, this has dragged down the sector's net interest income. A banking system that costs more to fund than it earns cannot organically rebuild capital, sustain its deposit base, or extend fresh credit. The 2025 losses are not a temporary shock; they are a structural crisis.

Bangladesh Bank has urged the press to report with "sensitivity" in the "national interest," ostensibly to protect depositor confidence. But financial stability cannot be conjured through bespoke accounting. Rating agencies, foreign investors, and multilateral lenders read the balance sheets. The reputational risk to Bangladesh stems from the condition of its banks, not the media reports on them.

Merging the five S Alam-linked banks is a necessary act of containment, but it is not a cure. The government needs a coherent reform programme. This must include rigorous loan recovery, the adoption of IMF-aligned classification standards, and a credible recapitalisation plan for insolvent institutions. The current administration inherited this wreckage; it carries no culpability for the past. But the compounding cost of inaction means it now owns the responsibility to clean it up. Bangladesh Bank must abandon regulatory forbearance and stamp out the systemic "evergreening" of bad debt.

Why is safe water still inaccessible for many?

Govt must urgently overhaul its WASH sector

It is disappointing to learn that, despite a 25 percent increase in the allocation for water, sanitation, and hygiene (WASH) services in the proposed budget, the most essential facilities remain inaccessible for too many people nationwide. A recent policy brief by the Power and Participation Research Centre (in collaboration with WaterAid and WASH networks) highlights major shortcomings and disparities in WASH services. Reportedly, at least 29 percent of the urban population and 52 percent of the rural population lack access to safe drinking water. In terms of sanitation, 41.8 percent of households lack improved, non-shared sanitation facilities. The most alarming figure is that around 98 percent of Dhaka city's population is not connected to the sewerage system and must instead resort to on-site disposal methods, thereby explaining the polluted state of water bodies in and around the capital.

Ensuring water safety, proper sanitation, and hygiene are all foundational to maintaining good public health. How is it that Bangladesh has consistently failed on that front for decades? Experts, for one, point to a significant urban-rural gap in WASA's service delivery. In the proposed budget, the WASH sector was allocated Tk 13,618 crore, of which the state-run agency is to receive Tk 6,673 crore—almost half the whole WASH budget. Of this, Dhaka WASA alone has been allocated Tk 5,010 crore. So, when viewed through the lens of government priorities, the urban-rural gap in the state of WASH facilities begins to make sense. There are also longstanding allegations of corruption against the sanitation agency and its former leadership, which have resulted in multiple project delays over the past decade and an inertia in WASH development.

Budget allocation, of course, plays a role in how much a sector can be improved. But the evidence indicates blatant and ongoing misuse of funding for the WASH sector in Bangladesh. Only a couple of days ago, the prime minister stood in parliament and reassured us that the government is working to increase the use of surface water in divisional cities. It is encouraging to know that the government is aware of a significant WASH issue, such as depleting groundwater sources. But this awareness must translate into action across relevant government sectors, and not just be limited to parliamentary speeches. One estimate suggests that at the current pace of WASH progress, it could take 75 years to ensure safe water across Bangladesh. The terrifying reality is that this is likely not an exaggeration. Improving WASH services must be a top priority for the government. Without deliberate efforts and genuine progress for this sector, public health remains under constant threat.

What the budget reveals about Bangladesh's climate priorities

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For Bangladesh, climate change is no longer merely an environmental concern. It is increasingly a development, economic, and governance challenge. From floods and cyclones to salinity intrusion, river erosion, and heat stress, climate impacts are already widespread and imposing a significant economic and social burden, with an annual loss of around $3 billion, or 1-2 percent of GDP, as estimated by the World Bank's 2021 Climate Risk Country Profile. Against this backdrop, the proposed FY2026-27 budget offers an important indication of the new government's approach to one of the country's most pressing challenges and the broader policy direction that may shape its response in the years ahead.

The significance of the budget becomes clearer when viewed within the broader context of Bangladesh's evolving climate governance framework. Over the past decades, successive governments have developed a range of policies, strategies, and financing instruments, including the Bangladesh Climate Change Strategy and Action Plan, the Climate Change Trust Fund, the Climate Fiscal Framework, the Delta Plan 2100, and the National Adaptation Plan 2023-2050. These initiatives have gradually integrated climate considerations into public finance and development planning. The challenge today, therefore, is not whether climate change is recognised as a national priority, but whether public investments are adequately aligned with evolving climate risks, and whether institutions have the capacity to deliver sustainable outcomes.

