Difference between Repo Rate & Reverse Repo Rate

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A repo rate and reserve rate is a monetary tool used by the central banks to maintain and control the economy. By using repo rate and reverse repo rate a central bank is able to balance the demand and supply of the money in the market.

Repo rate

- A repo rate is the short form of repurchase rate
- A repo rate is also called as the cost of credit.
- A repo rate is managed by the central authority of the government (RBI in India)
- The main function of repo rate is to increase the flow of money in the economy and to maintain liquidity.
- When in a market, there is a lack of liquidity the interest rate is raised and vice a versa.
- A repo rate is a rate at which the central bank grants a loan to the commercial banks against government securities.
- Central bank used this function to control the inflation in the economy and to reduce the borrowings of the commercial banks.
- In simple language, a rate at which RBI lends money to commercial banks, by an agreement that banks will repurchase the same pledged securities at a future date with predetermined price, against pledge of government securities when banks needed a fund to meet their day to day transactions.

Reverse repo rate

- A reverse repo rate is a rate by which the government securities are sold by the central authority in an auction.
- It is a monetary instrument used to maintain supply in the market.
- A reverse repo is the opposite of the repo rate.
- A reverse repo rate is a rate at which the commercial banks give a loan to the central authority.
- A reverse repo rate is always lower than the repo rate.
- If a reverse repo rate increases will decrease the money supply and if it decreases, the money supply increases.
- If a reverse repo rate increases it will beneficial to the commercial banks means a commercial bank can invest more money in the commercial bank.

Difference between Repo Rate and Reverse Repo Rate

Basis	Repo rate	Reverse rate
Meaning	A repo rate is a rate at which the central bank grants a loan to the commercial banks against government securities.	A reverse repo rate is a rate at which the commercial banks give a loan to the central authority.
The Rate charged by	A repo rate is charged by the central bank.	A reverse repo rate is charged by the commercial bank.
Effect on economy	A high repo rate drains excess liquidity from the economy.	A reverse repo rate injects liquidity into the economy.
Effect on commercial bank	When a repo rate is higher, commercial banks have to pay a high rate of interest	In reverse repo rate, the situation is totally opposite to the repo rate.

	to get a loan from the central bank.	
Usage	A repo rate is used to control inflation in the economy.	A reserve repo rate is used to control the money supply in the economy.