High Commission of India
London
(Economic & Commerce Wing)

Economic & Commercial Report on the United Kingdom for June 2014

Macro-Economy

According to the latest figures from the Office for National Statistics (ONS), UK Gross Domestic Product (GDP) in volume terms was estimated to have increased by 0.8% between Q4 2013 and Q1 2014, unrevised from the second estimate of GDP published in May 2014. GDP is estimated to have increased by 1.7% in 2013, compared with 2012, unrevised from the estimate published in May 2014.

Monthly External Trade Review (in £ million)

Year	UK Exports to India	% change	UK Imports from India	% change	Total	% change	India's Balance of Trade
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
2011	5677	+40.04	6114	+4.83	11791	+19.33	+397
2012	4665	-17.82	6210	+1.57	10875	-7.76	+1545
2013	5051	+10.93	6182	+3.15	11233	+6.51	+1131
Jan-April 2014	1035	-38.93	2145	+4.63	3180	-15.08	+1110

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade and Investment Enquiries from India: 25

Trade and Investment Enquiries from UK: 00

Tenders from India: 42

News in a nutshell:

IMF calls Osborne deficit reduction plan 'appropriate'

The International Monetary Fund has ended its dispute with the coalition government over austerity and accepted that George Osborne's deficit reduction plans are "appropriate". In the closing statement to its annual inspection visit, the IMF dropped its previous calls for slower spending cuts and says the chancellor's plan "addresses the need to strengthen the public finances without putting an undue drag on growth". The news will be a boost to Mr Osborne, who told the BBC ahead of publication: "You're going to find I'm going to agree with everything the IMF is going to say." The IMF's comment that in the medium term, further deficit reduction "should strike an appropriate balance between revenue and expenditure measures" will please both Labour and Liberal Democrat politicians, who have been concerned that Mr Osborne currently plans further improvement in the public finances to come from cuts to welfare and public services. The IMF's Article IV end of mission statement, which was presented in London by Christine Lagarde, managing director, praises the British economic recovery, which it says is becoming more balanced. "Good macroeconomic performance is expected to persist," it said, adding that growth is likely to become "driven by further rebalancing toward business investment and a gradual recovery in productivity".

The four-page document does, however, point to risks to the sustainability of the upswing from chronically weak recent productivity growth and possible risks from a housing-led credit boom. The IMF said the fundamental problem in Britain's housing market was inadequate house building, hampered by onerous planning restrictions. Any policies to limit demand for housing, such as restrictions on mortgage lending, it said "can only be temporary palliatives to an underlying problem". But it nevertheless urged the Bank of England to use its new tools to take some more steam out of mortgage lending. "Limits on the proportion of high Loan-To-Income (LTI) mortgages any lender can issue would help to contain directly the currently most pressing risks to financial stability – if such limits prove insufficient, outright caps on LTIs or Loan-To-Value ratios may need to be considered," it said. While the IMF welcomed the Help to Buy mortgage subsidies, it said that if the scheme grew rapidly, the Treasury should reconsider whether it needed to continue for the full three years.

UK trade deficit widens in April

The UK's trade deficit widened in April, with a fall in manufacturing exports reawakening concerns about the impact of the strong pound. The headline figures show the deficit widening to £2.5bn in April, compared with £1.1bn in March. But the picture is complicated by an announcement in the official release that HM Revenue & Customs – which provides the official goods data – underestimated oil exports by about £700m in April. Once this was taken into account the deficit for April stood at £1.8bn, the ONS said, although it cautioned that "there could be other data revisions" in July. Taking this additional oil revenue into account, the deficit in goods for April stood at £8.9bn, which was partly offset by a £7.1bn surplus in service exports. Setting aside the impact of the oil miscalculations, exports still fell, with the biggest falls in manufactured goods. On a three-month basis, which the ONS prefers as it smoothes the volatile monthly data, exports were down £2.3bn, again with the biggest fall coming in manufactured goods.

UK employment rises at record pace

The UK's spectacular employment growth has accelerated further, helping the jobless total fall to a five-year low. But a renewed squeeze on real wages has heightened the political battle over the cost of living. The number of people in work grew by 345,000 to 30.54m in the three months to April. It was the fastest quarterly rise since records began in 1971, and surpassed the previous record set last month of 283,000, said the Office for National Statistics. The unemployment rate fell to 6.6 per cent of the workforce, dropping from 6.8 per cent in January-March and down from 7.8 per cent a year earlier. The jobless total was down 161,000 on the previous quarter to 2.16m. Unemployment fell in all UK regions except northeast England, where it rose 0.3 percentage points on the previous quarter to 9.8 per cent of the workforce, the highest in the country. The lowest rate was in southeast England, down one point at 4.8 per cent.

