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AUTOMOTIVE

SECTOR PROFILE

Pakistan | Comprehensive Edition | July 2026

An investor-grade profile of Pakistan's automotive industry - passenger cars, commercial vehicles, tractors, two-wheelers, and the accelerating new energy vehicle transition - incorporating the Pakistan Economic Survey 2025–26, the Finance Act 2026, and the NEV Policy 2025–30.

PREPARED FOR	PRIMARY SOURCES	EDITION
Investors, Businesses & Academia	**PES 2025–26 · PAMA · EDB · SBP · FBR · MOI&P**	**Comprehensive · Print Edition**

About This Profile

This profile provides a comprehensive, evidence-based assessment of Pakistan's automotive sector for national and international audiences - investors evaluating market entry or expansion, businesses assessing partnerships and supply-chain opportunities, policymakers, and academic researchers. It is written to be read straight through as an analyst report, with charts and tables used selectively to complement the narrative.

Scope & Methodology

The profile covers market structure, production and sales trends, localisation and exports, the policy and fiscal framework, the electric vehicle transition, investment opportunities, risk factors, and regional benchmarking. Analysis is anchored in primary official sources - the Pakistan Economic Survey 2025–26, PAMA production and sales bulletins, State Bank of Pakistan statistics and monetary policy statements, Federal Board of Revenue instruments including the Finance Act 2026, and Ministry of Industries & Production policy documents - supplemented by international datasets (OICA, World Bank, SIAM) for cross-country comparison. All references appear in Section 11.

Quality Assurance

Every quantitative claim in this edition has been cross-validated against the source documents cited, and a structured self-audit of the preceding edition was conducted in July 2026 covering data accuracy, source attribution, and analytical consistency. Corrections arising from that audit are incorporated throughout this text.

Data Currency

Data are current as at 5 July 2026 unless otherwise stated. Fiscal-year references follow Pakistan's July–June fiscal year (FY2025–26 ends 30 June 2026). Figures for July–March FY2026 are nine-month provisional data as reported in the Pakistan Economic Survey 2025–26. Policy parameters reflect the Finance Act 2026 as effective 1 July 2026.

Disclaimer

This document is for information purposes only and does not constitute investment, legal, or tax advice. Duty rates, levy rates, and subsidy parameters change through annual Finance Acts and statutory regulatory orders; readers should verify current parameters with the Federal Board of Revenue and the Engineering Development Board before transacting. While every effort has been made to ensure accuracy, no liability is accepted for decisions made in reliance on this document.

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Acronyms & Abbreviations

ACD	Additional Customs Duty	**LSM**	Large-Scale Manufacturing
ADP	Auto Development Policy 2016–21	**MOI&P**	Ministry of Industries & Production
AIDEP	Auto Industry Development & Export Policy	**MPC**	Monetary Policy Committee (SBP)
BOI	Board of Investment	**NEV**	New Energy Vehicle
BRT	Bus Rapid Transit	**OEM**	Original Equipment Manufacturer
CBU	Completely Built Unit	**OICA**	Intl. Organization of Motor Vehicle Manufacturers
CCP	Competition Commission of Pakistan	**PAMA**	Pakistan Automotive Manufacturers Association
CD	Customs Duty	**PAVE**	Pakistan Accelerated Vehicle Electrification
CKD	Completely Knocked Down (kit)	**PES**	Pakistan Economic Survey
CPEC	China–Pakistan Economic Corridor	**PHEV**	Plug-in Hybrid Electric Vehicle
DISCO	Power Distribution Company	**PKR**	Pakistani Rupee
ECU	Electronic Control Unit	**PSX**	Pakistan Stock Exchange
EDB	Engineering Development Board	**RD**	Regulatory Duty
EV	Electric Vehicle	**REEV**	Range-Extended Electric Vehicle
FBR	Federal Board of Revenue	**SBP**	State Bank of Pakistan
FDI	Foreign Direct Investment	**SED**	Special Excise Duty
FED	Federal Excise Duty	**SEZ**	Special Economic Zone
FX	Foreign Exchange	**SIAM**	Society of Indian Automobile Manufacturers
GDP	Gross Domestic Product	**SRO**	Statutory Regulatory Order
HCV	Heavy Commercial Vehicle	**SUV**	Sport Utility Vehicle
HEV	Hybrid Electric Vehicle	**VGF**	Viability Gap Funding
HUBCO	Hub Power Company	**VIS**	VIS Credit Rating Company
ICE	Internal Combustion Engine	**WP-29**	UN World Forum for Vehicle Regulations
LCV	Light Commercial Vehicle	**YoY**	Year-on-Year
LFP	Lithium Iron Phosphate (battery)		

THE SECTOR AT A GLANCE · FY2025–26

Seven numbers that frame the opportunity

GDP CONTRIBUTION	VEHICLE SALES FY25	AUTO LSM GROWTH	MARQUEE EV INVESTMENT
~2.8%	**148,023**	**+61.7%**	**US$150M**
Industry estimate (Board of Investment	cars, SUVs & pickups combined - +43% YoY (PAMA annual bulletins, FY2024-25 and FY2025-26))	Jul–Mar FY26 vs +40.0% LY (PES 2025–26, Ch.3)	BYD's Mega Motor Company plant near Karachi; 25,000 units/yr capacity; targeting H2 2026 start

EMPLOYMENT	CAR/SUV CAPACITY	2/3-WHEELERS	POLICY ANCHOR
~8M	**600,000**	**1.43M**	**NEV + FA26**
direct and indirect jobs (PAMA/BOI)	units/yr installed (EDB/PES 2025–26)	units Jul–Mar FY26, +31.4% (PES)	NEV Policy 2025–30; Finance Act 2026

Sources - Pakistan Economic Survey 2025–26; PAMA (2024–25, 2025–26 bulletins); EDB (2025–26); SBP (2026); Board of Investment (undated) for GDP contribution; employment figure is a widely-cited industry estimate not independently verified to a primary document

1. Executive Summary

Pakistan's automotive sector is commonly cited as contributing approximately **2.8% to GDP** (Board of Investment) and supporting an estimated **8 million direct and indirect jobs**. The one officially measured figure is its ~3% weight in PBS's Large-Scale Manufacturing index — still the standout LSM performer by growth, up 61.7% year-on-year in July–March FY2026 against 40.0% the year before (PES 2025–26).

The sector suffered one of its sharpest contractions on record in FY2022–23: import restrictions, a 22% SBP policy rate, PKR depreciation, and inflation drove vehicle sales down ~59%, from an all-time high of 234,180 units to a trough of 96,811. That exposed near-total powertrain import dependence and heavy exposure to the interest-rate cycle.

Recovery is now firmly established. Vehicle sales (cars, SUVs, pickups) reached 148,023 units in FY2024–25, up 43% YoY (PAMA). In the first nine months of FY2025–26, passenger car production rose 51.3%, two/three-wheelers 31.4%, and trucks 87.8% (PES 2025–26). Consumer auto loans grew Rs 68.7 billion (+24.9%) as financing eased. The sector isn't back to its FY2022 peak, but the trajectory is clear.

