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Keep in mind

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The first chapter of the book "Economic and Financial Policy and Its Impact on Risk Management", written by Andrés Murcia-Pabón, Chief Officer for Monetary Operations and International Investments at Banco de la República, analyzes the interaction between monetary policy and financial stability in Colombia. It highlights the importance of maintaining a balance between price stability, financial stability, and fiscal sustainability. The chapter also discusses how recent inflationary pressures have reshaped the challenges faced by monetary policy and examines the role of Banco de la República and the mechanisms used to preserve institutional credibility and market confidence.

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Chapter Introduction

One of my mentors in economics taught me early in my career that the three pillars of macroeconomic stability are price stability, financial stability, and fiscal sustainability. To illustrate the concept, he used the analogy of a tripod: if one of its legs fails (any of the three pillars), the entire structure collapses. A financial system cannot be stable without controlled inflation and sound fiscal dynamics. Likewise, a central bank cannot effectively control inflation if the financial system and markets are experiencing major disruptions or if public debt is unsustainable. All three conditions must be met simultaneously.

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