UK inflation rate falls to four-year low

Britain’s inflation rate has fallen unexpectedly to its lowest for more than four years thanks to a price war among supermarkets and falling air fares. The annual change in the consumer price index fell from 1.8 per cent in April to 1.5 per cent in May, the lowest since October 2009. That means that a basket of goods and services that cost £100 in May 2013 would have cost £101.50 in May 2014. Inflation has been declining since the autumn, lessening the squeeze on real wages. It has been pushed down by the stronger currency, a price war between the supermarkets and lower global commodity price inflation. Economists were expecting a smaller fall to 1.7 per cent. The fact inflation has been below the Bank of England’s 2 per cent target has eased the pressure on the Monetary Policy Committee to raise interest rates. However, house prices are rising rapidly and the economy is strengthening, prompting Mark Carney, the BoE governor, to warn last week that rates could go up sooner than the market expects. Transport prices fell 0.7 per cent between April and May, compared with a rise of 0.4 per cent between the same two months a year earlier. That was partly because of the timing of Easter, which has a big effect on the cost of flight tickets. Food prices also fell a little between April and May, most notably for bread and cereals, meat, vegetables and soft drinks. Supermarkets have engaged in a brutal price war this year to win customers, with the result that food prices were 0.6 per cent lower than a year ago.

UK Export Finance begins support for renminbi loans

UK Export Finance (UKEF) has signed a Memorandum of Understanding (MoU) with HSBC and a leading Chinese company to begin structuring its first renminbi (RMB) supported deal in 2014 for capital equipment. The news was announced by Chancellor of the Exchequer, the Right Honourable George Osborne MP, at the first UK-China Financial Forum in London attended by Chinese Premier, Li Keqiang. Among the first export credit agencies to adopt the currency, the move by UKEF enables it to provide medium and long-term guarantees to support RMB-denominated transactions in any sector. RMB is now the second most used currency in trade finance after the US dollar, and one of the 10 most used currencies for payments worldwide. UKEF expects renminbi transactions initially to fall within the aerospace industry. They will help British exporters such as Airbus and Rolls Royce to gain further access to the Chinese aircraft market and will benefit Chinese buyers by providing them with loans in their local currency, giving them greater financial stability. The Chinese aircraft market, according to aircraft manufacturers, is expected to be worth in excess of US$600 billion over the next 20 years. British exporters aiming to win contracts in the wider Chinese aviation industry are also expected to benefit.

UK and China agree £14 billion of trade and investment deals

£14 billion of trade and investment deals have been signed between UK and Chinese firms as the Chinese Premier Li Keqiang meets Prime Minister David Cameron during a visit to the UK. The annual UK-China summit takes place just 6 months after the Prime Minister’s visit to

China and with bilateral trade at record levels – up by 8% overall in 2013. UK exports to China have more than doubled since 2009, and are growing faster than our French and German competitors. Last year UK exports to China averaged more than £1 billion each month. The UK is the most popular European destination for Chinese investment, benefitting from over £8 billion in 2013/14 alone, creating or safeguarding over 6,000 jobs in the UK.
Trade and investment deals announced. Trade and investment deals announced during the UK-China summit include:

- BP and the China National Offshore Oil Company (CNOOC) signed an agreement worth £12 billion on the supply of liquefied natural gas. The deal will see BP supply CNOOC with 1.5 million tonnes of gas per year over the next 20 years, starting in 2019.
- China Minsheng Investment Corporation (CMI), China's largest private sector investment group – with capital of $8 billion - announced today that it will open its European HQ in London with an investment of around £1.5 billion. Investments will cover a range of sectors including financial services, advanced technology, offshore engineering, new energy, and environmental protection.
- MAP Environmental Ltd and Z N Shine Solar entered into a joint venture to purchase, develop, construct and manage £400 million of UK solar PV assets. The project will involve a 3 year construction programme in conjunction with some of the UK's largest engineering, procurement and construction contractors and the on-going maintenance will run for up to a further 20 years. The project will generate up to 50 new UK jobs in design, administration and operation roles with a further 500 new UK jobs in construction and maintenance created over the period of the contract.
- China Merchant Securities (CMS), China's third largest securities firm in terms of net capital, opened its first London office which has been authorised by the Financial Conduct Authority today, creating at least 40 new UK jobs in its initial stage. CMS will increase the volume of commodity trading in London and play a significant part in the internationalisation of the Chinese currency Renminbi (RMB), reinforcing London's position as the second largest offshore RMB trading centre.

