Macroeconomic Effects of Healthcare Financing in Colombia

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Real healthcare expenditure in Colombia is expected to increase by 49% over the next eight years, due to population aging, rising costs, and domestic policies. These trends add significant pressure to public finances, in a context of high levels of informality. Using a dynamic general equilibrium model with heterogeneous households, we analyze the macroeconomic impact of financing higher public healthcare expenditure through different taxes. Funding sources play a significant role in shaping the aggregate dynamics and income inequality. While consumption taxes are the best option in terms of output, financing with taxes on high-skilled labor improves income distribution with similar effects on production. Population aging puts additional pressure on aggregate dynamics by reducing labor supply, savings and capital accumulation.