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Approach

Economic expansions are characterized by sustained increases in household consumption, employment, investment, and other indicators, while recessions are identified by their contraction. The alternation between expansion and contraction phases is referred to as the business cycle. This Journal Essay on Economic Policy (ESPE) identifies the reference chronology of business cycles in Colombia—that is, the periods during which expansion and recession phases occurred between 1975 and 2022—and examines the behavior of a significant number of regional, sectoral, and aggregate variables throughout the cycle.

Understanding the chronology and characteristics of the business cycle provides deeper insight into the functioning of the Colombian economy by studying the potential triggers of recessions, distinguishing between cyclical and structural factors that amplify shocks, understanding how households and firms respond, and incorporating lessons for policy design.

Contributions

Initially, the dates of expansions and recessions are established with the precision allowed by monthly data. The document also determines the average duration and amplitude of the different phases, the degree of shock diffusion, and the synchronization of various variables with the reference cycle. It also describes the behavior of key variables during recessions and in the months that follow.

Subsequently, it presents and analyzes, throughout the reference cycle, a broad set of indicators used by Banco de la República (the Central Bank of Colombia) to monitor the real-time evolution of the economy and support monetary policy decisions.

This ESPE lays the methodological foundation to continue this exercise in the future and, ultimately, proposes the creation of the Colombian Business Cycle Dating Committee (CROC). This independent academic committee, composed of experts, would be responsible for regularly updating and maintaining the chronology, following the example of similar institutions in other countries. Its existence would promote continuity and credibility in the analysis of business cycles and provide an objective benchmark for both the academic community and economic policy makers and implementers.

Findings

Between 1975 and 2022, the Colombian economy experienced four recessions—fewer than the United States and Europe during the same period. Expansions are long-lasting—averaging 121 months—while recessions are relatively short—around 15 months. The most recent expansion ended in August 2022.

The Latin American debt crisis in 1982, the Asian financial crisis in 1997, the global financial crisis in 2008, and more recently, social protests and the COVID-19 pandemic are among the potential triggers of the identified recession phases. The diversity of causes, the state of the economy at the onset of each crisis, the response of economic agents, and stabilization policies make it difficult to identify regular patterns. However, recent recessions showed: a decline in inflation after a few months, depreciation of the peso, increased risk perception, reduction in the current account deficit, and deterioration in the labor market. Unemployment, informality, real wages, and consumer confidence show a clear connection with the cycle. In contrast, household consumption did not register declines during recessions.

Although the techniques and concepts used to date business cycles differ from those applied in monetary policy implementation, the economic activity indicators used for policy conduct adequately capture the economy's dynamics and timely signal deterioration during recessions. However, the methodology of this ESPE is not intended for real-time decision-making.

The three most recent recessions offer important lessons. The 1997 recession was the deepest and longest, possibly due to significant macroeconomic imbalances and financial fragility. In contrast, the 2008 and 2019 recessions, which occurred when the economy had a more robust financial system and fewer imbalances, were addressed with countercyclical policies that made them shorter and less severe. Looking ahead, monitoring financial stability, macroeconomic (dis)equilibria, and the space for active economic policy—with inflation close to the target and sustainable public finances—are necessary conditions to successfully face future adverse shocks.