

Economic Overview

The Indian economy is slowing along with the rest of the world, but the slowdown is not quite as stark as seen in the developed world. Real GDP growth slowed to 7.6% in the third quarter from a year ago, down from 7.9% in the second quarter. Manufacturing growth slowed to 5.0% from 5.6%, agricultural production slowed to 2.7% from 3.0%, construction slowed to 9.7% from 11.4% and trade/transportation/communications slid to 10.8% from 11.2%.

The global economic slowdown has led to a massive exodus of funds out of India. As a result, the rupee plunged from Rs42.0:US\$1 in August to Rs50.5:US\$1 in December. It has since regained some ground to Rs48.9:US\$1 as of January 27 in volatile trading. Despite the plunge in the currency, inflation has also dropped substantially from 12.9% on August 2, 2008 to just 5.6% for the week ended January 10, 2009 as global commodity prices have plunged and economic activity has cooled. The drop in oil prices allowed the government to cut retail fuel prices by 10% on December 5, and more cuts maybe be coming. On January 5, four million truckers went on strike to demand diesel price cuts.

The slowdown in inflation has also allowed the central bank to join in the global monetary easing movement. The Reserve Bank of India (RBI) has cut its repo rate (overnight lending rate) from 9.0% in September down to 5.5% as of January, and cut the reverse repo rate (overnight borrowing rate) from 6.0% in November to 4.0% as of January in an effort to get credit flowing again and revitalize the economy. The RBI decided to leave rates unchanged at its January 27 meeting, but urged commercial banks, which haven't followed the RBI's recent rate cuts, to lower their lending rates. The commercial banks have been slow to lower their lending rates as they are still paying high interest on deposits in the wake of the RBI's rate hiking campaign last summer that was geared toward fighting soaring inflation.

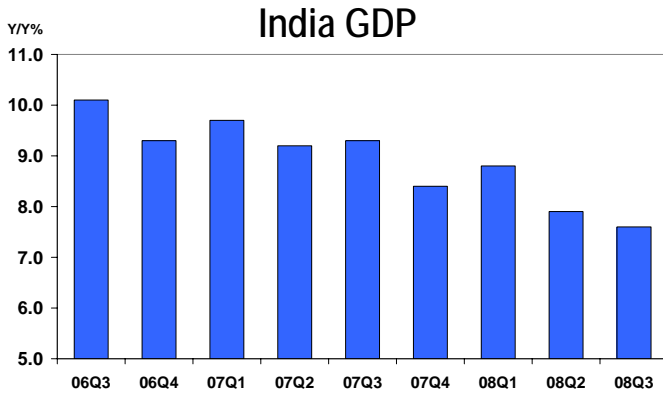
Industrial production continues to soften, rising just 2.4% y-o-y in November after briefly going negative in October. Car sales plunged 19% in November, the most in five years, leading some auto producers to temporarily halt production and trim staff in January. Although the economy is not heavily dependent on exports, the y-o-y declines in exports in October and November were a further drag on growth. The recent fraud at Satyam is a blow to the nation's IT sector, which accounts for the bulk of India's exports. In an effort to help exporters, the government cut excise duties and increased the export refinance limit for commercial banks in December. To boost domestic consumption, the government unveiled a \$4 billion spending plan and cut taxes on cars, motorbikes and other consumer goods. In January, a second stimulus plan was unveiled, consisting of capital injections into banks and allowing overseas investors to double their purchases of debt. The government is doing everything in its power to resuscitate the economy in the run-up to the general election in May.

Risk Analysis

India is heavily dependent on foreign investment. The recent terrorist bombings in Mumbai and the fraud at Satyam underscore the risks of investing or doing business in India. With no end in sight to the current global economic crisis, Indian economic growth will continue to slow as domestic consumption wanes, export growth languishes and foreign investors remain skittish. The rupee will remain under pressure until investor confidence returns. *—Ed Kashmirak, Economist
Wells Fargo & Company*

