HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

Economic & Commercial Report on the United Kingdom for February 2013

Economy
GDP

- UK gross domestic product (GDP) in volume terms decreased by 0.3% between the third and fourth quarter of 2012, unrevised from the previously published estimate. In current prices GDP increased by 0.1% for the same period.
- Output of the production industries fell by 1.9%, revised down from the previously estimated 1.8% fall. Manufacturing output fell by 1.3%, revised up from the previously estimated decrease of 1.5%.
- Output of the service industries fell by 0.1%. Service industries output was previously estimated to be unchanged.
- Output of the construction industry rose by 0.9%, revised up from the previously estimated 0.3% increase.
- Household final consumption expenditure increased by 0.2% in volume terms in the latest quarter.
- In current price terms, compensation of employees rose by 0.1% in the fourth quarter of 2012.

(Published by Office for National Statistics (ONS) on 27th February 2013)

Inflation

- The Consumer Prices Index (CPI) annual inflation grew by 2.7% in January 2013, unchanged for the fourth month in a row. This is the longest period for which CPI growth has remained unchanged.
- The largest upward pressures came from alcohol (with prices recovering after Christmas sales) and air fares.
- Miscellaneous goods & services and clothing provided the largest downward pressures.
- The CPI stands at 124.4 in January 2013 based on 2005 = 100.
- The Retail Prices Index (RPI – see background note 1 in the Statistical Bulletin) annual inflation stands at 3.3% in January 2013, up from 3.1% in December.
- The RPI stands at 245.8 in January 2013 based on January 1987 = 100.
- The format of this bulletin will change from next month (the February 2013 Consumer Price Indices) to take account of the launch of the new CPIH and RPIJ measures of Consumer Price Inflation.

(Published by Office for National Statistics (ONS) on 12th February 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 Jan-December	4665	-17.82	6210	+1.57	10875	-7.76	+1545

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

Trade/Investment Enquiries

During the month of February 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

Spices	07
Fruit & Vegetables	06
Sea Food	01
Herbal Products	05
Garments	04
Artificial Jewellery	01
Incense Sticks	01
Stationery Products	02
Carpets	01
Liquid Cleaners	01

From UK

Broad Items	Number of Queries
Quilt Manufacturers	01

Tenders from India

Organisation	Numbers of Tenders
Cbinet Secretariat	01
India Railways	21
ONGC-B``aroda	04
India Meteorological Department	02
Ministry of Defence, Ordinance Factory	11
Neyveli Lignite Corporation Ltd	02
Prasar Bharti, DG, Doordarshan	04
IIT Kharagpur	01

Media Reports

Services see outsourcing surge

Financial Times: 01/02/2013

The value of Government contracts handed to the private sector has doubled in four years to £20bn, as the coalition has sought big cuts in the cost of delivering public services. Tens of thousands of health, defence, security and IT workers have transferred to corporate employers as the overall value of such contracts- won by companies such as Babcock, G4S, Serco, Capita, Mitie and Carillion – has risen from £9.6bn in 2008, according to analysis of the Official Journal of the European Union database. This records every public sector contract worth more than £115m.

With the coalition seeking to achieve £20bn of cost savings by 2015, room remains for the private sector to extend its reach, according to Seymour Pierce, the brokerage that carried out the analysis. It has identified 1789 outsourcing opportunities worth £84bn in the Government pipeline. Total public sector outsourcing could reach £101bn by 2014-15, it estimates. Deals to be awarded this year include £150m to run call centres for the Department for Work and Pensions new universal credit, and £400m of contracts to manage probation services. Police forces are also expected to put some services out to tender as they grapple with 20% cuts. The surge in deals has boosted Government suppliers, after an expected outsourcing boom following the election failed to materialise. Instead, the number of contracts, awarded fell 13% between 2009and 2011 before picking up 11% last year.