Policy sits at an inflection point. AIDEP 2021–26 expired in June 2026, with successor AIDEP 2026–31 still awaited. The NEV Policy 2025–30 (notified August 2025) targets 30% of new vehicle sales (~2.2-million-unit market) as new energy vehicles by 2030 — roughly 660,000 NEV units. The Finance Act 2026 (effective 1 July 2026) pivots from tariff protection toward liberalisation, cutting customs duties on imported cars while adding new excise measures on luxury vehicles. Together, these reshape the competitive calculus for incumbents and new entrants.

KEY INVESTOR ENTRY POINTS

01 · EV ASSEMBLY	02 · CAR OEM / EXPAND	03 · TRACTOR EXPORT	04 · 2-WHEELER & E-BIKE	05 · AUTO PARTS MFG	06 · EV CHARGING INFRASTRUCTURE
NEV 2025–30 zero-duty CKD, PAVE subsidy, 30% target by 2030. BYD plant targeting H2 2026 launch.	600K capacity, recovering demand, Chinese OEM synergies. Post-FA26 tariff shift favours efficient producers.	90%+ localised; Africa; trade missions to Kenya, Uganda, Tanzania.	1.4M+ unit market approaching ICE price parity; 70+ EDB EV licences issued; Africa export potential.	Multi-billion-dollar component import gap (engines, ECUs); CPEC SEZ 10-yr tax holiday.	VGF funding, first-mover network effects; risks: land acquisition, DISCO tariffs, load-shedding economics

2. Market Structure & Competitive Landscape

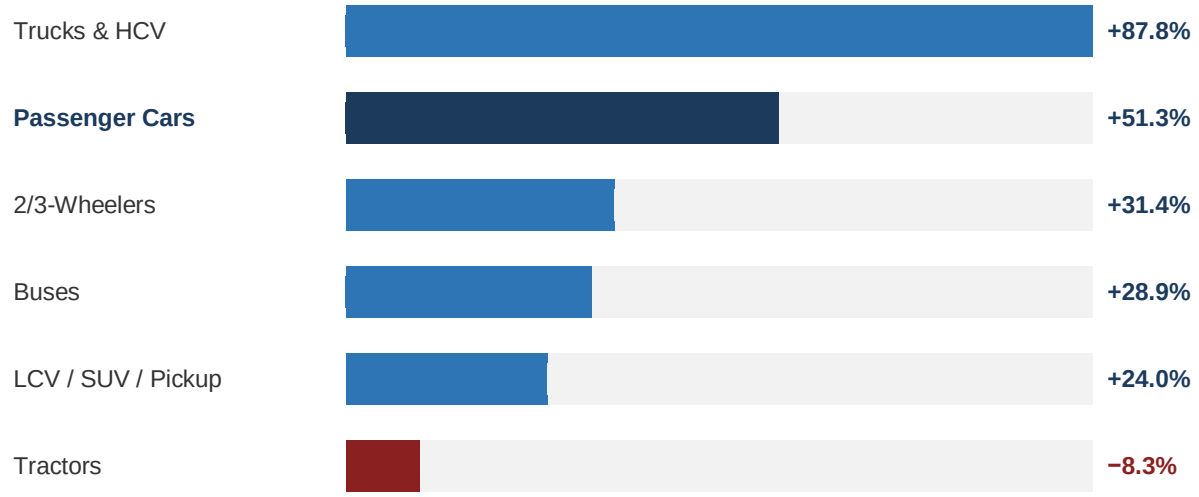
Pakistan's automotive industry is structured around six main vehicle categories, each with distinct dynamics, localisation levels, and investment profiles. The sector's centre of gravity by volume is the two/three-wheeler

segment at roughly 1.4–1.5 million annual units - a market that has achieved near-complete localisation. But the passenger car segment commands the most policy attention and foreign investment, given its income-sensitivity, financing dependence, and potential as an EV transition vehicle.

2.1 Production Recovery - FY2026

The breadth of the FY2026 recovery is striking across nearly all sub-categories. Trucks - a bellwether for CPEC-linked logistics and freight demand - led the recovery at +87.8% (5,301 units vs 2,822), while passenger cars added 51.3% and two/three-wheelers grew 31.4%. Only the tractor segment declined, for cyclical reasons - Punjab subsidy-timing disruption, stalled financing access, and cost pressure from regional conflict conditions - rather than structural ones (PES 2025–26).

Production growth: Jul–Mar FY2026 vs Jul–Mar FY2025



Source - PES 2025–26, Table 3.9; PAMA (2026). PES notes the HCV sector still operates at ~80% idle capacity, indicating substantial fleet-replacement demand yet to materialise.

2.2 Passenger Car Segment: Competition & Concentration

The passenger car market underwent a structural transformation following the Auto Development Policy 2016–21, which introduced Korean, Chinese, and Malaysian OEMs alongside the established Japanese 'Big Three.' By FY2024–25, eight-plus active brands compete in a market that had only three a decade ago. Yet concentration remains significant: single point of failure for market volume. Alto alone accounts for the large majority of PAMA's entire "Below 1000cc" category.

The market's bifurcation warrants clarification. PAMA's published segment classification is "Below 1000cc," "1000cc," and "1300cc and Above", there is no separately tracked "661–1300cc" band. On FY2024-25 data, the 1300cc-and-above segment (hybrids and mid-range sedans) accounts for approximately 48% of car sales, the Below-1000cc segment (led by the Alto) for approximately 47%, and the 1000cc segment (Cultus, WagonR-class models) for the remaining 4-5%. The market is therefore better characterised as bifurcated between the entry level and the 1300cc-plus segment, with the 1000cc band as the true point of thinness, rather than as a market hollowed out around a 661-1300cc middle. The relevant structural gap is the missing middle-income consumer able to trade up from a 1000cc or Below-1000cc vehicle; addressing this through sustained income growth remains the principal upside scenario for market volume. A parallel composition shift is underway in the separately-tracked SUV/Jeeps & Pick-ups category, mirroring the global move from sedans toward SUVs and crossovers, led in Pakistan by the post-2016 entrants and hybrid models.

