

Stratification and Public Utility Services in Colombia: Subsidies to Households or Distortions on Housing Prices?

Working Paper No. 422 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Carlos Medina Leonardo Morales

Domiciliary public utility services in Colombia have a cross subsidy system which charges subsidized rates to the households who live in houses located in strata associated to low wealth levels, and taxed rates to the better off. We assess the hypothesis that the flow of subsidies that potentially come from a particular house, are discounted by housing market agents so that most of them are transferred to the prices of the houses that generate the subsidies. By estimating a hedonic prices model applying a regression discontinuity approach, we find that the increment in house value estimated because of subsidies is similar in magnitude to the present value of the flow of subsidies. Likely effects are found on the rent amount. We conclude that subsidies to the poor population through public spending in domiciliary public utility services in Colombia is being achieved, if anything, in a very limited way. Most of the financial effort on this subject ends up distorting housing relative prices according to socioeconomic strata, with an annual cost of up to 0.7% of GDP in supposed gross subsidies to domiciliary public utility services.

La serie Borradores de Economía es una publicación de la Subgerencia de Estudios Económicos del Banco de la República. Los trabajos son de carácter provisional, las opiniones y posibles errores son responsabilidad exclusiva del autor y sus contenidos no comprometen al Banco de la República ni a su Junta Directiva.