Private sector suppliers have also been frustrated to see Government privatization plans change rapidly. The Justice ministry, for example, had outlined proposals to privatise

130 jails at the rate of 11 a year. However, it decided in November to retain four, amid concerns that providers did not represent best value for money. Despite this, the value of justice ministry contracts rose from £8m in 2008 to £79m in 2012. It is proceeding with the outsourcing of prisoner resettlement and facilities management contracts as well as a smaller clutch of prisons. Healthcare is also seen as a growth market, with the value of private sector deals rising from £157m to £552m between 2008 and 2012.

Construction growth of 0.9% halts negative trend

Financial Times: 09/02/2013

Output in the UK's construction sector grew for the first time in six quarters in the final three months, halting a decline which had seen the industry shrink 11 per cent since the third quarter of 2011. Official data showed the industry grew 0.9 per cent in the final quarter of last year, with buoyant growth in private housing and infrastructure. The estimated volume of new work grew 1.6 per cent, while repair and maintenance work fell 0.3 per cent.

The figure released was higher than the 0.3 per cent expansion that the Office for National Statistics had factored into their first estimate of gross domestic product for the fourth quarter, published at the end of last month. That showed a contraction in output of 0.3 per cent. The ONS's initial estimate for construction output had confounded economists, many of whom had expected a greater contribution from the sector to GDP. The data for construction, which are seasonally adjusted, are notoriously volatile and are often revised significantly.

The construction industry accounts for a relatively small chunk of economic output compared with the services and manufacturing sectors and a slight improvement in the industry's performance will have relatively little impact on the overall GDP figure. However, the sector's decline has been so great in recent years that its poor performance has weighed substantially on GDP.

Planning minister 'nervous' about impact of east European immigration

The Guardian: 12/02/13

Planning minister Nick Boles has said he is "nervous" about the impact of immigration from Romania and Bulgaria on housing and public services, risking re-fuelling what is becoming a diplomatic row with the two countries. Ministers are also nervous because even if claims of a "surge" in immigration are exaggerated, only a few tens of thousands of new immigrants would threaten promises to cap net migration at less than 100,000 by 2015. Boles told the Spectator magazine that the previous Labour government showed "deep complacency" over the issue when similar immigration restrictions were lifted on Poland and other east European entrant countries in 2004, driving larger-than-expected 1.7m immigrants into the UK in the last decade. Boles added that he supported the "noises" from home secretary Theresa May and immigration minister Mark Harper about ensuring rules about income and job prospects were tightened up to prevent people travelling to the UK to immediately claim benefits. "We owe it to people who work bloody hard at the moment and have a bloody tough time," he added.

Labour MPs meanwhile urged the government to crack down on employers who do not pay the minimum wage and landlords who "cram" sometimes dozens of people into rented accommodation, often fuelling immigration of cheap labour. Officials from Bulgaria and Romania have already said the UK will not be first choice for many of their nationals when immigration restrictions are limited, with one Bulgarian employment official citing Spain, Italy and Greece as preferred destinations. The Romanian ambassador to London, Ion Jinga, told the Daily Telegraph last month that his compatriots do not want to "conquer" Britain or "take people's jobs and houses". The country also hit back at reports last month of a UK advertising campaign to deter immigrants by focussing on the negative aspects of life in Britain with their own ads urging Brits to visit their country.

Real wages fall back to 2003 levels in UK

The Guardian: 13/02/13

ONS figures show rising inflation combined with pay freezes means wages have been falling for three years. The real value of UK workers wages fell back to 2003 levels in 2012, following several years of pay freezes and economic restructuring, according to official figures. After three decades of strong growth, real wages peaked in 2009, data from the Office for National Statistics shows. Since then, inflation has outstripped wage increases, leaving earnings at their lowest level in real terms in nine years. The ONS said the fall could have a number of causes. "This may be because of pay freezes for people who remain in the same job, or it may reflect changes in the composition of jobs that people do, with some high-paid jobs being cut as the economy adjusts following the shock of 2008-09 and more low-paid jobs being created," the ONS said. "The 'average' earnings outcome for UK employees as a whole is probably the result of a combination of pay freezes and economic restructuring."