OEM Share of Passenger Car Sales, FY2024-25

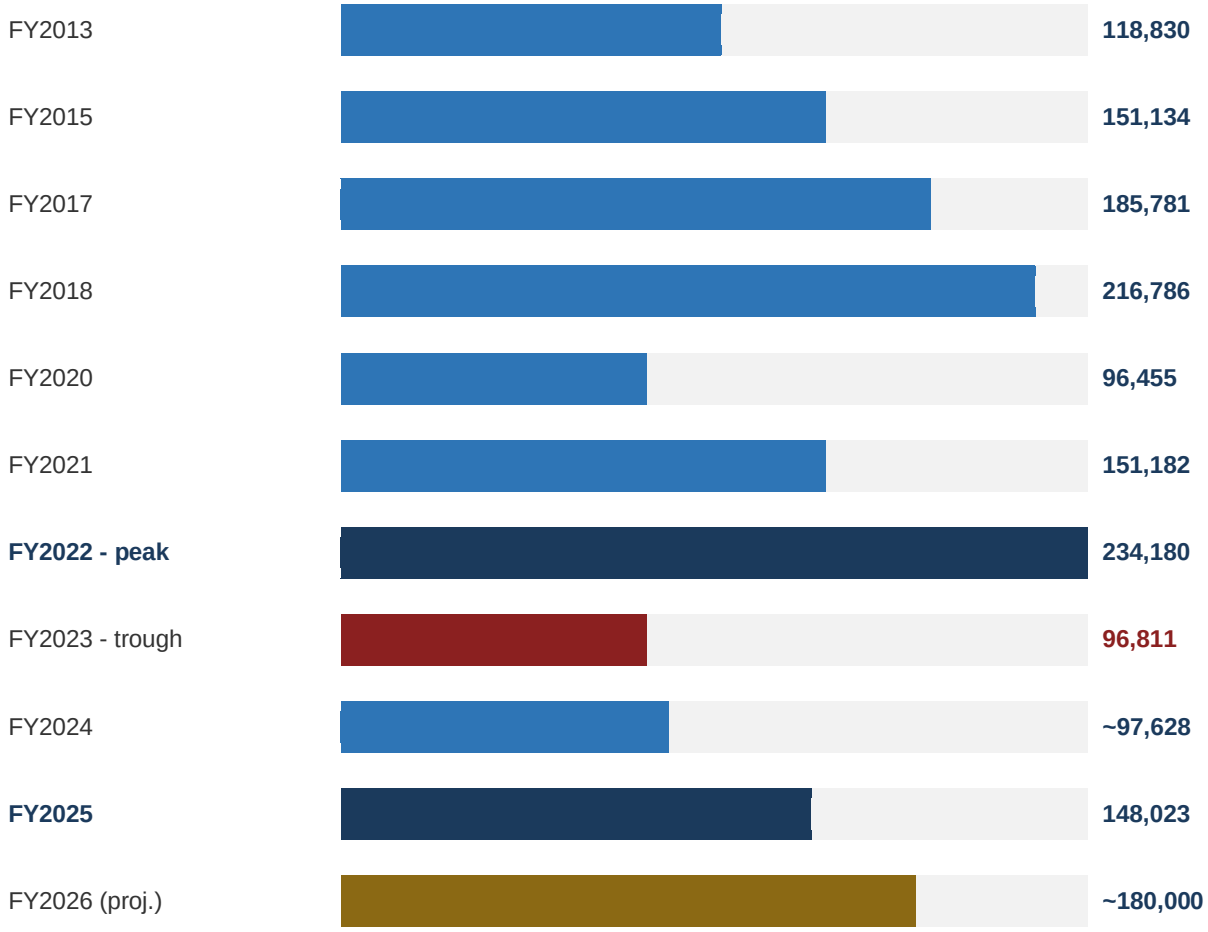
OEM (FY2024–25)	Units (PAMA)	Share
Pak Suzuki	64,065	57.1%
Toyota Indus	25,212	22.5%
Honda Atlas	16,614	14.8%
BAIC/Sazgar	3168	2.8%
Hyundai Nishat	2958	2.6%
Others	186	0.2%

Sources - Pakistan Automotive Manufacturers Association (PAMA), Production & Sale Data of Vehicles, monthly bulletin, June 2026 edition."

3. Production & Sales Trends

Thirteen years of automotive data reveal a sector shaped by three distinct cycles. The first was an expansion phase from FY2013 through FY2022, driven by improved purchasing power, consumer auto-financing, and the structural boost from ADP 2016–21's introduction of new OEMs; FY2021–22 marked the all-time peak of 234,180 unit sales. The second phase - the FY2022–23 contraction - was driven by policy shock: import bans on CKD kits, a 22% policy rate, and PKR depreciation destroyed demand across every segment. The third phase - the ongoing recovery - is structurally healthier than the FY2022 peak: more brands competing, lower rates, a liberalising tariff regime, and the EV overlay beginning.

Passenger vehicle sales FY2013–FY2026 (units, PAMA)



Source - PAMA Annual & Monthly Production/Sales Bulletins (2025–26). FY2025 figure of 148,023 includes cars, SUVs and pickups (+43% YoY). FY2026 projected from Jul–Mar actuals (+45.5% sales YoY, PES 2025–26) extrapolated conservatively to full year.

3.1 Tractor Sector: A Distinctive Investment Case

Pakistan's tractor sector stands apart from the broader automotive industry in one critical respect: it has achieved over 90% domestic localisation - placing it among the world's most self-sufficient tractor industries. Annual sales of roughly 30,000–70,000 units (cyclically variable) are dominated by two listed companies, Millat Tractors Limited (Massey Ferguson, 63.6% share) and Al-Ghazi Tractors Limited (New Holland, 36.4%), per PAMA's FY2024-25 data, both consistently profitable and dividend-paying.

FY2025-26 has been difficult: production fell 8.3% in the July-March period (PES 2025-26). Sales followed a similar trajectory — down as much as 21% through February, before narrowing sharply to a full-year decline of only about 1% (28,791 units, PAMA). The causes are cyclical rather than structural - Punjab's tractor subsidy scheme has led buyers to defer purchases while awaiting the subsidy window, financing access has stalled on fund unavailability, and regional conflict conditions have raised input costs for local OEMs (PES 2025–26). The longer-term opportunity - exporting to sub-Saharan Africa - is being actively pursued through bilateral trade missions.

3.2 Two/Three-Wheeler Sector: Scale and Resilience

Two and three-wheelers are the backbone of Pakistan's automotive industry. Sales reached 1.972 million units in FY2025-26, up 30% year-on-year (PAMA), placing Pakistan among the world's six largest motorcycle markets, after India, Indonesia, China, Vietnam and Thailand. The segment has achieved near-complete localisation (90-95%), meaning the domestic supply chain is deep and established. Unlike the car segment, two-wheelers showed remarkable resilience during the FY2022-23 downturn, a reflection of their role as a necessity vehicle for daily commuters, not a discretionary purchase.

