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Recent Behavior of Output, Unemployment, Wages and Prices in Colombia: What went wrong?

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At the end of the last decade, the real activity in Colombia underwent the sharpest recession of the last fifty years. We postulate a non-triangular structural VAR model (Amisano and Giannini, 1997) to describe the dynamics of output, prices, unemployment and wages during the last two decades. The evidence suggests that, in the long-run, monetary policy has been neutral to both output and unemployment while the main reasons for the increase in the latter have been the lack of credibility of monetary policy, the way in which wages are set and the increase in non-wage labor costs.

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