The overall climate allocation for FY2026-27 reflects a growing recognition of the risks, yet it remains modest relative to the scale of our adaptation needs. The proposed amount stands at Tk 51,746 crore, the highest allocation ever, and a continuation of the upward trend observed in recent years. However, the significance of this provision depends not only on its size, but also on how it compares with the country's growing climate financing needs. The National Adaptation Plan—Bangladesh's principal adaptation framework—estimates that the country will require around $230 billion by 2050, equivalent to approximately $8.5 billion annually, to address its adaptation challenges. Although the proposed allocation signals continued government commitment to climate action, it also highlights the substantial gap that remains between climate ambitions and the resources required to achieve them.

The sectoral composition of the allocation offers important insight into the government's priorities.

FILE VISUAL: **ANWAR SOHEL**

Consistent with Bangladesh's long-standing climate budgeting approach, climate-related expenditures remain distributed across 25 ministries and divisions rather than concentrated within environmental institutions alone. Agriculture, food, fisheries, and livestock together account for Tk 43,335 crore—an increase of nearly 17 percent over the revised FY2025-26 allocation of Tk 37,126 crore—while the Ministry of Disaster Management and Relief receives Tk 10,350 crore, up from Tk 9,069 crore a year earlier, indicating that the government's climate response continues to prioritise adaptation, food security, and community resilience, alongside substantial investments in water resources and local infrastructure. This allocation pattern suggests that climate change is still viewed primarily as a development challenge affecting food security, infrastructure, and service delivery, rather than a standalone environmental issue.

The proposed budget also reveals how the government intends to balance immediate adaptation needs with longer-term decarbonisation and energy transition objectives. Of the total climate allocation, Tk 38,906 crore, or 75.2 percent, is directed towards adaptation activities, while only Tk 9,925 crore, or 19.2 percent, supports mitigation efforts. Given Bangladesh's high vulnerability and its relatively very small contribution to global greenhouse gas emissions, this emphasis on adaptation is realistic. The budget also introduces incentives for solar power, battery industries, and electric vehicles, signalling a growing recognition of the energy transition challenge. However, public investment priorities remain heavily tilted towards conventional energy systems. Despite the above incentives, around 98 percent of power generation-related ADP allocations are directed towards fossil fuel-based projects, compared with only 2 percent for renewable energy. This contrast highlights a broader policy reality: although climate resilience has become firmly embedded within development planning, the transition to a low-carbon economy has yet to emerge as a central driver of public investment.

The greatest challenge facing our climate agenda may no longer be policy design or budget allocation, but the state's ability to finance and deliver its ambitions. Bangladesh has developed an increasingly sophisticated climate governance framework and continues to expand climate-related expenditure. Yet recent trends in public investment management raise important concerns. The proposed budget projects a fiscal deficit of Tk 2.43 lakh crore, the highest in history in nominal terms, while persistent revenue shortfalls have repeatedly constrained public spending and led to downward revisions of development expenditure in recent years. Although the restoration of Tk 100 crore for the Climate Change Trust Fund has attracted considerable attention and signals renewed political commitment, the amount remains modest relative to Bangladesh's broader climate financing requirements.

At the same time, ADP implementation has deteriorated significantly, declining from 92.74 percent in FY2021-22 to 85.17 percent in FY2022-23, before falling further to 80.63 percent in FY2023-24, and only 68 percent in FY2024-25, the lowest rate recorded in 49 years. During the first 10 months of FY2025-26, implementation also stood at just 41 percent. Climate projects ultimately depend on the same procurement systems, approval procedures, land acquisition processes, and institutional arrangements that affect the broader development portfolio. Taken together, these trends suggest that our climate challenge is increasingly less about policy commitment and more about financing credibility, institutional capacity, and implementation effectiveness. Without meaningful improvements in these areas, higher allocations may not necessarily translate into stronger resilience outcomes.

Overall, the FY2026-27 budget reflects continued commitment to climate action but also important gaps between ambitions and the institutional and financial capacities required to deliver them. As the first fiscal plan of the new BNP administration, it provides an early indication of a governing philosophy that seeks to embed climate resilience within the nation's broader development agenda, rather than treating it as a standalone environment-related concern. However, the success of this approach will ultimately depend on whether the ambitions can be matched by adequate financing, stronger institutions, and more effective implementation.

Greater emphasis must be placed on improving project delivery, strengthening domestic resource mobilisation, expanding access to international climate finance, and investing in climate research and innovation. The challenge for the administration is, therefore, not to redesign Bangladesh's climate architecture, but to ensure that existing commitments translate into measurable resilience outcomes for the communities that are most vulnerable to climate change impacts.

