HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

Economic & Commercial Report on the United Kingdom for May 2013

Economy

GDP

- UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.3% between the fourth quarter of 2012 and the first quarter of 2013, unrevised from the previous publication. In current prices GDP was estimated to have increased by 1.6% over the same period.

- The main contributors to the increase in GDP in the latest quarter were: changes in inventories, including the alignment adjustment, which increased by £2.5 billion in volume terms and; household final consumption expenditure, which increased by 0.1%.

- GDP in volume terms increased by 0.6% when comparing the first quarter of 2013 with the first quarter of 2012. Between the years 2011 and 2012, GDP in volume terms increased by 0.3%.

(Published by Office for National Statistics (ONS) on 23rd May 2013)

Inflation

- The Consumer Prices Index (CPI) grew by 2.4% in the year to April 2013, down from 2.8% in March.

- By far the largest downward contribution came from transport costs (notably motor fuels and air fares).

- The only notable upward contribution came from price movements for food & non-alcoholic beverages.

- This is the first time that the growth in inflation has slowed since Autumn 2012. Over the last six months, the CPI 12-month rate has been particularly stable.

- CPIH, the new measure of consumer price inflation including owner occupiers' housing costs, grew by 2.2% in the year to April 2013, down from 2.6% in March.

- The slower growth in CPIH than CPI is due principally to owner occupiers' housing costs increasing more slowly than overall inflation for other consumer goods and services in the year to April.

- The format of this bulletin changed with the publication of February data. Please see the 'Guide to Data' section of the bulletin for further information on where to find all ONS consumer price statistics including CPI, CPIH, RPI and RPIJ. If you have any comments on the new format, please email cpi@ons.gsi,gov.uk.

(Published by Office for National Statistics (ONS) on 21st May 2013)

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 Jan - March	1035	-14.10	1518	+5.41%	2553	-3.48	+483

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

Trade/Investment Enquiries

During the month of May 2013 the following enquiries from UK and India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India:

From India

Food Products	18
Fruit & Vegetables	05
Handicrafts	04
Agricultural Products	04
Garments & Textiles	07
Fasteners & Hardware Fittings	04

Electrical Products	01
Automotive Spare Parts	01
Home Furnishings & Furniture	04
Household products	01
Natural Stone	02
Coir Products	01
Jewellery	02
Herbal Products	04
Leather Products, Handbags etc	05
CI Castings	01
Chemicals-CMT & TKP Powder	01

From UK

Broad Items	Number of Queries
Fasteners	01

Tenders from India

Organisation	Numbers of Tenders
MOD Metal and Steel Factory	02
ONGC-Baroda	04
MOD Indian Ordinance Factory	04
MOD Raifle Factory	03
Ministry of Railways	03
India Meteorological Dept. New Delhi Tender	01
Security Paper Mill – Hoshangabad	01
Neyveli Lignite Corporation Ltd	02
Naval Science & Technology Lab	01
Currency Notes Press – Nashik	01

Media Reports

Osborne prepared to gamble on bank sales

Financial Times: 02/05/13

George Osborne's allies are stepping up efforts to prepare for a reprivatisation of Royal Bank of Scotland and Lloyds Banking Group before the next election, even if the banks' share prices remain well below the levels at which they were rescued at the height of the crisis.

Senior Tories close to the chancellor argue that Alistair Darling, his Labour predecessor, paid too much for shares in RBS and Lloyds when he injected close to £66bn into the banks.

By claiming that the Treasury got a bad deal on those bailouts, Mr Osborne hopes to prepare the public for a large loss if privatisation begins before the 2015 election. The combined paper deficit today on taxpayers' 82 per cent shareholding in RBS and 39 per cent stake in Lloyds is about £24bn.

Last week, Jim O'Neil resigned as head of the body that runs those stakes, signalling tnat imminent prlvatisation was unlikely. Three years into his role as chief of UK Financial Investments, he realised it might take a year or two more to begin the sell-off process anywhere near profitable levels.

