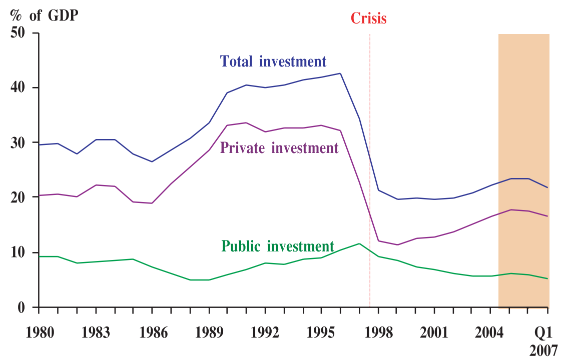
Outlook for investment: a recovery remains on track

Investment, both private and public, started to moderate since the end of 2005. While total investment rose 11.1 per cent in 2005 and 4.0 per cent in 2006, on a year-on-year basis, it fell by 1.4 per cent in the first quarter of 2007, owing importantly to a contraction in private investment. As a result, the share of investment in GDP averaged at 23 per cent over 2004-2006 compared with 40 per cent over 1990-1996. This softness partly reflected a substantial amount of underutilized capacity after the 1997 economic crisis. With the ensuing economic recovery, the share of investment in GDP edged higher but reversed its course in 2006 and thereafter. In any case, key determinants of investment decisions include (1) economic fundamentals such as economic growth, interest rates, production costs, and profitability; and (2) investor confidence.

Chart 1 Investment share as % of GDP



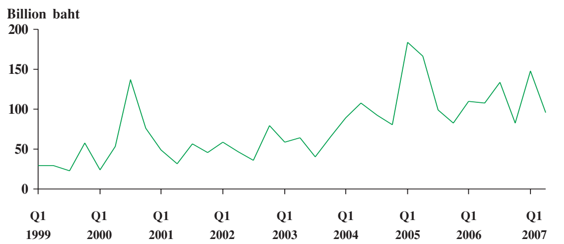
Source: National Economic and Social Development Board

In 2007 Q2, rising costs of production and difficulties in adjusting prices continued to weigh on private investment, while political uncertainty weakened investor confidence. Nonetheless, public investment edged up from the previous quarter following accelerated disbursement of government budget.

Going forward, a pick-up in investment was likely to be supported by several factors. These included 1) low interest rates and ample liquidity, 2) elevated levels of capacity utilization in many industries, such as petrochemical and petroleum, paper, and electronics; and 3) a strong baht which should boost import-intensive investment.

Chart 2 BOI promotion certificate issued

Unit : Billion baht	2005	2006	2006 Jan-Jun	2007 Jan-Jun	%Δyoy
No. of projects	1,133	1,146	598	622	4.0%
Total investment	532.5	435.0	217.9	244.7	12.3%



Source: Board of Investment

According to data from the Board of Investment (BOI), which covered 30 per cent of total private investment, firms would begin construction, import machinery, and stand ready to operate within 3 years from the date of receiving promotion certificates. Firms tended to frontload project outlays usually within the first year. As such, with 622 projects receiving promotion certificates in the first half of 2007, amounting to 244,700 million baht in investment outlays, this was an increase of 12.3 per cent from the same period last year. Sectors that received most certificates were services and public utilities, followed by electronics and electrical appliances. It was thus expected that, going forward, private investment in these sectors would likely gain some traction.

Table 1 Outlook for investment

Sector	Total investment	Investment timeline	Remarks
1. Automobiles (Eco-car project)	10-20 billion baht per project	Start 2009	Investment outlays conditional on whether expanding production capacity or building new factories
2. Energy IPP: Phase 1	Approximately 112 billion baht	Start 2008-2012	National Energy Policy Committee to start bidding of 3200 out of 12600 mega-watt production plan (18 projects)
3. Petrochemical	Approximately 138 billion baht	Start 2007-2012	According to Phase 3 of Petrochemical Development Plan over 2005-2018 to create value added in domestic petroleum resources
4. Electronics (HDD)	35.85 billion baht	Start 2007-2014	Large producers using Thailand as production based for exporting