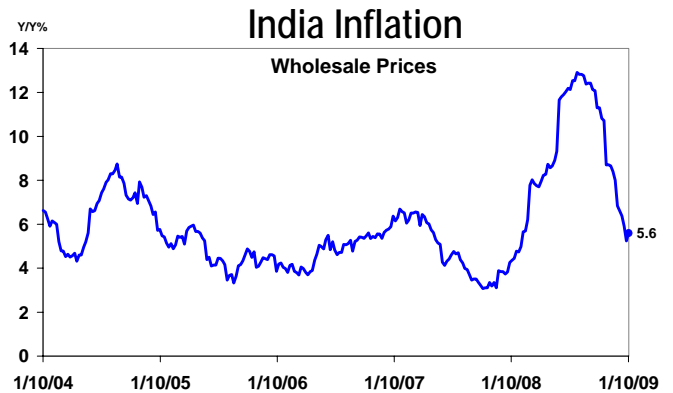
	India						
	2004	2005	2006f	2007	2008f	2009f	2010f
GDP (YOY %)	8.3	9.2	9.7	9.0	5.6	5.2	6.5
Industrial output (annual %)	10.3	10.1	11.0	8.5	4.5	4.2	5.0
Annual consumer inflation (avg %)	3.8	4.2	6.2	6.4	8.1	6.1	4.7
FX rate (Rupee/US\$, end period)	43.6	45.1	44.2	39.4	48.8	47.7	45.8
Exports (US\$ millions)	77,939	102,175	122,963	151,331	173,033	171,500	190,837
Imports (US\$ millions)	105,975	149,430	185,041	230,468	296,479	279,026	326,724
Trade balance (US\$ millions)	(28,036)	(47,255)	(62,078)	(79,137)	(123,446)	(107,526)	(135,887)
Current Account (US\$ billions)	0.8	(10.3)	(9.5)	(12.1)	(49.4)	(46.4)	(63.6)
Current Account (% of GDP)	0.1%	-1.3%	-1.0%	-1.1%	-4.2%	-3.8%	-4.5%
Foreign Debt (US\$ billions)	124.4	123.1	135.1	149.1	164.7	169.7	182.4
% of GDP	17.8%	15.2%	14.6%	13.2%	14.0%	13.8%	13.0%

Source: EIU; Wells Fargo Economics



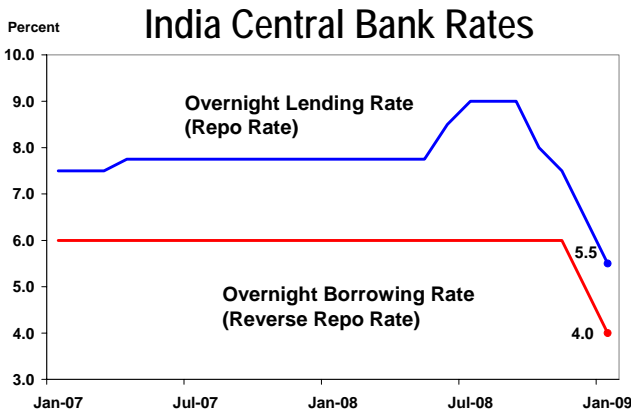
Source: India Central Statistics Office; Wells Fargo Economics

India's economy has been steadily decelerating over the past couple years. Slowing export growth and an exodus of foreign investment are restraining economic activity.



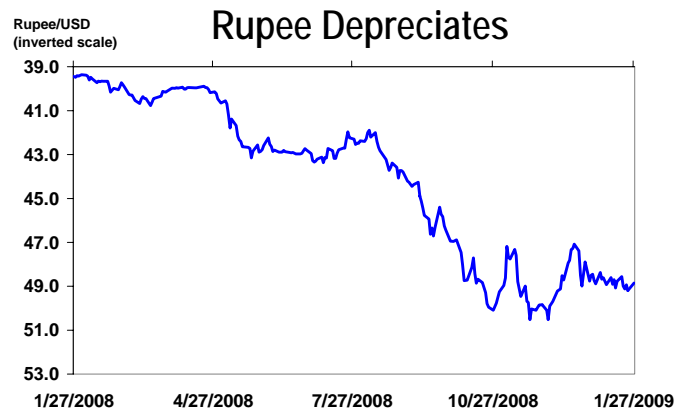
Source: Press Information Bureau of India; Wells Fargo Economics

India's inflation rate has plunged from the August highs as oil and other commodity prices have plummeted. Despite the falling rupee, inflation is not currently an issue.