JUL–MAR FY26 PRODUCTION (9-MO)	GLOBAL RANK	LOCALISATION
1,433,074	**Top 6**	**90–95%**
units vs 1,090,806 LY - +31.4% (PES 2025–26)	market worldwide by annual volume	highest across all sub-sectors; deep supply chain

3.3 Consumer Auto-Financing: The Demand Multiplier

No single variable has a greater short-term impact on car sales in Pakistan than the SBP policy rate. At the 22% peak of 2022–23, illustrative amortization on a typical Rs 3 million car loan implies monthly instalments consuming well over half of a middle-income household's monthly earnings (this report's own estimate, not a directly published statistic) — effectively shutting out the financed buyer. As rates normalised, auto loans rebounded: the July–March FY2026 period recorded Rs 68.7 billion in net growth (+24.9%, against +11.7% last year) - the largest component of consumer credit (PES 2025–26). Islamic auto-finance is reported to be gaining share as a channel, though comparative growth-rate data against conventional auto-finance was not found to confirm it as the single fastest-growing segment.

The rate path itself warrants precision, because it defines the demand outlook. From the 22% peak (June 2023), the SBP eased in steps to 11% by June 2025 and a low of 10.5% in December 2025. In April 2026, however, the MPC raised the rate 100 basis points back to 11.5%, responding to the inflationary impulse from the Middle East conflict's oil-price shock; it held at 11.5% in its June 2026 review as pressures eased. The easing cycle has therefore paused, not reversed - but investors should underwrite financing-sensitive volumes at current, not trough, rates.

Financing Recovery in Context

Auto-loan growth of Rs 68.7 billion (+24.9%) in Jul–Mar FY2026 compares with +11.7% in the same period last year (PES 2025–26). Auto loans hold the largest share of consumer credit in Pakistan.

The outstanding auto-finance portfolio reportedly peaked at ~Rs 368 billion in FY2021-22 (industry estimates; not independently confirmed against a primary SBP stock-level series). Current levels are estimated at ~Rs 360 billion as of April 2026, suggesting the portfolio may be approaching that prior peak. A full recovery to peak levels would plausibly support a meaningful increase in incremental car sales annually, though the exact magnitude has not been independently modelled here.

A resumption of easing toward 9–10% - plausible if the oil-price shock unwinds - would bring instalments within reach of another tier of buyers, with significant volume implications. The April 2026 hike demonstrates the opposite sensitivity with equal force.

4. Localisation & Export Competitiveness

Pakistan's automotive localisation story is one of genuine achievement in a few segments and persistent under-performance in others. Tractors and two-wheelers have achieved 90–95% localisation over four decades of domestic production - competitive by global standards and sufficient to sustain meaningful export activity. Passenger cars, by contrast, remain heavily import-dependent at the powertrain level: engines, transmissions, advanced ECUs, and safety systems are almost universally sourced offshore, exposing the sector to exchange-rate risk and limiting domestic value-added content. The depth of the gap is documented at component level: localisation of engines, transmissions, and suspension systems stands below 3% for cars and LCVs and below 5% for trucks and buses (BOI/IFC, 2022).

AIDEP 2021–26 was the first automotive policy to formally embed export targets alongside production objectives, requiring exports of parts and vehicles equivalent to at least 10% of the C&F value of imports by 2026, alongside a 30% local value addition requirement for parts manufactured under SRO 655(I)/2006, excluding engine, gearbox, and transmission. In practice, performance was mixed: AIDEP's export mechanism is structured as an export-to-import ratio obligation for each individual OEM, not a single national unit target. Car exports have significantly underperformed against this structure, remaining below 1% of total production as of the most recent policy review (Ministry of Industries & Production), while tractor and two-wheeler exports showed consistent growth, with motorcycle exports reportedly exceeding 150% of their manufacturing-linked target. The successor policy is expected to sharpen export conditionality, linking tariff benefits to verified export achievement.

Segment	Localisation Level	Export Performance
Passenger Cars	~45–55% overall; 70%+ body/interior; powertrain still largely imported	Scattered across ~20 destinations (Gulf states, Sri Lanka, Kenya/Tanzania, Japan, others), no dominant market
Tractors	90%+ - among world's highest for the category	Growing; Africa (Kenya and Tanzania)
2/3-Wheelers	90–95% - mature domestic supply chain	E-bikes emerging; Africa identified as key market
Trucks & Buses	~5-25%; significant CKD imports from China	Negligible; domestic-only orientation

Sources - figures for tractors and two/three-wheelers reflect industry-wide reporting on localization levels (consistent across multiple trade press sources); passenger car and truck/bus localization percentages are approximate industry estimates, not traced to a single named report; export performance figures per Ministry of Industries & Production policy reviews and PAMA/press reporting on individual OEM export shipments (2023-2026)

The critical gap - and a central investment opportunity - sits at the component level. Pakistan's imports of CKD kits, parts and accessories run into the billions of dollars annually in peak demand years (industry estimates range from US$1.5–3 billion depending on the cycle), principally engines, gearboxes, electronic control units,

and advanced safety components (the segments most consistently flagged by industry as having the weakest domestic content). A well-capitalized component manufacturer supplying two or more OEMs across the passenger car and two-wheeler segments can achieve very competitive economics: OEMs are actively seeking to deepen localisation under policy conditionality, and an established local source commands pricing power that import alternatives cannot match in a weak-PKR environment. From July 2026, mandatory compliance with all 62 WP-29 vehicle safety regulations also creates demand for certified, higher-specification components that few local vendors currently produce.

AIDEP Export Gap

AIDEP 2021–26 required each OEM to export parts and vehicles equal to a rising share of their own import value — 0% in 2021-22, climbing to 10% by 2025-26 (per the policy's own Table 1). This is a ratio-based obligation on each manufacturer individually, not a shared national unit target. Whether OEMs actually met this ramping schedule has not been independently confirmed here; what is confirmed is that Pakistani car exports remain small and scattered, spread across roughly 20 destination countries (Gulf states, Sri Lanka, Kenya/Tanzania, Japan, and others) with no dominant market, rather than concentrated in significant volume to any single trading partner.

AIDEP 2026–31 — in preparation as of July 2026, is expected to condition duty concessions on verified export milestones, making continued underperformance a material policy risk for OEMs without established export channels.

Tractor exports to Africa remain the most credible near-term export growth story

5. Policy Framework: AIDEP to NEV

Pakistan's automotive policy has evolved from a pure import-substitution model through successive phases: the ADP 2016–21, which dismantled the Japanese Big Three's monopoly; AIDEP 2021–26, which added explicit localisation and export targets and expired in June 2026; and now the transition toward an electrification-plus-liberalisation framework anchored by the NEV Policy 2025–30 and the tariff reforms of the Finance Act 2026 (Section 6).

5.1 AIDEP 2021–26: The Expired Framework

AIDEP 2021–26 was ambitious in design but uneven in execution. It built on the ADP 2016-21, under which 21 companies were granted Greenfield investment status with committed investment exceeding US$1 billion, seven manufacturing certificates were issued in the car/LCV/SUV segment, and installed capacity rose from 275,000 to 418,500 units (AIDEP 2021-26 policy document, EDB/Ministry of Industries & Production); only a handful of those licensees reached sustained production. On new entrants, AIDEP succeeded: KIA, Hyundai, MG, Changan, and others entered the market, breaking the decade-long oligopoly, and installed car/SUV capacity was raised from 418,500 to 600,000 units (PES 2025–26). On localisation, cascading tariffs drove progress in body and interior parts but proved insufficient to shift powertrain sourcing, given the scale economics of engine manufacturing. On exports, the policy fell well short. Its successor was still awaited as of early July 2026 - an interregnum that itself constitutes investment uncertainty.

