Automobile

Auto Policy Receives In-Principal Approval; Focus Shifts to Localization and Exports

- The automobile sector of Pakistan has entered a new policy regime as the PM (Prime Minister) of Pakistan has given an in-principal approval to the Automotive Industry Development Policy (AIDP) 2026-31.
- This new policy is aimed to provide incentives to exports, localization and domestic value addition. This policy will replace the framework that expired on June 30, 2026 and will operate alongside the New Energy Vehicles (NEV) Policy 2025-30.
- The proposed AIDP 2026-31 is broadly positive for the automobile's sector's long-term competitiveness, with greater emphasis on localization, exports and EV adoption.
- Overall, we view the policy as long-term positive but near-term mixed for existing OEMs, with the final tariff glide path remaining a key determinant.

PM Approves Auto Policy 2026-2031

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Key Policy Measures

- **Tariff Structure:** A simplified four-tier customs structure of 0%, 5%, 10% and 15%. The weighted average tariff is targeted to decline 5.99% from 15.7% by 2030.

- **Custom Duties on CBUs:** Gradual reduction in custom duties on completely built-up vehicles (CBUs) by 2030-31, with rates reaching 35% for vehicles upto 850cc, 40% for 851-1,000cc, 45% for 1,001-1,500cc, 77% for 1,501-1800cc and 115% for above 1,800cc.

- **Custom Duties on Hybrid CBUs/NEVs:** The duty on hybrid CBUs is subject to decline to 15%, while NEVs will have a flat rate of 15%.

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- **Custom Duties on CKDs:** For CKD imports, duty on non-localized parts will fall to 10%, localized parts to 15% and raw materials will be duty-free.
- **Localization:** The Minimum Domestic Value Addition (MDVA) targets to reach 40% for passenger cars, 45% for LCVs, 80% for tractors, 90% for rickshaws and bikes and 15% for NEVs by FY31.
- **Exports:** Original Equipment manufacturers (OEMs) required to export 12% of their production value by 2031. Incentives will be given through DLTL and Performance based support.
- **EVs:** Share of EVs targeted at 30% by 2030, PAVE programme of PKR 100.4bn.
- **Import of Used Cars:** Commercial imports of used vehicles up to 5 years old restricted to active corporate tax filers with 3S networks; 40% regulatory tariff initially.
- **Green Auto-Financing:** Under the SBP's green auto-financing scheme, loan limits will be increased to PKR 10mn, with repayment periods of up to 7 years.
- **Relief for NEVs:** Under the NEV policy, 1% sales tax has been approved on NEVs, their CKD kits, parts, inputs and raw materials. NEVs will also be exempted from FED, CVT and WHT. However, there will be additional FED charged on conventional vehicles as compensation for the price drop due to tariff reductions. The government has adopted a differentiated tax treatment for NEVs, with BEVs receiving the most preferential tax treatment, followed by REEVs and PHEVs.

This proposed framework projects USD 17.7bn in cumulative FX savings through localized CKD assembly, USD 4.6bn in vehicle and auto parts exports, and protection of 2.5mn jobs over five years.

Implications for the Automobile Sector

The proposed AIDP 2026-31 is broadly positive for the automobile's sector's long-term competitiveness, with greater emphasis on localization, exports and EV adoption. However, the proposed reduction in tariffs could lead to increased competition from importers and new entrants, which can potentially pressure pricing and market shares of the existing players. Higher MDVA requirements and export-linked incentives should favor players with established vendor networks and greater localization capabilities. The EV incentives and green financing can lead to increased demand however traditional OEMs will require high CAPEX to adapt to this transition. Overall, we view the policy is long-term positive but near-term mixed for existing OEMs, with the final tariff glide path remaining a key determinant.

Impact on Auto Assemblers and Auto Parts Manufacturers

- **HUBC:** HUBC is expected to be a significant beneficiary of this policy as its BYD CKD plant is expected to commence operations in 1QCY27. Favorable tax treatment for BEVs can improve BYD's affordability and increase demand.
- **NPL/NCPL:** Potential benefit through NextGen Auto, which locally assembles JAECOO PHEVs under CKD.
- **Auto-parts manufacturers:** The policy will be beneficial for auto parts players as higher localization will increase OEMs reliance on domestic vendors.
- **INDU/HCAR:** These companies' existing models do not qualify for the proposed NEV incentives so the benefits of this policy are expected to be limited. However, if the companies introduce eligible BEV/NEV models, the impact could improve.

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