But one person close to the chancellor said yesterday that it was "unrealistic" to expect the RBS share price to return to its 2008 level in the foreseeable future and that the government might have to sell while the shares were "under water".

An aide said Mr Darling should not have paid "book value" for the RBS shares when the Treasury had banks "over a barrel", arguing that the US administration had struck a tougher deal when it rescued Citigroup.

Signs emerged last month that the government was starting to lower expectations for the sale prices of the part nationalised banks. A bonus scheme for the Lloyds chief executive used a key share price target of 61p, which bankers said represented the level at which the stake was carried in the government's books but is far below the 74p average at which its bailout alctually took place. The equivalent figure for RBS is 41Op, compared with the real "in-price" of 5OOp.

Shares in Lloyds and RBS closed yesterday at 54.2p and 306.80p respectively.

The criticism of Mr Darling's handling of the nationalisation has incensed the former Labour chancellor, who pointed out that in April 2010 - just before the last election - RBS shares were trading above the price the Treasury paid:

"I've not the slightest doubt all of this is a rather obvious attempt to blame the last Labour government for whatever they do. The share price we see today is largely of their own making," he said.

The bank's future has been clouded by speculation that the cross-party commission on banking standards, chaired by Tory MP Andrew Tyrie, might recoriunend splittingRBS into a "good" and "bad" bank,' taking on its toxic loans.

IMF likely to renew call for relaxation of austerity

Financial Times: 10/5/13

IMF staff arrived in Britain yesterday to start their annual mission. They are likely to become embroiled in a head-to-head fight with the Treasury over the IMF's tentative recommendation last month that the chancellor should show more flexibility in deficit reduction.

Although the Treasury has learnt not to exploit a short period of good data for fear of what might follow, officials believe improved recent figures make the IMF's arguments harder to justify.

Industrial production figures yesterday suggested that the economic recovery was starting slowly to gather momentum.

Last month, IMF officials called on Britain to show more flexibility with deficit reduction. Olivier Blanchard, its chief economist, said the country was "playing with fire" if it allowed stagnation to continue.

With Bank of England officials saying the extension of the Funding for Lending Scheme was "not a game changer", the focus has been on improved data to stop the IMF embarrassing Mr Osborne.

The data have been good since the IMF meetings last month, but not good enough, officials believe.

Manufacturers had a better month than expected in March because exporters were helped by the weaker pound. Production output was up 0.7 per cent on the previous month, largely because of a 1.1 per cent rise in manufacturing, which followed a 0.7 per cent increase in -February.

This news, together with other encouraging data, prompted the National Institute of Economic and Social Research to estimate that the British economy grew 0.8 per cent in the three months to the end of April.

Although the think-tank warned that this figure was inflated by the statistical effect of a poor January, the estimate nonetheless suggests momentum is gaining in the economy, which contracted in the final quarter of last year and grew 0.3 per cent in the first quarter of 2013.

Amid these positive signs, the BoE chose not to pump more money into the economy when its Monetary Policy Committee met yesterday. It also voted to maintain the size of its quantitative easing bond buying programme . at £375bln.

On the IMF's favourite measure of deficit reduction, Britain is cutting its' cyclically adjusted primary deficit by 0.9 per cent of national income in 2013, so the likelihood is that fund, officials will seek a slightly' smaller cut.

The IMF has made it clear it is not seeking a fiscal stimulus.

The prospect of a recommendation of a small change in fiscal policy will be met with a riposte from British officials that the fund is tinkering around the edges of the economy.

However, as Mr Osborne has used past IMF support as a weapon with which to beat the Labour party, any loss of backing will come with a heavy political price.

UK economy picking up, surveys suggest

Guardian: 13/5/13

CBI sees signs of rising business confidence, while Lloyds data shows growth in seven of England's nine regions

Britain is starting to see green shoots of recovery as business activity picks up, companies continue to hire new staff and consumers start to spend again.

A series of surveys published on Monday suggest the UK is on the road to recovery after its double-dip recession, providing a boost for chancellor George Osborne.