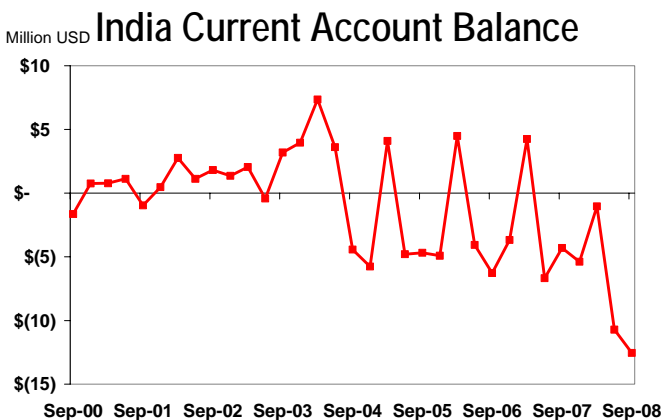
Source: Reserve Bank of India; Wells Fargo Economics

The abrupt disinflation has allowed the central bank to join the global monetary easing movement. The cash reserve ratio has also been reduced to 5% from 9%.



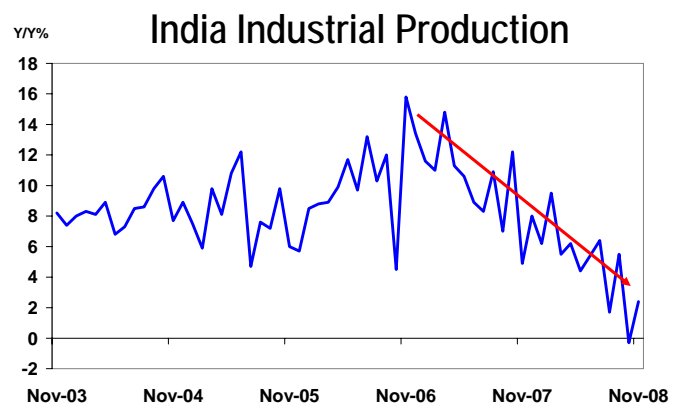
Source: Bloomberg; Wells Fargo Economics

The rupee has plunged over the last few months as investors pulled out of emerging markets amid the worsening global economic crisis.



Source: Reserve Bank of India; Wells Fargo Economics

India's current account deficit widened considerably in 2H08 as soaring oil prices and a weakening currency boosted the import bill, while exports dropped sharply.



Source: Ministry of Planning and Reporting; Wells Fargo Economics

Industrial production has been trending downwards over the last two years. It briefly went negative in November as demand for cars and computers slumped.

Payment System

Since paper-based currency is such an important means of payment in India (19% of the money supply), collections are typically time-consuming and have a high reliance on manual processing. The clearing settlements for these payments are spread out over about 1,040 clearinghouses, which are usually locally-based and confined to a specific jurisdiction. The clearinghouses are managed by either the Reserve Bank of India (RBI) or the State Bank of India (a large nationalized bank). The Reserve Bank of India (RBI), however, has been a key driver of change within banking in India. Clearing and payment systems have been gradually modernized due to the efforts of the RBI. The RBI has introduced numerous new services: MICR (magnetic ink character recognition) -based check clearing, electronic clearing service (ECS), electronic funds transfer (EFT), special electronic funds transfer (SEFT), real-time gross settlement (RTGS), centralized funds management system (CFMS), and a centralized funds transfer system (CFTS). The benefits of these new services include same-day inter- and intra-city funds transfers, greater efficiency, less risk, and larger settlement capabilities.

Appendix

Currency Restrictions	India's currency unit is the Rupee (INR). The Rupee floats freely in world foreign exchange markets. Banks in India can only deal with foreign exchange when authorized by the Reserve Bank of India (RBI) under the Foreign Exchange Management Act, 2000 (FEMA) ¹ .
Taxes: (Resident and Non-resident)	Foreign Institutional Investors (FIIs) are allowed to invest and operate in the Indian capital market under minimal restrictions. There are no restrictions on investment volume or the transfer of funds in and out of the country for FIIs that have been registered with the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI).
Preferred Method of Payment	Paper-based instruments
Political Climate	Stable at a time of strong economic growth
Political Structure	Democracy: parliamentary, bicameral legislature
Postal Service	India Post is the national mail service under the Postal Service Board; it is generally reliable (visit www.indiapost.gov.in for more information).

Wells Fargo Banking Capabilities

Accounts	Multi-currency Account in INR ¹ , referrals to a local Indian bank
Payments	Wire transfers, drafts in INR, Letters of Credit, Ex-Im Working Capital Guarantee
Receivables	Wire transfers
Foreign Exchange	Spot, Non-Deliverable Forward Contracts and Options

Connector Banks: None

¹Ask your sales representative about specific currency restrictions

For further information about Wells Fargo's international banking solutions
Contact us at 1-877-201-9639 or by e-mail at International@wellsfargo.com



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