

**Decline in Inflation, Good Monsoon prompted Repo Rate cut ;
Interest Rate for State Loans to stay at 6.20% : RBI**

August 23, 2003

In response to a query from wire agencies, the official spokesperson of the Reserve Bank of India has said that the decision to reduce the repo rate has been taken in the light of decline in the inflation rate and good monsoon. It may be recalled that the Reserve Bank had earlier pointed out that it was closely watching the movement in inflation and behaviour of the monsoon before any decision would be taken. The annual rate of inflation which was about 6.7 per cent as on April 5, 2003 (at the time of the Annual Policy statement) has progressively come down to 3.95 per cent as on August 9, 2003. Also, the monsoon has been good and widespread. The wide coverage of the monsoon has raised expectations of a good *kharif* crop. It was felt that this reduction in the repo rate by 50 basis points will also help in making the yield curve not as flat as is the case now.

The spokesperson added that while the overnight repo rate will be 4.5 per cent on Monday after the present cut, the State Development Loan, 2015 for Rs.8000 crore with a maturity of twelve years will be sold on tap at 6.20 per cent on that day.

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General Manager**

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