Business lobby group the CBI expects the economy to grow by 1% this year and 2% in 2014. That contrasts with the IMF, which recently slashed its growth forecast for the UK from 1% to 0.7%, and suggested Osborne should rethink his austerity programme.

The CBI has consistently supported the chancellor on austerity, although it has called for more measures to boost growth. John Cridland, director general of the CBI, said on Monday: "The UK economy is moving from flat to growth."

But he warned that the country continues to face big challenges. "Although recent data suggests rising business confidence, the economic climate remains tough, hampering demand here and overseas. Meanwhile, consumers remain under pressure, as inflation continues to outstrip wage growth."

In April, business activity grew at its fastest rate in eight months, according to Lloyds TSB's purchasing managers' index. The PMI – which is based on data from 1,200 manufacturing and services companies – came in at 52.2 in April, up from 51.6 in March, moving further above the 50 mark that separates growth from contraction.

The survey showed growth in seven of England's nine regions, led by Yorkshire & Humber with a reading of 55.7. Only the West Midlands and the North East reported a slight reduction in business activity, hit by a weaker performance of the manufacturing sector and spending in those regions.

Elsewhere, it seems Britons are going out more and parting with their cash, cheered by the warm weather. Barclaycard said spending rose 3.6% last month compared with April last year, led by 21% growth in spending on cinema and theatre tickets. Restaurants also benefited with an 11% increase in spending, as did DIY stores, up 8.5%. Growth in spending online continued to outstrip the high street, up 11.7% on last year, compared with just 1.7% in bricks and mortar shops.

UK fears over $1.6bn Tata Steel writedown

Financial Times: May 14, 2013

India's Tata Steel has stoked concerns about the future of the steelmaker’s operations in the UK after announcing a $1.6bn write down' on its struggling European division.

The steel division of the broader Tata conglomerate blamed weak European macroeconomic conditions for the decision to take one of the largest. write downs ever by an Indian company.

Tata Steel's European operations, which it acquired, following the £6.2bn purchase of Anglo-Dutch steelmaker Corus in 2008, have endured a difficult period recently in the face of weak demand and falling prices.

Tata Steel employs 18,500 staff in the UK - more than half the total of 33,000 in its European division - and last November axed 500 out of 4,500 positions at its Port Talbot operations in south Wales in an effort to cut costs. However, such measures have failed to stem the European division's losses, which reached $884m last year on revenues of $16.2bn.

The $1.6bn impairment is likely to increase speculation that Cyrus Mistry, the recently appointed chairman of the overall Tata group, will soon seek to sell assets belonging to the former Coms division, which include' those of British Steel.

Over the past month, questions have been raised over the future of several Tata Steel sites in the UK, including technology centres on Teesside and in Rotherham. Tata has declined to comment publicly on the speculation.

In yesterday's notice to the Bombay Stock Exchange, Tata Steel said: "The impairment is primarily due to a weaker macroeconomic and market environment in Europe where apparent steel demand has fallen significantly in 2012-13 by almost 8 per cent, which in aggregate results is almost 30 per cent since the emergence of the global financial crisis in 2007.

"The above underlying condition is expected to continue over the near and medium term and has led to the downward revision of cash flow expectations."

The writedown is the largest for a company with Indian operations since Vodafone of the UK took a £2.3bn impairment charge on its unit in the country in 2010.

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UK Uncut loses legal challenge over Goldman Sachs tax deal with HMRC

Guardian:16/5/13

The former head of Revenue and Customs (HMRC) took into account potential embarrassment to George Osborne when letting off Goldman Sachs from paying up to £20m in interest payments, a judge has concluded.

In a high court ruling, the judge found that the 2010 "sweetheart" deal brokered by the then permanent secretary for tax, Dave Hartnett, was lawful but "not a glorious episode in the history of the Revenue". He criticised the fact that it had been done behind closed doors and without proper approval or reference to lawyers.