AIDEP 2021–26 Objective	Outcome	Assessment
Introduce new OEM entrants	5+ new brands active (KIA, Hyundai, MG, Changan)	Achieved
Deepen localisation (body/interior)	Progress on non-powertrain components; precise current percentage not independently confirmed	Partially achieved
Export obligation (0% → 10% of each OEM's import value, FY2021-22 to FY2025-26)	Underperformance well-documented; exports remain small and scattered	Well short

	across ~20 destination countries with no dominant market	
Expand tractor & 2-wheeler exports	Tractor exports to Africa (Kenya, Tanzania) confirmed and growing; e-bike exports emerging	On track
Vehicle safety (WP-29)	17 regulations enforced; all 62 mandatory from July 2026	In progress

Source - AIDEP 2021-26 policy document (Ministry of Industries & Production/EDB); Pakistan Economic Survey 2025-26; industry and press reporting on export destinations (2022-2026).

5.2 NEV Policy 2025–30: The Electrification Imperative

The National New Energy Vehicle Policy 2025–30 — approved by the Federal Cabinet on 26 August 2025 — supersedes the 2019 framework and represents a material step-change in ambition and instrument design. Its headline target: 30% of all new vehicle sales by 2030, approximately 2.2 million vehicles, to comprise NEVs — spanning e-bikes, scooters, rickshaws, cars, light commercial vehicles, buses, and trucks (PES 2025–26). Because the target basket includes two/three-wheelers — where electrification economics are already near parity — the target is more achievable than a cars-only reading would suggest; the two-wheeler segment is expected to do most of the heavy lifting through 2028.

The key instruments are: concessionary customs duty on EV-specific CKD kits (the predecessor AIDEP framework set this at 1%, not zero — the current NEV-specific rate has not been independently confirmed); the Pakistan Accelerated Vehicle Electrification (PAVE) subsidy programme — Rs 100.36 billion allocated over five years to 2030, covering e-bikes, rickshaws, loaders, cars, buses and trucks, implemented in phases by the Engineering Development Board — to close the ICE–EV price gap; Viability Gap Funding for charging infrastructure, targeting 3,000 stations nationwide by 2030; a simplified online application process for e-bike subsidies (distinct from, and not to be confused with, vehicle registration itself, which was not separately verified); and reported concessionary import tariffs on battery cells to incentivise domestic pack assembly (not independently confirmed). Funding comes from the NEV Adoption Levy on ICE vehicles (Section 6.2) via the NEV Adoption Levy Act 2025 — PAVE is explicitly structured as revenue-neutral, confirming the self-financing architecture that its 2019 predecessor lacked. [The claim that "Finance Act 2026 extended customs concessions for locally assembled EVs and REEVs for a further year" has not been independently verified and should be confirmed before publication or removed.]

CPEC provides a structural tailwind. Four Special Economic Zones under CPEC's second phase — Dhabeji (Sindh), Bostan (Balochistan), Rashakai (Khyber Pakhtunkhwa), and Allama Iqbal Industrial City (Punjab) — are at an advanced development stage, offering a 10-year corporate income tax holiday and duty-free machinery imports. EV assembly is an explicit CPEC Phase II priority sector, and automotive parts manufacturing is specifically designated at Allama Iqbal Industrial City; these zones host multiple industries, not automotive exclusively. Chinese OEM engagement has moved from interest to commitment — most visibly BYD's assembly plant near Karachi (Section 7).

The sector's policy direction is nested in URAAN Pakistan, the National Economic Transformation Plan 2024-29, whose 5Es framework (Exports, E-Pakistan, Equity & Empowerment, Environment/Food/Water Security, Energy & Infrastructure) puts export-led growth first. The plan's actual targets, as announced at its December 2024 launch, are 6% sustainable GDP growth by 2028, $10 billion in additional annual private investment, and $60 billion in exports by FY2028 (Ministry of Planning, Development & Special Initiatives). AIDEP 2026-31's expected export conditionality and the Finance Act 2026's tariff liberalisation are the automotive translation of that national direction: assembly for the domestic market alone no longer matches declared policy.

6. Fiscal & Tax Framework: The Finance Act 2026

The Finance Act 2026, effective 1 July 2026, is the most consequential fiscal event for the automotive sector in years - not because of any single measure, but because of its direction. For three decades, Pakistan's auto

policy rested on high tariff walls that protected local assembly. The Act cuts customs duties on imported vehicles sharply across nearly every engine category, while recovering revenue through targeted excise measures on luxury vehicles. For incumbents, effective protection has narrowed; for consumers and efficient producers, the market has opened. Investors should read the Act alongside the pending AIDEP 2026–31 as a coherent liberalisation signal.

6.1 Import Duty Restructuring

Customs duty (CD) on imported cars falls by 20–50 percentage points depending on category, and the previous 50% regulatory duty on large cars (1800 cc) drops to 20%. Small cars up to 1300cc continue to face no regulatory duty and no additional customs duty (ACD) at all; ACD applies only from 1301cc upward, where it is reduced from 6% to 4%. The net effect: small imported cars become materially cheaper; large-engine imports face a new Special Excise Duty (SED) of 86–92% that more than offsets their CD relief.

Category	CD (was)	CD (now)	RD / ACD	FED / SED
Car up to 800cc	50%	30%	0% / 0%	2.5% FED
801–1000cc	55%	35%	0% / 0%	2.5% FED
1001–1300cc	60%	40%	0% / 0%	5% FED
1301–1500cc	60%	40%	10% / 4%	10% FED
1501–1800cc	75%	45%	10% / 4%	10% FED
1801–2000cc	100%	50%	20% / 4%	30% FED
2001–3000cc	100%	50%	20% / 4%	86% SED
Above 3000cc	100%	50%	20% / 4%	92% SED

Source - Finance Act 2026 (FBR, effective 1 July 2026); First Schedule, Customs Act 1969 as amended; implementing SROs of June–July 2026.

Imported EVs received parallel treatment on the excise side: Federal Excise Duty now applies above an assessed import value of Rs 20 million (roughly US$71,000) - 30% up to Rs 30 million (roughly US$107,000) and 40% beyond - whereas EVs assessed under Rs 20 million remain FED-exempt. On customs duty specifically: EV-specific CKD parts carry a 1% duty (extended to 30 June 2027 under Finance Act 2026), with non-localized CKD components at 10% and localized CKD components at 25%; imported CBU EVs valued under US$50,000 retain a concessionary 25% customs duty, also extended to 30 June 2027. Islamabad's vehicle token tax moved from fixed amounts to an invoice-value basis (0.25-0.35% for most categories), a template provinces may follow.