UK business investment bounces back
UK business investment has risen to its highest level since the financial crisis, in a further sign the economic recovery is becoming more balanced. In the first three months of the year, business investment was 10.6 per cent higher than the same period last year. It has now grown for five consecutive quarters, raising hopes of a sustained recovery in investment. In a raft of official releases from the Office for National Statistics, there was further good news in the balance of payment figures, with the UK's current account deficit falling to 4.4 per cent of gross domestic product in the first quarter, down from 5.7 per cent in the final three months of last year. However, growth for the first quarter of the year was confirmed at 0.8 per cent, with overall growth for 2013 also unrevised at 1.7 per cent for the year, disappointing City expectations of upward revisions. Figures for the service sector confirmed the picture of robust economic growth, increasing 3.1 per cent in the year to April compared to the previous year.

UK-India Trade and Investment News

UKTI helps StadiArena win £4 million sports stadium contract in India
Warwickshire based StadiArena converts outdoor sports stadiums into indoor arenas. StadiArena's contract win in India means the company's technology will be used for a new 25,000 capacity sports stadium in Ahmedabad, in the Indian state of Gujarat. When

completed the stadium will be the world's first purpose built indoor and outdoor arena. StadiArena worked with their Mumbai based project partners TransStadia as part of a Public Private Partnership (PPP) initiative. This means government and one or more private sector companies work in partnership together on the project. When finished, the stadium will be able to host a national sports academy. It will also be a world-class, multi-purpose sports and entertainment arena. Paul Noon, Regional Director, UKTI West Midlands said: "This is a fantastic project which showcases the region's talent for cutting edge technology and innovation. The stadium in Ahmedabad is the result of years of hard work and commitment and we look forward to continuing to work with the StadiArena team."

GESIA eyes overseas IT biz; to open chapters in Dubai, Netherlands, Germany and UK

In order to tap Information Technology business on foreign shores, the Gujarat Electronics & Software Industries Association (GESIA) --- a state-based body of 370 members from the IT sector in Gujarat --- is planning to open their chapters in Dubai, Netherlands, Germany and UK in the next two months. The body is also exploring possible tie-ups with Israel and China. GESIA officials said they were also meeting some Chinese officials to explore possible tie-ups. A couple of months ago, the association had opened it's first overseas chapter in Canada.

Diageo poised to take control of India's United Spirits

Diageo, the world's biggest distiller by sales, is poised to take control of United Spirits after an open tender offer increased its stake in India's largest liquor group to 55 per cent, drawing a line under years of negotiations between the two companies. The UK-based spirits company successfully concluded an offer to raise its holding from about 28 per cent, according to two people familiar with the situation. The deal bolstered the company's stake by 27 percentage points – the level it had targeted when launching its $1.9bn offer. Diageo offered to pay Rs3,030 per share, an 18.5 per cent premium to United Spirits' share price when the company first announced the offer in April. The deal represents a breakthrough for Diageo, which has endured years of delays and uncertainty as it attempted to acquire a majority stake in the business built up by controversial Indian liquor baron Vijay Mallya. It now positions the group as a significant player in India's $6bn alcoholic beverage market, as it moves to increase sales of its premium products such as Johnnie Walker whisky and Smirnoff vodka using United Spirits' extensive distribution network.

Indiabulls buys London asset for Rs 1,550 cr

Indian developers' interest in marquee London properties seems to be rising steadily. After Lodha Group's Rs 3,000-crore acquisition there recently, another Mumbai firm,Indiabulls Real Estate bought an iconic building in London's Mayfair for Rs 1,550 crore. The firm bought the 87,444-sq ft feet property - 22, Hanover Square - from Scottish Widows Investment Partnership (part of Aberdeen Asset Management), which had put the building up for sale in April through consultancy firm H2SO. According to the deal, the acquisition cost comes to Rs 1.65 lakh per sq ft and the total saleable value of Rs 4,500 crore. The firm is seen earning Rs 2,000 crore from the project over five years. Indiabulls would fund the deal through internal accruals, company sources said. It plans to pull down the building over a three-year period and construct premium residential towers and sell the apartments for Rs 4.5 lakh per sq ft.

JLR to build new SUV model in Liverpool

Jaguar Land Rover will hire 250 new workers at its Liverpool factory to build the British carmaker's latest model, in another boost to the UK car industry. JLR, which has seen production surge thanks to strong overseas demand, particularly in emerging markets like China, said it would invest £200m in the factory to support the new model. Fresh investment and new job announcements have made the UK car industry one of the country's biggest manufacturing successes over the past five years, a far cry from the previous decade when the industry was beset by factory closures and lay-offs. The company is opening its first overseas factory this year in China, building a plant in Brazil and considering a third in Saudi Arabia. The new jobs will increase headcount at the company's Halewood factory on the outskirts of Liverpool to 4,750 workers, more than treble the number employed there four years ago. Halewood, where JLR builds its best-selling Evoque model, is already running 24 hours a day to keep pace with rising export demand, and has quadrupled production since 2010. India's Tata bought the carmaker from Ford in 2008 and is investing £3.5bn this year alone. During 2013, JLR sold 425,006 vehicles, up 19 per cent. Sales in the first quarter of this year are up 8 per cent, with 80 per cent exported.