The ruling, following a legal challenge by the pressure group UK Uncut, will come as some relief to HMRC, whose deals with large businesses have come under increasing scrutiny through the courts and before parliament.

However, the judge's criticisms will lead to further calls for closer scrutiny of deals which at present are kept hidden from all other authorities, such as select committees, because tax officials insist there must be "taxpayer confidentiality".

The judgment by Mr Justice Nicol found that Hartnett "took into account the potential embarrassment to the chancellor of the exchequer if Goldman Sachs were to withdraw from the tax code. HMRC accepts that was an irrelevant consideration and should have not featured in his decision-making process."

The court also criticised HMRC's catalogue of errors in failing to collect the tax owed. The judgment concludes: "The settlement with Goldman Sachs was not a glorious episode in the history of the Revenue. The HMRC officials who negotiated it had not been briefed by the lawyers […], they relied on their belief or recollection that there was a barrier to the recovery of interest [… and] the officials who negotiated the agreement overlooked the need for approval [of the deal]."

In declaring the deal lawful, the court found that HMRC's top officials were legally allowed to take into account the bank's threats to withdraw from the code of practice on taxation for banks in assessing whether to pursue Goldman Sachs for the tax owed.

Lawyers representing the tax authority defended the settlement, saying it was among five big business deals declared reasonable by a 2012 report of the National Audit Office.

Hartnett initially shook hands on the Goldman Sachs deal on 19 November 2010 after a long-running dispute over national insurance contribution payments dating back to the 1990s.
The Goldman Sachs deal was exposed by the HMRC solicitor Osita Mba, who wrote to Amyas Morse, the auditor general of the National Audit Office, in March 2011, outlining his concerns. The subsequent NAO report did not name Goldman Sachs.

Hartnett discussed the NAO report with the Treasury select committee in September 2011 and said the Goldman settlement had been reached properly.

Hartnett denied any personal involvement in the settlement. When asked by Jesse Norman, a Conservative member of the committee, whether he had ever received corporate hospitality from Goldman Sachs, Hartnett responded: "I have been to a supper with Goldman Sachs … I knew nothing of Goldman's tax affairs when I was at that supper. I do not deal with Goldman's tax affairs."

In October 2011, Mba sent a detailed submission to the Treasury select committee and the public accounts committee claiming that Hartnett had misled the committee over his role in the Goldman Sachs deal. Hartnett has denied deliberately misleading them.

Lawyers for UK Uncut put before the high court in London an email and a witness statement showing that Hartnett overruled legal advice, the HMRC's own guidelines and its internal review board to ensure the deal went ahead.

Just over a week after the handshake, HMRC's high-risk corporate management board attempted to block the deal, just as the chancellor announced that the top 15 banks in the country had signed up to a new code of conduct related to tax.

An email from Hartnett on 7 December 2010 described how Goldman Sachs allegedly "went off the deep end" after the board decision and threatened to withdraw from the government's code of practice, first published in December 2009.

The email warned: "The risks here are major embarrassment to the ChX [chancellor of the exchequer], HMRC, the LBS [the large business service of the HMRC], you and me, not least if GS withdraw from the code."

The witness statement from Hartnett, who retired as head of tax last summer following strong criticism of the Goldman Sachs deal by the public accounts committee, said the bank withdrawing from the code "would have embarrassed the chancellor".

Ingrid Simler QC, appearing for UK Uncut, argued that the deal breached HMRC's statutory duties, and said an aggressive bank had been rewarded for several years of failing to pay tax it owed, causing "real disquiet among the taxpaying public".

She said the exact amount lost to the Revenue was not known but was at least £5m to £10m, and the public accounts committee had received evidence that it could be up to £20m.

James Eadie QC, appearing for HMRC, accused UK Uncut of taking legal action "to pursue politics by other means".

HMRC said in a press statement: "Large business tax settlements are a vital part of how HMRC secures tax revenues for the country and without them Britain's public finances would be seriously damaged."