In planting 25 crore trees, we must not lose sight of the bigger picture

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The BNP government unveiled an ambitious plan to plant 25 crore trees over the next five years as part of its election pledge. While the initiative reflects a commendable vision to expand the country's tree cover and enhance associated environmental and social benefits, the onset of Bangladesh's annual tree-planting season, which coincides with monsoon, should also remind us that success cannot be measured by the number of saplings alone. What we need is not merely larger plantation statistics, but better-planned and sustainable plantations that ensure long-term ecological benefits.

Bangladesh is already experiencing dramatic climatic changes. Rising temperatures, prolonged heatwaves, erratic rainfall, and increasingly frequent extreme weather events are becoming part of our everyday lives. Although official statistics suggest that the country's forest cover has remained relatively stable for some years and national tree cover has somewhat improved, future plantation efforts must be more strategic and scientifically planned.

For trees to thrive and deliver lasting benefits to both people and nature, three conditions are essential: the right tree, in the right place, for the right purpose. This means selecting species suitable for local ecological conditions, aligning plantation goals with community needs, and planning for both short-term utility and long-term environmental resilience. Successful plantation programmes also require community participation, proper maintenance, and the ability to generate multiple social, economic, and ecological benefits.

When implemented effectively, tree-planting can provide us with food, timber, shade, erosion control, watershed protection, carbon storage, and healthier ecosystems. Well-designed plantation programmes can also improve livelihoods and create employment opportunities, particularly through nursery businesses and community or social forestry initiatives.

Globally, many large-scale tree plantation campaigns have failed to achieve their intended outcomes because the planted saplings did not survive or because the programmes lacked proper planning and long-term management. The United Nations designated 2021-2030 as the Decade on Ecosystem Restoration, encouraging countries worldwide to restore degraded forests and ecosystems. Bangladesh can certainly benefit from this global momentum, but restoration must go beyond ceremonial plantation drives.

Before planting new trees, we must first protect the trees and forests we already have. Unfortunately, many development projects in Bangladesh still involve the felling of mature trees and the destruction of natural habitats. One recent example is the expansion of the Dohazari-Cox's Bazar railway line, which passed through several forested areas, including the Chunati and Fasiakhali forests. This development not only damaged fragile forest ecosystems but also contributed to increased deaths of endangered Asian elephants. Another growing concern is the rapid expansion of horticulture and cash-crop cultivation in the Chittagong Hill Tracts on former forest lands. Similarly, remote coastal regions such as Sonadia Island are witnessing illegal mangrove clearing to facilitate salt cultivation and fisheries expansion. Such environmentally destructive activities must be strictly regulated and prevented.

The recent ban on Acacia and Eucalyptus during the interim government's period also sparked debate and controversy. While the use of exotic species should generally be discouraged, these fast-growing species were widely introduced because they helped many rural households meet their timber and fuelwood needs. A blanket decision to remove such trees, without a realistic transition strategy, may not produce the desired environmental outcomes.

Our urban areas, including Dhaka, are witnessing an alarming decline in green cover. In cities, tree planting should be carried out in a planned and systematic manner along roadsides, in parks, around public institutions, and in other available open spaces, while the removal of old and mature trees must be strongly discouraged. In urban areas, and wherever possible, the promotion of native tree species is particularly important. A banyan tree, for instance, offers far greater ecological benefits than an ornamental tree. Native trees also support biodiversity, improve microclimates, and contribute more effectively to ecosystem stability.

Tree planting should also become part of environmental education for younger generations. Schools, colleges, and universities with available land could encourage students to participate in plantation activities and take responsibility for maintaining the saplings. Such initiatives can help foster environmental awareness, accountability, and a stronger sense of responsibility towards nature.

Finally, establishing a transparent national dashboard to monitor tree plantation numbers, locations, species diversity, survival rates, and community participation would make such an initiative more accountable, effective, and future-oriented. Bangladesh should also use this opportunity to align its mega plantation programme with global environmental commitments to secure long-term funding, technical expertise, and stronger institutional support. Tree planting must not be reduced to a political exercise focused solely on numerical targets; rather, it should be treated as a long-term national investment in ecological sustainability, climate resilience, and Bangladesh's overall environmental security.

The Daily Star
Reg. No. DA 781
EDITOR & PUBLISHER: Mahfuz Anam
Printed by him on behalf of Mediaworld Ltd at Transcraft Ltd, 229, Tejgaon Industrial Area, editor@thedailystar.net
Registered & Head Offices: The Daily Star Centre
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