**Scenarios**

**Low inflation** can be a signal of economic problems because it may be associated with weakness in the economy.

**When** unemployment is high or consumer confidence **low**, people and businesses may be less willing to make investments and spend on consumption, and this **lower** demand keeps them from bidding up prices.

Deflation, or **negative inflation**, happens when prices fall because the supply of goods is higher than the demand for those goods.

 This is usually because of a reduction in money, credit or consumer spending.

When **inflation** is too high of course, it is not **good** for the economy or individuals.

**Inflation** will always reduce the value of money, unless interest rates are higher than **inflation**. ...

 Although in theory that should be **good** for the economy, by encouraging people to spend rather than save.

Combating **inflation** requires the prevention of excessive money supply growth.

In turn, this requires the private-sector banks to maintain interest rates at levels that are high enough to prevent excessive growth in bank credit extension.

To this end, the Bank sets its repurchase rate at an appropriate level