Pakistan Autos

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Pakistan Automotive Sector: Draft Auto Policy 2026-31

Tariff liberalization reshapes the competitive landscape

The proposed Auto Policy 2026–31 targets US$6bn in vehicle and auto-parts exports over five years, shifting the industry towards export-led growth, localization and greater competition. While the Prime Minister has given in-principle approval, IMF endorsement and formal government approval remain pending.

Key Takeaways:

- **Export-linked incentives and penalties:** OEMs and parts manufacturers face a combined US$6bn export target. Qualifying exports attract a 5% incentive, with an additional 10% on incremental exports if annual growth exceeds 5%. OEMs missing targets face penalties of 1–3% of production value; two consecutive misses could lead to cancellation of manufacturing licenses.
- **Tariff rationalization:** Duties on CBUs, CKDs and parts are set to decline progressively by up to 15% by FY31, increasing import competition and reducing protection for local assemblers.
- **NEV incentives:** Proposed sales tax rates are 1% for BEVs, 6% for REEVs and 9% for PHEVs, versus 18% to 25% for conventional ICE vehicles and hybrids. Entry-level EVs below US$15,000 receive a 5% tariff for two years, while the green financing limit rises to PKR10mn from PKR3mn.
- **Automotive Development Levy (ADL):** The proposed levy is expected to generate c.PKR232bn over five years to fund export incentives and industry development. Rates vary by engine capacity, with higher charges on larger ICE vehicles.
- **Localization requirements:** OEMs will face annual domestic value-addition targets. Non-compliance could result in lost export incentives and a 3ppt reduction in duty concessions on non-localized parts.

The proposed framework is a long-term positive for export-oriented manufacturers and could support NEV adoption through preferential taxation and financing. However, lower import protection and binding localization requirements create execution risks for incumbent assemblers and parts suppliers. Smaller and mid-segment ICE vehicles may face increasing competition from NEVs, while the impact on vehicle prices will depend on the final tax structure and manufacturers' pricing decisions.

We view the policy as potentially positive for SAZEW, NCPL and NPL, given SAZEW's SUV and NEV offerings and NCPL/NPL's exposure to Omoda and Jaecoo. Lower NEV taxes and improved financing could support adoption, while tariff liberalization may intensify competition for ICE-focused assemblers. The net impact will depend on final policy terms, localization requirements and the pace of NEV adoption.

IMS Research
research@imsecurities.com.pk
+92-111-467-000

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