King signals UK on road to recovery as euro zone suffers

Financial Times 16/5/13

Britain's economy is showing signs of renewed vigour, the Bank of England said yesterday, as it revised up its economic outlook for the first time in more than five years - in marked contrast to the bleak news from the euro zone.

Presenting his last quarterly inflation report before he retires next month, Sir Mervyn King forecast stronger growth and weaker inflation than in February.

"That is the first time I have been able to say that since before the financial crisis," the BoE governor said.

His remarks were more upbeat than sentiment in the euro zone where the longest recession since the birth of the single currency further hit hopes of recovery; Unemployment in the 17-nation bloc hit a record 12.1 per cent.

Sir Mervyn blamed weak global growth, and particularly the euro zone, for the delayed British recovery, saying that had the world economy grown at a normal rate, "we would be in pretty good shape already".

With Germany the strongest and biggest euro zone economy, managing only a weak swing back to growth, France fell back into a recession.

The euro zone data are likely to add to pressure on the European Central Bank to take further action after cutting interest rates this month, and to revise down its forecasts predicting a recovery later in the veal'. It will also fuel the debate on whether austerity has held back the currency union.

Government will 'stick to its plans' when IMF delivers verdict on economy

Guardian:22/5/13

No 10 says it will not anticipate what IMF will say but insists government has right economic approach

Downing Street will launch a staunch defence of the government's economic strategy and says it will stick to its plans when the International Monetary Fund publishes the findings of its annual survey of the British economy on Wednesday.

Treasury officials have gone to great lengths to prepare a response after Christine Lagarde, the head of the IMF, warned last month that George Osborne should rethink the pace of his deficit-reduction plan.

Downing Street said on Tuesday that it would not anticipate what the IMF will say when it publishes its annual health check of the British economy under its article IV programme. But the prime minister's spokesman added: "The government believes it has the right economic approach."

Lagarde said in Washington last month that the IMF had always warned that if the economy grows at a slow rate then it is right to slow the pace of deficit reduction. She said: "We very much stand by that. Consideration should be given if growth weakens, and looking at the numbers, without having dwelled and looked under the skin of the British economy, as we will do in a few weeks' time under the article IV, the growth numbers are certainly not particularly good."

Downing Street said that the latest GDP figures showed that the British economy is growing and jobs are being created. "Our view is the economy is healing and we are on the right road but we have to stick to it," Cameron's spokesman said.

Danny Alexander, the chief secretary to the Treasury, said over the weekend that the economy was showing "increasing momentum" and it would be wrong to change course. He told the Sunday Politics on BBC1: "It's a very, very hard road that we're on. It's going to continue to be hard for a while, but at a time when we're seeing those signs of progress that would be entirely the wrong time to go back to scratch, to start again with an economic strategy from scratch.

"Instead we're going to stick to the plans that we've set out, deliver the deficit reduction as we've set out, but also reform our economy to help businesses grow and create jobs."

The prime minister's spokesman dismissed suggestions that Britain may be witnessing the green shoots of recovery – an echo of the famous phrase used by Norman Lamont in the early 1990s to signal a return to growth.

"Ah, the gardening question – I suppose it is spring," the spokesman said. "The prime minister's view is the economy is healing."

UK net migration shrinks further, official figures show

Guardian:23/5/13

The continuing fall represents significant progress for the home secretary, Theresa May, towards meeting the Conservatives' target of reducing net migration to below 100,000 by the time of the next general election in 2015.

The ONS said the reduction in net migration was caused by an 81,000 fall in the number of migrants coming to Britain in the year to September 2012. Immigration numbers fell from

581,000 to 500,000 over the same period. The numbers leaving the country to live overseas also rose slightly from 339,000 the previous year to 347,000.

The official statisticians say the main reason for the decline in immigration was that 56,000 fewer overseas students came to study in Britain during the period. There was also a "significant decrease" in the numbers coming to live for family reasons – down from 80,000 to 62,000.

He added: "Looking forward, our immigration bill will reduce the pull factors to this country and make it easier to remove people with no right to be here."