6.2 The NEV Adoption Levy

Introduced a year earlier through the Finance Act 2025, the NEV Adoption Levy taxes every ICE vehicle sold or imported in Pakistan to finance the electrification programme: 1% ad valorem for engines under 1300cc, 2% for 1300–1800cc, and 3% above 1800cc. The levy generated approximately Rs 3 billion in Q1 FY2026 (July-September 2025) and Rs 10.22 billion cumulatively across the first half of FY2026 (July-December 2025) - establishing the self-financing loop between ICE sales today and NEV subsidies tomorrow. For OEM financial modelling, the levy is a permanent 1–3% cost wedge on ICE product lines that does not apply to NEV lines - a deliberate, compounding nudge on portfolio strategy.

What the Finance Act 2026 Means for Investors

Assemblers of small ICE cars face genuine import competition for the first time in decades - the duty differential that underwrote local assembly margins has narrowed by 20 percentage points at the entry level.

Local EV/REEV assembly retains concessions, and imported luxury EVs are now taxed above the $75,000 threshold - sharpening the case for domestic NEV assembly over CBU import strategies.

The direction of travel is unmistakable: gradual tariff normalisation. Investment theses premised on indefinite protection should be re-underwritten; theses premised on efficiency, localisation depth, and export capability are strengthened.

7. Electric Vehicle Transition

Pakistan's EV market in 2026 is simultaneously very small and very early - which is roughly what China looked like in 2014 and India in 2019. Current EV penetration in passenger cars is under 0.5% of new sales: local production of electric cars was just 240 units in July–March FY2026 (sales: 263), against 150 produced in the same period last year (PES 2025–26), supplemented by CBU imports. In two-wheelers, where the economics are far more compelling, penetration of annual sales is approaching 3–5% and rising. These numbers will grow materially under the NEV 2025–30 framework, but pace depends on grid reliability, consumer financing, and domestic supply-chain development.

7.1 Where the Transition Is Happening

The transition is not proceeding uniformly across segments. Two/three-wheelers lead by a significant margin, and the economics make this predictable: a basic electric motorcycle or rickshaw achieves fuel-cost parity with its petrol equivalent at today's electricity tariffs, uses simpler technology (hub motors, LFP batteries), and serves buyers making frequent short urban trips. More than 70 EV manufacturing licences for two/three-wheelers have been issued by EDB, with four-wheeler licences issued to 2 EV, 3 PHEV, and 7 hybrid manufacturers (PES 2025–26).

The single most important corporate development is BYD's entry. Through Mega Motor Company - a subsidiary of Hub Power Company - BYD is building Pakistan's first dedicated NEV assembly plant near Karachi: an estimated US$150 million investment with capacity of 25,000 units per year, targeting the start of operations in the second half of 2026. BYD already retails imported models (including the Shark 6 plug-in hybrid pickup), and its localisation would anchor a domestic EV supply chain in exactly the way Suzuki's 1980s entry anchored the ICE ecosystem. Passenger EV adoption still faces three structural barriers two-wheelers do not: an upfront price premium of US$5,000–10,000 versus comparable ICE vehicles; charging infrastructure concentrated in three cities; and grid reliability that undermines confidence in home charging.

EV Segment	Status (mid-2026)	Key Dynamics
Passenger Cars	240 units locally produced Jul–Mar FY26 + CBU imports	BYD plant H2 2026; MG ZS EV active; price & charging barriers persist
E-Bikes / Motorcycles	Tens of thousands of units/yr and accelerating	Fastest-growing; near ICE parity; 70+ EDB licences
E-Rickshaws	Growing urban fleets	Battery-swap models emerging; simplified subsidy application process
Electric Buses	Pilot stage	BRT pilots in Lahore, Islamabad, Karachi; fleet procurement

Sources - PES 2025-26 (production, sales, and licence figures); company disclosures, 2025-26 (BYD, MG).

The financing gap remains the underappreciated barrier. Banks have not yet developed EV auto-finance products because residual values are unknowable in a market with no used-EV price history. The segment

that most needs financing - the mid-income buyer offsetting the EV premium - is the least served. Government-backed residual-value guarantees or structured buy-backs for early adopters would be the most effective demand-side intervention beyond price subsidies.

8. Investment Opportunities

Pakistan's automotive sector offers six distinct investment theses, ranging from low-capital-intensity distribution plays to capital-intensive manufacturing bets. They are not equally attractive for every investor archetype; the table below summarises enablers and risks after the narrative on the three highest-conviction opportunities.

8.1 EV Assembly & Distribution

The NEV 2025-30 framework has created favourable economics for EV assembly in Pakistan's history. EV-specific CKD parts carry a concessionary 1% customs duty (extended to 30 June 2027 under Finance Act 2026), with non-localized CKD components at 10% and localized CKD components at 25%; PAVE per-unit subsidies (Rs 100.36 billion allocated over five years) further narrow the ICE-EV price gap; and the government has an active priority around substituting the ~US$15 billion annual petroleum import bill. BYD's H2 2026 plant start makes it the reference case. Fast followers in the affordable EV and PHEV segments - particularly below the Rs 10 million price point where BYD's initial line-up will not compete directly - face a rare 2–3 year window of thin competition.

8.2 Auto Component Manufacturing

The most durable long-term thesis is component manufacturing. Pakistan's multi-billion-dollar annual import bill for CKD kits and components has been sticky because no domestic investor has achieved the scale to compete on unit economics against imports. The CPEC SEZ framework changes the calculus: a 10-year income tax holiday, zero duty on imported machinery, and preferential access to Chinese raw-material suppliers confirmed at four advanced-stage zones (Dhabeji, Bostan, Rashakai, Allama Iqbal Industrial City). The July 2026 WP-29 mandate adds a new demand layer for certified safety components. The target market is clear: supply two or more OEMs across both ICE and EV platforms. The domestic vendor base provides the foundation: PAAPAM's industry mapping identified roughly 2,200 parts manufacturers, of which around 450 operate at Tier-1 and 425 at Tier-2 standards, with some 1,325 serving the replacement market (PAAPAM, 2018 - the most recent sector-wide count available; totals have likely shifted since). Existing capability already spans engine blocks, crankshafts, and transmissions for tractors; steering knuckles, brakes, and radiators for cars; and exhaust systems, cabins, and structural assemblies for trucks and buses. The market splits between OEM supply, where certification and scale matter most, and the large aftermarket, which offers lower entry barriers.

