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Abstract

Healthcare expenditure in Colombia is expected to increase by 35% over the next eight years, due to population aging, rising costs, and domestic policies. These trends, in a context of high levels of informality and affiliation to the subsidized regime, add significant pressure to public finances. Using a dynamic general equilibrium model with heterogeneous households, we analyze the macroeconomic impact of financing a higher public healthcare expenditure through different taxes. The 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.