Source: Survey from the Economic/Business Information Exchange Program between the Bank of Thailand and the business sector (BLP)

The improved outlook for investment above was also in line with the findings of Bank of Thailand's Economic/Business Information Exchange Programme (BLP) in 2007 Q2. Most firms viewed that economic fundamentals remained strong, with a favourable environment as investor concerns were mitigated. Investment in heavy industries - such as automobiles and auto parts, petrochemical, electronic components, and energy - was likely to start within the next five years. Moreover, the real estate sector also showed signs of recovery. This was reflected in improved profits of firms located in industrial development areas and those conducting factory sales and leasing, as well as in the increased likelihood of the real estate sector in raising capital during the second half of 2007.

Regarding public investment during 2007-2008, fiscal policy was poised to play a greater role in providing economic stimulus and offset a moderation in private investment. Public investment, by both the government and state enterprises, was expected to expand by about 10 per cent on the back of the government's investment plans that became increasingly more concrete. Moreover, government budget outlays for investment for 2008 posted an increase of 8.0 per cent over the preceding year, especially those for investment in infrastructure such as the mass transit system in Bangkok and the metropolitan area as well as investment in the energy, electricity, and petrochemical industries.

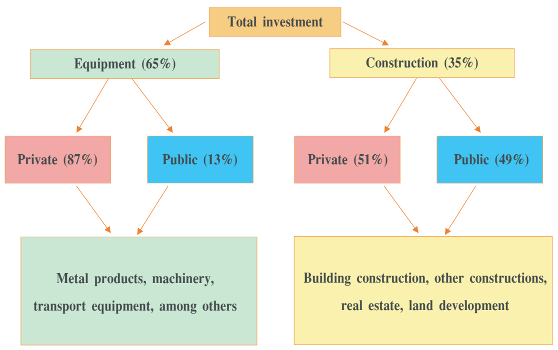
Table 2 Outlook for investment by state own enterprises

Project/SOE	Investment* (Billion baht)	Timeline	Remarks
Dual rail track (Chachoengsao-Sriracha-Leam Chabang) State Railway of Thailand	5.3	2007-2010	Bidding expected to start in August; project expected to start end-2007
Red line (Bang Sue-Taling Chun) State Railway of Thailand	13.1	2007-2010	Bidding expected to start in 2007 Q4; project expected to start in 2008
Purple line (Bang Sue-Bang Yai) Mass Rapid Transit Authority of Thailand	45.7	2007-2012	Under revision; bidding expected to start in 2008
Energy and petrochemical projects PTT Public Commpany Limited	209.2	2007-2011	Some projects in progress; others awaiting clearance regarding environmental issues
Power Development Plan 2007 Electricity Generating Authority of Thailand	289.7	2007-2011	Bidding expected to be participated by large and small power producers (IPP and SPP)

Note: *Estimates
Source: Bank of Thailand

In addition to the budget increase, the government established the Macro Economic Steering Committee and the Committee on Budget Payment to help the economy achieve sustainable growth. The government also passed several fiscal and tax measures such as tax deductions for home loans and a reduction of excise taxes for energy-saving automobiles (Eco-Cars). These measures were intended to stimulate private investment to satisfy future orders.

Chart 3 Structure of investment



Source: National Economic and Social Development Board

Details of investment in two broad categories of public and private investment were as follows. Outlays for machinery as a share of total investment accounted for about 65 per cent, of which 87 per cent was due to the private sector. Investment in this category appeared poised to expand given various supportive factors mentioned above. Outlays for construction also showed signs of improvement. This was in part attributable to the fact that over 60 per cent of public investment in mega-projects was in this category.

An improved environment for investment, including increased investor confidence and a clearer policy direction, should lead to a broad-based recovery. As a result, both the government and the private sector needed to effectively build up capabilities in resource management, logistics, and the labour force, in preparation for a stronger pace of expansion in investment - particularly, in the heavy industries such as electricity and infrastructure that would in turn support further investment in other industries.