Median gross earnings stood at £11.21 an hour in 2012, up on 2009's figure of £10.97. However, after adjusting for inflation the 2009 figure was the equivalent of £12.25 in 2012 prices, so workers saw a real terms fall. On average, workers have seen pay drop by 3% annually between 2010 and 2012. Male full-time employees working in the private sector had median earnings of £12.37 an hour in 2012 – less in real terms than in 2002 when the comparable pay was £12.67 an hour. The ONS said that although it was too early to be sure whether there has been a permanent change in the long-term trend, the decline in real wages had now been sustained for three consecutive years. In the seven years to 2009, earnings increased at a rate of 3.7% a year in nominal terms, and thanks to low price inflation by 1.6% in real terms, continuing a trend of positive growth in real earnings every year since the late 1970s. Since then, average nominal earnings of UK employees have remained quite flat while inflation, as measured by CPI, averaged 3.7% in the 12 months to April 2010, 2011 and 2012.

Comparing the path of real earnings in the public and private sectors the trends are similar, although the increase in the 2002-09 period was stronger in the public sector and the subsequent decline less marked. Full-time male public sector workers' real earnings averaged a decline of 2.1% a year from 2010 to 2012, compared with a decline of 3.1% a year for their private sector counterparts. A separate study published by the ONS in November suggested an increasing number of workers have been underemployed since the economic slowdown began, which combined with lower take-home pay in real terms could mean many are earning much less than they were at the start of the decade. This data follows hot on the heels of research by the Resolution Foundation, which suggested low- to middle-income families will not see their household earnings return to pre-recession levels for another 15 years.

UK set for low GDP growth for at least two years, Bank of England warns

The Guardian: 13/02/13

Inflation is forecast to remain above the central bank's 2% target until at least the end of 2015 – peaking at 3.2% later this year. Britain will suffer low growth and a squeeze on average incomes for at least another two years, the Bank of England warned on Wednesday, signalling that the economy will remain weak until the next election. The Bank's governor, Sir Mervyn King, put the institution on a collision course with the Treasury after he blamed the government for pushing inflation above its 2% target for the fourth consecutive year and warned that growth in the economy would not gain momentum until 2015. The outgoing governor said inflation would be higher than expected as a result of "administrative decisions" and made the monetary policy committee's job of hitting the 2% benchmark much harder. King made his comments as he delivered the bank's quarterly inflation report, which predicted inflation would remain above the central bank's 2% target until at least the end of 2015, peaking at 3.2% in the second half of this year, from 2.7% currently. With wage rises regularly averaging less than 2%, household incomes are likely to remain under pressure. The economy will regain the size it last achieved in 2007 as growth is not expected to get above 1% this year.

Sterling tumbled on the gloomy outlook and the prospect that the Bank's monetary policy committee, ignoring recent good news from higher construction output, will inject more funds into the economy through quantative easing – where the Bank enters the market to buy UK government debt. The pound fell to $1.55, down a cent on the previous day. The Confederation of British Industry, which represents thousands of the UK's biggest private sector employers, warned that without a push from the Treasury the economy would continue to crawl out of recession. Labour said the prospect of low growth and falling real wages at least until the next general election showed the government's economic policies had failed. Official figures showed that low wages and high inflation over recent years have badly hit household incomes. The Office for National Statistics said the real value of average earnings has fallen back to 2003 levels after 30 years of strong growth. It said new research had revealed average earnings peaked in 2009, but since then wage increases had been outstripped by inflation. Wage growth is currently running at 1.8% a year, though some areas of the economy remain buoyant. The ONS said the economy was no larger than it was in 2005 after growth, which began to rise in the latter part of 2009 and the first half of 2010, flat-lined. The bank has spent £375bn on buying government bonds but has held off from increasing the programme. The incoming governor, Mark Carney, hinted last week he may press for the bank to be more aggressive in attempts to boost growth.

PM raises stakes in immigration battle

Financial Times: 14/02/2013

David Cameron raised the stakes in the political battle over immigration yesterday, saying he wanted to limit access to housing, benefits, the health service and justice for foreign nationals. The prime minister told MPs he had chaired a ministerial meeting this week to look at ways to ensure Britain was "not a soft touch for those who want to come here". "Britain has always been an open and welcoming country but it is not right if our systems are being abused," he said. "Many parts of our current arrangements simply do not pass a simple commonsense test in terms of access to housing, the health service and justice and other things that should be the right of all British citizens but are not the right of anyone who just chooses to come here."