Indians pump in billions into London

Indian billionaires pumped in nearly £1 billion into buying up luxury homes in the heart of London over the last 18 months alone. These Indian mega-rich are expected to spend another £500 million on redevelopment in the next five years, says a new report from UK luxury property agents Wetherell. According to the analysis, Indian ultrahigh net worth (UNHW) individuals are buying up superflats, estates and hotels in London against the backdrop of a faltering real estate market back home in India. This group of investors, second only to British-based buyers, spent almost £450 million purchasing 221 residences in prime central London in 2013, with the top three most popular locations being St. Johns Wood, Belgravia and Mayfair. British buyers accounted for 30 per cent of property in Mayfair, while wealthy Indians have snapped up 25 per cent. Middle Eastern, continental European and Russian buyers all accounted for 13 per cent of purchases each in the exclusive London borough. An estimated 3,000 UHNW Indian families escape the heat of India in the summer and relocate to their homes in London – also seen as a global investment safe haven. Aside from private money, Indian developers are also entering the London market. The Lodha Group, one of India's largest residential developer, had recently purchased the Canadian High Commission in Grosvenor Square for £306 million. The group plans to turn the seven floor 135,000 sq ft building into 18 to 20 luxury homes.

Cairn India gets green nod to raise output from Rajasthan block

Cairn India has received environmental nod for raising crude oil production from its prolific Rajasthan fields by 50 per cent to 300,000 barrels per day (15 million tons a year). Environmental clearance (EC) has been granted to Cairn India to augment hydrocarbon production from the RJ-ON-90/1 block in Barmer and Jalore districts of Rajasthan to 300,000 barrels of oil per day from current limit of 200,000 bopd, sources privy to the development said. Cairn had made 31 oil and gas discoveries in the Rajasthan block, of which four - Mangala, Bhagyam and Aishwariya (together known as MBA fields) and Raageshwari have been put on production. It contributes about 30 per cent of India's domestic crude oil production. The company has initiated enhanced oil recovery programme at its Mangala field, the largest in the Rajasthan block, to raise recovery and support output from the field in the longer term. Sources said two new gas prospects have been found in the block, prompting Cairn to set up a gas processing plant at its existing Raageshwari gas terminal for processing 100 to 300 million cubic feet gas per day. The new gas processing plant shall be designed for processing 100 to 300 mmscfd of gas. Also, as a part of Rajasthan gas development project, it plans to lay pipelines to take the gas to the nearest grid. An international expression of interest has been floated for laying a 200-km pipeline from Barmer to Palanpur in Gujarat.

UK most favoured European destination for FDI from India: Report

Britain remains India's most favoured European destination for foreign direct investment (FDI), attracting 49 per cent of funds from the country, according to a latest Ernst & Young (EY) report. The 'Annual UK Attractiveness Survey' by the professional services firm finds that out of the total of Indian investment into Europe, the UK attracted 49 per cent, mainly in the automotive sector. "Looking across the BRICS' FDI projects into Europe... the UK secures the highest market share of investments from India," the report said. "In 2013 there were 103 investment projects from India in the UK, up from 74 in 2012, and surpassing the strongest previous year of 2010, when there were 94 Indian investment projects in the UK," it adds. Tata Motors-owned Jaguar Land Rover (JLR) received a special mention for creating 1,500 jobs in the West Midlands, helping to make that region the leading one in the UK for employment creation from foreign investment. Overall, the UK received a major vote of confidence from foreign investors after retaining its lead as Europe's top inward investment destination for the 11th year running.

UK's City and Guilds in deal to help train 500m workers in India

A UK charity is to become the first overseas group to run vocational education for the Indian government's skills agency, under a decade-long deal to train 63,000 people in construction, hospitality and retail. The contract, between Britain's City and Guilds and New Delhi's National Skill Development Corporation, forms part of wider efforts by the Indian government to train 500m Indians by 2022 in order to fill skills gaps in its growing workforce. British ministers hope the initial deal, worth about £3m over 10 years, will help other UK skills providers and colleges tap into a potentially huge market as India works to develop and upgrade its services sector. India is one of the target markets identified in last year's strategy for expanding sales of UK education overseas. According to government figures, further education contributes just over £1bn to the UK's £17.5bn annual education exports but has the potential to increase far further. The contract is being delivered by Manipal City & Guilds – a joint venture between City & Guilds and India's Manipal Global Education Services – and the organisation aims to train 3,000 people across three sectors in the first year. In order to be paid for its work, the group must make sure a minimum of 70 per cent of those trained are given jobs on completion.