But Sarah Mulley, a migration expert at the Institute of Public Policy Research, said the decline in international student numbers came at considerable economic cost to the UK at a time when the country could ill afford.

"In any case, falling student numbers will not help the government meet its target in the medium term. Because most students stay in the UK only for a short time, reduced immigration now will mean reduced emigration in the future, which by 2015 could partially reverse the falls in net migration we are seeing now," she said.

OECD cuts UK economic growth forecasts for 2014

Guardian:29/5/13

Thinktank says eurozone crisis to drag on growth next year, but urges chancellor to stick with spending cuts as Brussels loosens EU austerity throttle

The west's leading economic thinktank yesterday backed George Osborne's spending cuts as Brussels conceded that half a dozen debt-ridden EU countries should be given up to two extra years to reduce their budget overspends.

In its half-yearly forecast, the Paris-based Organisation for Economic Co-operation and Development (OECD) said the UK was on the right path to a more balanced budget, despite warning that cuts and low consumer and business confidence would put a brake on growth.

It said the economy would grow by 1.5% in 2014, down from its previous forecast of a stronger 1.6% increase.

"The muted global recovery, especially in Europe, and the necessary adjustment of still-impaired public and private sector balance sheets continue to weigh on growth," the thinktank said in its much anticipated economic forecast.

The OECD, which has 34 rich country members, added that despite a resilient labour market, UK consumer spending was being held back by weak real earnings, fragile confidence and the determination of householders to cut their debts.

Private investment was also restrained by weak demand and "high uncertainty", it said.

But it backed George Osborne's plans for further spending cuts, saying: "With a high budget deficit and gross government debt rising to 90% of GDP in 2012, further fiscal consolidation is necessary to restore the sustainability of public finances."

The European Commission, which is also keen to force national governments to reduce their debts, said Spain, France, Portugal, Poland, the Netherlands and Slovenia can take up to two extra years to lower their deficits. Intense lobbying persuaded Brussels that previous deficit reduction plans would be self-defeating and lead to lower growth and tax receipts, and in turn higher debts.

However, several analysts argued that Brussels had made only a tactical retreat and countries would be forced to press ahead with many of the same spending cuts.

The Open Europe thinktank said: "For all the talk of this being the 'end of austerity' or 'austerity in retreat', is much really changing? Sure, there is some tinkering with timelines for deficit reduction, but ultimately the eurozone is still going along the same policy path - just slightly more slowly."

The OECD highlighted concerns that the euro will remain a danger for the world economy if policy decisions prolong the current recession.

The OECD as a whole is expected to grow by just 1.2% in 2013 and 2.3% in 2014, with unemployment falling from 8.1% to 8% over the two-year period.

Economic Events

India-UK Economic and Financial Dialogue (EFD)

The India-UK Economic and Financial Dialogue (EFD) was officially established in February 2005 in pursuance of the proposals set out in the India-UK Joint Declaration signed by the Prime Ministers of India and UK in September 2004. The overriding objective of the Dialogue is to build strong relationships between UK and Indian policy makers and to foster a deep understanding of the respective countries. The Dialogue serves as a forum for having regular discussions on bilateral and global issues, on financial system and to enhance economic and financial cooperation between the two countries.

An Indian delegation led by Shri P. Chidambaram, Hon'ble Finance Minister of India visited London to participate in the 6th Economic and Financial Dialogue (EFD) between India and the UK on May 16, 2013. The UK delegation was led by Mr George Osborne, Chancellor of the Exchequer of UK. Prior to the Economic & Financial Dialogue, Hon'ble Finance Minister and the Chancellor of the Exchequer had a bilateral meeting, where they discussed a range of issues of common interest. The 6th meeting of the Economic and Financial Dialogue covered discussions on topics such as Macroeconomic Risks and Policy Responses, Trade and Investment Issues, Infrastructure Financing and Financial Services and Regulations. In addition, Hon'ble Finance Minister and the Chancellor of the Exchequer paid a joint visit to the London Crossrail Tunnel Site.