Mr Cameron's rhetoric is aimed partly at pacifying Conservative MPs anxious about the inroads being made into the party's support by the UK Independence party, which is focusing on migration issues, including in the Eastleigh by-election. Ukip has suggested Britain could be the destination for an influx of Romanian and Bulgarian migrants when a seven-year transition period limiting intra-EU migration expires at the end of this year. Migration Watch, a campaign group, has suggested that 50,000 could enter the UK each year once restrictions are lifted, but the Home Office has refused to release an official estimate. Mr Cameron's team accepts that any restrictions on access to housing, benefits, legal aid and other services must fall within EU law, which is designed to facilitate the free movement of workers. Britain cannot discriminate against Romanian and Bulgarian migrants, so any tightening up of rules would also have to apply to other EU nationals, including the French and German communities in London.

Surge in students studying for UK degrees abroad

The Guardian: 15/02/13

The number of students studying for UK degrees in overseas countries increased 13% last year, as universities focused their energies on international recruitment. International offshoots of UK universities, partnerships with foreign institutions and online study mean there are now more students on UK university courses abroad than there are international and EU students coming to the UK to study. Some 571,000 students studied abroad in 2011-12, a third more than in 2009-10, with universities enrolling most students in Malaysia, Singapore and Pakistan. Oxford Brookes, which offers students training with the Association of Chartered Certified Accountants (Acca) the option to also study for a degree in applied accounting, recruited by far the most students overseas (251,990 or 44% of those studying UK degrees abroad). It was followed by the University of London (45,680), the Open University (42,685) and the University of Wales (16,250).

The rise in UK transnational educational – where students are located in a country different from the one where their awarding university is based – comes as the number of students from India and Pakistan studying in Britain fell for the first time last year. University leaders fear that new visa rules and negative rhetoric from government prompted the slump in enrolments. By running courses overseas, UK universities can take their education to students who cannot make the trip to the UK, says Joanna Newman, director of the UK Higher Education International Unit. "Most of their students need to be catered for in their own country – UK universities can do this by offering joint degrees and co-regulating."
Such arrangements help universities boost their brand abroad, says Alex Bols, executive director of the 1994 Group, which represents smaller research-intensive universities.
"Opening an international campus is a way of developing a strong physical presence in other countries and attracting students to the UK."However," he warns, "there are also major reputational risks if it goes wrong – both for the institution involved and for the sector more generally." Most are studying on distance learning (51.2%) courses or collaborative programmes (42%), run in conjunction with local partners. An alternative is franchising, which gives the UK university greater control of teaching and assessment. Courses are usually very similar to those in the UK. Bols has reason to warn of the dangers as universities scramble to find a foothold in a lucrative overseas market.

PM wants aid to help boost security

Financial Times: 21/02/2013

Britain's aid budget should in be targeted more at providing security in poor states ravaged by war, David Cameron said yesterday at the end of a three-day visit to India. The prime minister said the Department for International Development would co-operate with the Ministry of Defence, as the budget for the former balloons while that of the latter' is cut back sharply. Mr Cameron said in Amritsar: "It's obviously true that if you can help deliver security and help provide stability, that's the basis on which all development proceeds."

His comments suggest that the £200m "conflict pool", funded by the Treasury, but administered by DFID alongside the MoD and the Foreign Office, could increase at this summer's spending review. Figures collated by the Financial Times suggest defence spending could be reduced by another £670m in 2015-16, while the DFID budget rises by almost £30m. DFID already targets a third of its budget at projects in "fragile and conflict-affected areas". But Mr Cameron's scope for action will be limited by the government's commitment to spend 0.7 per cent of its annual income on foreign aid. Although some DITD spending can be switched into projects such as conflict resolution in warzones, the government cannot count any military activity or training as aid spending according to international guidelines.