8.3 Tractor Exports: Africa & Central Asia

Pakistan's tractor industry is export-ready in a way few other segments are: 94%+ localisation, two profitable listed OEMs (Millat 63.6%, Al-Ghazi 36.4% of FY2024-25 sales), and manufacturing aligned to Massey Ferguson and New Holland standards. Millat's own CEO has publicly described Pakistani tractors as "the cheapest in the world" (Profit/Pakistan Today, March 2026) - an industry claim, not an independently verified price comparison, but a genuine and quotable one. Millat has exported since 2015, primarily to Africa (confirmed shipments to Kenya and Tanzania) and, as of 2026, Mexico; export revenue share has risen from 6% of Millat's total revenue (FY2019-20) to 14.1% (first half of FY2025-26) - the clearest export-growth trajectory anywhere in the sector. Uganda is a known regional market, though a specific trade mission there was not independently confirmed. A joint venture between a Pakistani OEM and an East African agricultural distributor is the most likely structure for sustainable entry.

Opportunity	Key Enablers	Risk Factors
EV Assembly (Cars)	Concessionary CKD duty (1%); PAVE subsidy; BYD anchor effect	Grid reliability; charging gap; residual-value uncertainty
EV 2-Wheeler / E-Bike	Near ICE parity; 70+ licences; Africa export potential	Battery quality control; informal competition; financing
Auto Components (ICE+EV)	Import-substitution gap; CPEC SEZ incentives; WP-29 demand	Scale ramp; FX input costs; technology transfer
Tractor Exports	94% localised; Millat's rising export share; Kenya/Tanzania/Mexico markets; profitable OEMs	Subsidy-cycle volatility; logistics; aftersales networks
Car OEM / Expansion	600K capacity; recovering demand	Narrowing tariff protection post-FA26; rate sensitivity
EV Charging Infra	VGF funding; first-mover network effects	Land acquisition; DISCO tariffs; load-shedding economics

Sources - Pakistan Economic Survey 2025-26; PAMA; Finance Act 2026; CPEC Secretariat and Board of Investment (SEZ details); PAAPAM (2018, parts manufacturer count); Profit/Pakistan Today (Millat export data and CEO statement).

The State Bank of Pakistan does not publish a distinct "automotive sector" line in its foreign investment statistics - no such series exists to cite. The broader trend also argues against a sector-specific boom: total FDI into Pakistan fell ~43% in July-December FY2025-26, to ~US$808 million from ~US$1.42 billion a year earlier. SBP's own sector-wise breakdown for July-March FY2025-26 shows Power (~$714M) and Financial Business (~$589M) as the largest categories, with automotive not broken out separately. The one real, attributable figure is BYD's own announced ~US$150 million plant investment - a genuine reported commitment, but a company disclosure, not an SBP-classified FDI statistic..

Net FDI by Sector, July-March FY2025-26 (US$ million)

Sector	Net FDI
Power	~$714 million
Financial Business	~$589 million
Electrical Machinery	~$110 million
Electronics	~$101 million
Telecommunications	−$466 million (net divestment)
Other sectors (incl. automotive, not separately reported	~$306 million
Total Direct Investment in Pakistan	**~$1,356 million**

Source - Source - Pakistan Economic Survey 2025-26, Ch. 8 (Trade and Payments), citing SBP data. SBP does not publish a distinct automotive-sector FDI series; figures above are the actual published sector categories.

9. Challenges & Risk Factors

Pakistan's automotive sector combines genuine structural potential with persistent systemic constraints. Any investor must underwrite four structural risks - exchange-rate exposure, energy reliability, regulatory continuity, and the missing middle-income consumer - alongside sector-specific operational risks. These are manageable but must be priced into horizons: a 5–7 year view for ICE plays; 3–5 years may suffice for EV two-wheelers. Risk ratings below are the authors' qualitative assessment of relevance to international investors.

PKR Depreciation & Import Dependence

HIGH RISK

Passenger-car OEMs import an estimated 60-70% of components by value (PIDE, 2023) - a higher import dependency than sometimes cited, and the more rigorous academic estimate available. Pakistan has experienced approximately 95-100% cumulative PKR depreciation since FY2019 (USD/PKR moved from ~140 to ~277) - the rupee has lost roughly half its dollar value, a materially larger currency shock than headline "50%+" framing suggests. The precise cost pass-through of PKR moves to production costs was not independently quantified in this report and should be modelled directly rather than assumed. Mitigation requires either deeper localisation (capital-intensive) or re-pricing (demand-destructive). Neither is immediate.

Interest-Rate Sensitivity

HIGH RISK

At the 22% peak rate in FY2022–23, a substantial share of the buyer base was excluded from auto-financing. Normalisation to 10.5–11.5% restored much of this demand - auto loans grew Rs 68.7 billion (+24.9%) in Jul-Mar FY2026 - but the April 2026 hike (+100bps on the oil-price shock) shows how quickly external events transmit to the demand curve.

Regulatory & Policy Continuity

MEDIUM RISK

Pakistan's auto policy has passed through roughly four to five distinct frameworks over the past two decades (Tariff Based System 2006, AIDP 2007-12, a four-year policy gap, ADP 2016-21, AIDEP 2021-26), including a period with no clear policy regime at all. AIDEP 2026-31 remained unannounced at the expiry of its predecessor (June 2026), creating a policy vacuum for OEMs planning 5-year cycles. Import bans - deployed with limited notice during the FY2022-23 crisis - remain a tool investor must stress-test. Entry-execution risk is well-documented: Renault (via Ghandhara Nissan, then Al-Futtaim Group) signed agreements in 2016-17, acquired land in Faisalabad, and committed US$140 million targeting 50,000 units/year, before the venture was cancelled around 2019; Nissan separately signed a manufacturing agreement with Ghandhara Nissan in 2018 for Datsun models, then suspended talks. Neither reached production The FA26 tariff pivot also compresses assembler margins built on protection.

Energy & Logistics Costs

MEDIUM RISK

Average electricity prices rose approximately 50% from Rs 16.77/unit (FY2022) to Rs 24.88/unit (FY2025), driven substantially by PKR depreciation and capacity charges (Power Division data); gas supply remains unreliable. Port congestion at Karachi is a well-documented, ongoing problem - government task forces have targeted it repeatedly through 2025-26 - though specific CKD clearance delay durations and precise working-capital cost impact were not independently verified in this report and should be treated as directional rather than exact.

Market Concentration

HIGH RISK

Roughly 31% of all vehicle sales (cars, SUVs and pickups combined) are a single model, the Suzuki Alto 660cc. Any supply shock, regulatory change, or substitution affecting this vehicle depresses total market volumes disproportionately. PAMA's actual thin segment is the 1000cc band (Cultus, WagonR-class), at only ~4-5% of car sales - not a "661-1300cc middle" as sometimes framed, since PAMA does not track that band. Deepening this segment, or lifting affordability into the 1300cc-plus tier, requires income growth that has not yet materialised at scale.

