

Incentivizing the transition to EVs

Article

The news: The government of **India** and the **World Bank** are the latest organizations resorting to subsidies and incentives to accelerate electric vehicle adoption, [per](#) Bloomberg.

Why it's worth watching: Aimed at cutting costs for financing EVs, the fund will help banks hedge against loan defaults. The **\$1 billion fund is a risk-sharing mechanism to compensate banks giving loans** for EV purchases.

- India's government intends to convert 70% of commercial vehicles, 30% of private vehicles, and 40% of buses into plug-in EVs by 2030.

- The EV transition in India, however, **hinges on** mopeds and rickshaws rather than passenger cars, which The New York Times notes could be a template for other developing nations.
- Banks have been reluctant to give loans for EV passenger car purchases in India at a time when the cost of insuring these vehicles is high and the resale market remains small.

In India's case, the environment is the impetus to accelerate EV adoption. Air pollution in India is at an all-time high, posing a serious health risk.

- **35 of the 50 cities with the worst air quality worldwide are in India, according to the World Air Quality Report** for 2021.
- India's transport sector accounts for 13.5% of the country's total emissions.

Analyst Take: "Clean transport is laudable, but this dangerously incentivizes subprime auto lending. The market's saying something: EVs might be good for the environment, but carelessly subsidized, they're a financial sinkhole for Indian consumers," said **Tyler Brown**, senior analyst for banking at Insider Intelligence.

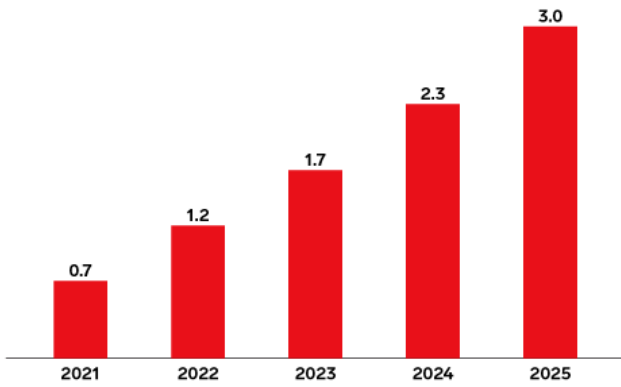
EV incentives are on the rise: EVs are between 10% to 40% more expensive than gas- or diesel-powered vehicles, **per** Consumer Reports, and incentives can help offset the difference.

- Aside from the cost of electric vehicles, adopters need to consider installing charging stations to charge vehicles, so discounts and incentives can sweeten the deal.
- The US **Inflation and Reduction Act** signed into law in August **provides \$7,500** income tax credit for new EVs and introduces a **\$4,000** credit for used ones. However, it caps the sticker price at **\$55,000** for new eligible cars and **\$80,000** for trucks.
- Vermont is the first state to offer a point-of-sale rebate of \$400 for pedal-assisted e-bikes, contingent on income levels.
- Proposed e-bike rebates in New York could slash electric bike and e-scooter costs by up to 50%. Wider adoption of personal electric vehicles (PEVs) could decongest busy city streets.

The key takeaway: Incentives and affordable payment options can help consumers with the initial expense of adopting EVs. However, not all subsidies or incentives are equitable. A **study** from the **National Bureau of Economic Research** found that most of the benefits of EV subsidies go to high-income households.

US Electric Vehicle (EV) Sales, 2021-2025

millions of vehicles



Note: includes battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs)
Source: EVAdoption, "Electric Vehicles by the Numbers: Past, Present, and Future," March 11, 2022

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