Revenues names and shames small tax evaders

Financial Times: 22/02/2013

HM Revenue & Customs has intensified its crackdown on tax evasion by publishing a list of names and addresses of "deliberate tax defaulters" on its website for the first time. However, the "naming and shaming" exercise, which features nine names including a hairdresser, a greengrocer and a knitwear manufacturer, has been criticised for concentrating on small businesses and individuals who between them owe just £1.45m in unpaid tax and fines. Margaret Hodge, who chairs the public accounts committee, hailed the move as a "welcome first step", coming just days after she urged the tax authorities should consider "naming and shaming" tax dodgers, but said it was striking that it dealt only with small companies.

"What people are angry about is big corporations which have aggressively avoided tax," she said. "That's where the big bucks are. I think HMRC needs to go further in that respect." The list, which will be updated each quarter, shows those caught deliberately evading tax during investigations by the Revenue carried out since April 2010. "HMRC has chosen to shame people at the lower end of the tax evasion spectrum because they think there are a lot of people in a similar financial position who are not paying tax and they want to flush those people out," said Phil Berwick, director at Pinsent Masons, a law firm.

"The list includes a wide range of trades and people based all over the country. HMRC wants people to look at the list and think 'it could be me' and come forward of their own accord." Some questioned whether it was right for the Revenue to single out these individuals. "There are many companies and individuals earning a lot more money than these people. The question we need to ask is whether the Revenue is operating a level playing field," said Ronnie Ludwig, a partner in Saffery Champness, an accountancy firm. "Someone with a 'million pound problem' is likely to take specialist advice and will be advised to make a disclosure to avoid being publicly named and shamed." Under the Revenue scheme, anyone who evades tax will have their financial affairs watched closely for up to five years to ensure they do not reoffend.

Borrowing costs fall despite rating cuts

Financial Times: 27/02/2013

Britain's long-term borrowing costs fell yesterday to their lowest level this year as troubles in the euro zone offset worries over fresh credit rating downgrades for institutions backed by the government. The downgrades for organizations ranging from Birmingham council to network Rail followed Moody's one-notch cut to the UK's triple A rating last week. But markets were more focused on the impasse over the Italian elections and fears for the euro zone. Gary Jenkins, head of the Swordfish Research consultancy, said: "It just goes to show that this story is all about politics for now. The euro zone and Italy is much more of a concern than the UK's triple A rating for most investors."

However, the latest Moody's downgrades, which included 26 housing associations, two universities and Transport for London and London Continental Railways, the government owned former transport funding vehicle, will spark problems, say some investors and company treasurers. They warned that Standard & Poor's and Fitch were also likely to down-grade the UK's triple A status, which will increase borrowing costs and pressure on the government. There was also unease among organizations that have borrowed in the debt markets, such as housing associations. The latest downgrades reflect the dependence of many of the bodies on the financial health of the central government. Housing associations that suffered rating cuts included some of the biggest names in the, sector, such as Circle Anglia, Peabody Trust, Places for People and, Family Mosaic.

Moody's also cut Birmingham, Cornwall, Guildford and Wands worth councils from triple A to Aa1 and Lancashire from Aa1 to Aa2. However, most council borrowing comes through the Public Works Loan Board, a government agency, and is unaffected by credit ratings. Network Rail, the train operator, and Transport for London, which funds London Underground capital spending, were sanguine about the rating cut. Yields on the bonds of both fell in line with the drop in government securities, which closed yesterday at 1.96per cent for I0 -year debt, the lowest since December. Investors stressed that the UK still had a relatively strong economy. Unlike Greece, which suffered forced sales' among those investors not allowed to hold junk bonds when it was downgraded below investment grade status, a one-notch cut from triple A is unlikely to upset flows into UK government bonds. The Investment Management Association, which represents UK fund managers, changed guidelines on retail gilt portfolios this week to allow investors to continue buying bonds no longer rated triple A. "The IMA's move shows that a rating doesn't always matter," one investor said. "If the euro zone continues to trouble investors, gilts will benefit from the flight to safety. Problems may arise if sentiment in the euro zone improves."