Grey Market & Used Imports

MEDIUM RISK

The used-vehicle import channel is understood to suppress demand in the mid-price segment (precise price band not independently verified). FBR/Ministry of Commerce enforcement has tightened materially: SRO 61(I)/2026 (January 2026) made Pre-Shipment Inspection certificates mandatory for used vehicles imported from Japan, with subsequent clarifications and a temporary one-time waiver issued in June 2026. Grey-market units remain a factor in registrations, though their precise share was not independently quantified here; FA26 duty cuts on small cars may legitimise part of this demand into official channels.

9.1 EV-Specific Risks

Grid Reliability / Range Anxiety

HIGH RISK

Urban load-shedding directly undermines overnight home charging - a risk that does not exist with petrol. Until outages fall consistently to low levels, mass-market EV adoption will be policy-driven rather than demand-driven.

Battery Cost & Residual Value

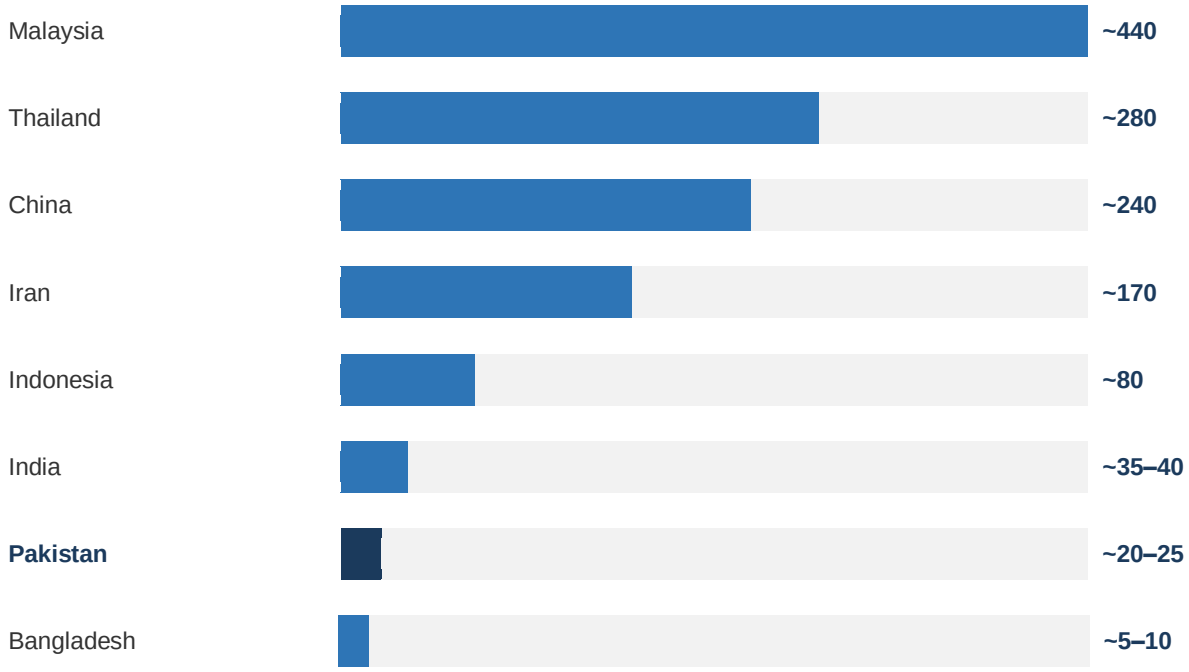
HIGH RISK

Battery packs represents substantial share of an EV's cost and degrade overtime. Pakistan has no domestic cell manufacturing. Replacement-cost uncertainty depresses resale values and makes EV financing uneconomical without residual-value guarantees.

10. Regional Benchmarking

Pakistan's automotive sector is simultaneously large by absolute volume and deeply underpenetrated relative to its population. At approximately 20–25 passenger cars per 1,000 people, Pakistan sits well below every relevant comparator - including India (~35–40 cars per 1,000, per India's Ministry of Road Transport and Highways), a market often misread as far ahead on this metric because its very high two-wheeler ownership inflates total-vehicle counts. The regional hierarchy is clear, and so is the implication: if GDP per capita grows consistently and the policy environment stabilises, the demand trajectory is structurally upward for decades, because motorisation follows income with remarkable regularity across countries.

Passenger cars in use per 1,000 people (approx., 2022–24)



Sources - OICA vehicles-in-use statistics; World Bank; India's Ministry of Road Transport and Highways (2025-26 annual report, cited via Data for India); national statistical agencies. Figures are approximate, exclude two/three-wheelers, and reporting periods vary.

The most instructive comparison remains India - not because of a large ownership gap today (the two countries are within a factor of two), but because of trajectory. India converted sustained 6%+ GDP growth, a mass-market local OEM champion (Maruti Suzuki), and deepening auto-finance penetration into a substantial multi-decade increase in car ownership - now approximately 35 cars per 1,000 people (2022). The precise two-decades-ago starting point, and therefore the exact multiple of growth, was not independently confirmed in this report; the directional story - sustained, income-driven motorisation growth over a generation - is well-supported even where the specific multiple is not. Pakistan has the same structural components in place: a large, young, urbanising population of roughly 250-255 million; an established (if concentrated) domestic OEM base; and a government that has declared automotive development a priority. What it has lacked is macroeconomic stability long enough to sustain an investment cycle.

Indicator	Pakistan	India	Thailand	Regional benchmark
Cars per 1,000 people	~20–25	~35–40	~280	35–440
Motor-vehicle share of GDP	~2.8%	~7%	~10%	7–10%
Auto-loan penetration / GDP	<0.5%	~2.5%	~5%	2–5%
EV share of new car sales	<0.5%	~7%	~10%	5–15%
Car localisation depth	45–55%	70–80%	75–85%	60–85%

Sources - OICA (2024); World Bank (2025); SIAM (2025); national industry bodies; Board of Investment / Competition Commission of Pakistan (2025-26, motor-vehicle GDP share). Figures approximate; periods vary; India/Thailand comparison figures not independently re-verified in this report. .

The Upside Case

If Pakistan's car ownership merely doubles to ~40–45 per 1,000 - similar to India's current ~35–40 - over the next 12–15 years, the national car fleet grows from roughly 6 million to 11 million vehicles - implying sustained annual sales of 400,000–500,000 units once replacement demand is included, versus ~148,000 in FY2025.

That volume path - a tripling of today's market - would justify the full 600,000-unit installed capacity, deepen component manufacturing to viable scale, and support an auto-finance market several times its current size.

The trajectory is not guaranteed. But for investors with a 7–10 year horizon and tolerance for emerging-market policy risk, the 2026 entry point - early in a recovery, ahead of the EV build-out, at the start of tariff normalisation - is historically attractive.

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Automotive Sector Profile - Pakistan - Comprehensive Edition July 2026 - End of Report

AUTOMOTIVE SECTOR PROFILE

Pakistan - Comprehensive Edition - July 2026

Part of the Pakistan Sector Profile Series

Housing & Construction - Automotive - further sectors in preparation

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