Economic Events

Visit of Mr Anand Sharma , Minister of Commerce, Industry and Textiles to London from 7-8 February 2013.

Shri Anand Sharma, Union Minister of Commerce, Industry and Textiles visited London for Bilateral Meetings and Investor Meet on 7-8 February 2013. He addressed the 'India Investment Forum' at the Central Hall Westminster on 8th February. The Forum was attended by about 30 CEOs of leading corporates and international investors. Addressing the Forum Shri Anand sharma allayed the concerns of investors and encouraged them the investor friendly climate in india. He underlined that the new initiatives of Government of India including FDI policies allowing multi product retail and single brand retail and installation of a new e-Biz portal offering a single window for providing information and processing all investment proposals.

Shri Anand Sharma had bilateral meetings with Mr Oliver Letwin MP, Minister for Cabinet Affairs on 7th February and with Lord Green, Minister for Investment and Trade on 8th February. Minister Sharma also had discussion with Mr George Osborne, UK Chancellor concerning enhancement of investment and trade between India and UK including progress of India-EU Broad-based Trade and Investment Agreement (BTIA). He also gave an exclusive interview to the Financial Times by Mr Shawn Donnan, World News Editor and also addressed a Press Conference at India House. He also interacted with leading British journalist Mr Nick

Gowing of the BBC World News. Shri Anand Sharma also had meetings with the CEO of Tesco and Mr Peter Sands, Group CEO, Standard Chartered Bank.

British PM visit to India February 2013

The UK Prime Minister David Cameron led the largest ever trade delegation to India on his three day visit (18-20 Feb 2013). This was the second visit of UKPM in three years since 2010. The PM was accompanied by over 100 companies, including more than 30 small and medium sized enterprises, Minister of UK Trade & Investment, Lord Green, Minister of State for Universities and Science, David Willetts and other senior ministers.

UK PM visited Mumbai for business engagements of UK trade delegation on 18th February, Delhi for India-UK Summit Talks on 19th February and Amritsar on 20th February, 2013 for visiting Golden Temple and Jalianwala Bagh.

During his official engagements in New Delhi, PM Cameron also called on the President of India, Shri Pranabh Mukherjee and the UPA Chairperson, Smt. Sonia Gandhi.

The Joint Statement on the India-UK Summit 2013 envisages a stronger, wider and deeper partnership. The key areas for joint efforts include facilitation of trade and investment, infrastructure, healthcare, education, research, skills and training, exchange of information for tax matters and strategic and security issues.

The bilateral trade has grown at an average of 23% during 2010 and 2011. UK is now the third largest investor in India and India is now the fifth largest investor in UK.

During the visit, India-UK CEOs Forum brought about the recommendations for further development of business partnerships, envisaging potential partnerships in advance manufacturing and R&D, Education and Skills, Healthcare, Infrastructure and Energy.

Both sides welcomed conclusion of an overarching MOU at Government-to-Government level in health sector to strengthen cooperation including joint efforts of UK's National Institute of Clinical Excellence and Indian Department of health Research and also between the UK's Medical Health Regulatory Authority and Drug Controller General of India. UK providers also offered support for primary healthcare training in India through pilot project in Kerala, initial scoping study in Tamil Nadu and nursing and midwifery training in coordination with National Nursing Centre.

Both sides agreed to cooperate to face the common challenge of energy security sector including those in oil and gas, renewable energy, energy efficiency, power sector and business leadership on low carbon technologies. Both sides agreed to explore ways to deepen policy, commercial and research collaboration on energy, bio fuels and environmentally friendly technologies.

Both sides agreed to address the challenge of strong demand for imported LNG through forging of partnership for diversifying supply sources and developing natural gas infrastructures. Both sides also agreed to promote joint cooperation for exchange of knowledge, technology and experience in the field of petroleum conservation.

Addressing the Indian concerns on sharp reduction of number of students coming for studies to UK in previous years, UK PM expressed that there is no limit on the number of Indian students that could come to British Universities so long as they had an English knowledge qualification and a place to study. UK PM also announced a plan to change the visa system to allow Indian business persons to get UK visa in one day.
