

Executive summary

In the two decades leading up to the COVID-19 pandemic, spending on health across OECD countries increased steadily, on average, from around 7% of GDP in 2000 to almost 9% by 2019. Over time, the increase in the share of the economy allocated to health has been driven by a combination of **rising incomes, technological innovation and ageing populations**. Without a major policy shift, the OECD projects a continuation of this trend, with an increase of 2.4 percentage points to the health-to-GDP ratio as compared to pre-pandemic levels, and total health expenditure reaching 11.2% in 2040. Even if overall economic growth is forecasted to grow at a slower rate over the coming decades, health spending is projected to outstrip both expected growth in the overall economy and in government revenues across OECD countries.

In addition, the pandemic highlighted the need for smart spending to **strengthen health system resilience** and to provide countries with the agility to respond to shocks, notably to protect underlying population health; fortify the foundations of health systems through a digital transformation and investment in core medical equipment; and bolster health workers on the frontline through measures to train and retain health workers. The benefits extend beyond direct health benefits, as healthier populations are at the heart of stronger, more resilient economies. This enables substantial economic and societal benefits by increasing productivity, improving labour market outcomes and reducing the need for more costly health interventions in the future.

Previous analysis estimated that on average OECD countries need to spend an additional 1.4% of GDP relative to pre-pandemic levels to be better prepared for future shocks. Combining this additional spend on strengthening resilience to projections of health spending, health expenditure is, without other major policy changes, projected to result in a 3.0 percentage point increase by 2040 compared to pre-pandemic levels, reaching 11.8% of GDP in 2040, on average across OECD countries.

Urgent action is therefore needed to finance more resilient health systems while ensuring the fiscal sustainability of health systems. The current economic outlook in many OECD countries only serves to intensify this task in the medium term. While inflation is down from its 2022 peak, it remains higher than historical levels, adding to the input costs of healthcare providers and feeding into planned medium-term spending plans. Competing priorities for government spending are also squeezing health budgets. This follows the effects of unprecedented pressure on health systems during the COVID-19 pandemic, and ongoing pandemic-induced backlogs for certain health services.

Facing up to this challenge, OECD countries have typically considered four broad (non-exclusive) policy options:

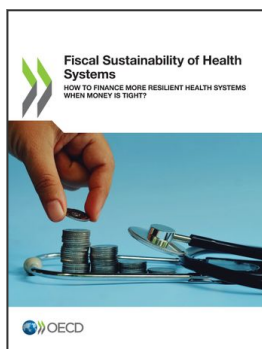
- **Option 1: increase government spending and allocate part of these additional funds to health.** This requires an increase in government revenues or additional debt financing. Yet government revenues already represent 39% of GDP across OECD countries. Many countries have high and increasing levels of government debt and associated higher costs of borrowing, as well as the unpalatable challenge of trying to raise taxes during a cost-of-living crisis.

- **Option 2: increase the allocation to health within existing government budgets.** While citizens often state a high relative priority to health, health is increasingly competing with major new spending priorities, notably to tackle the cost-of-living crisis, fund a green transformation, and, for some countries, increase defence spending. Still, in countries with comparatively low budget allocations to health, health authorities could use this as political leverage to push for increased budget shares. In ten countries, the share of health spending as a share of total government spending was 12% or less in 2022, well below the OECD average of 15%.
- **Option 3: reassess the boundaries between public and private spending.** In 2022, the share of spending by governments or compulsory health insurance across OECD countries was already at 76%. Without additional public resources available for health, more healthcare spending will by default shift to the private sector. Cuts to benefit packages or increases in user charges may exacerbate health inequities. Nevertheless, a debate on longer-term directions on the public-private boundary needs to be had, in terms of what are the best buys for limited public budgets, and whether changes could be made to user charges without impeding access.
- **Option 4: find efficiency gains.** Increasing value-for-money of health services must be even more strongly emphasised. Achieving bold efficiency gains by cutting ineffective and wasteful spending, while also reaping the benefits of technology and the digital transformation of health systems, including Artificial Intelligence (AI), is imperative. Otherwise, expectations on the magnitude of such gains needs to be realistic. Actions to encourage healthier populations and policies to eliminate up to half of the ineffective and wasteful spending identified in an earlier OECD analysis could save up to 1.2 percentage points of GDP. This would put future total health expenditure on a far gentler and more sustainable upward trajectory, reaching 10.6% of GDP in 2040 (as compared to 11.8% of GDP in the absence of major policy changes).

In this challenging context, **good budgeting practices are also critical.** They improve how public funds for health are determined, executed and evaluated. This not only increases the efficiency of current public spending, but also enables more ambitious policy changes in the medium to longer term. Analysis of OECD country experiences highlights good practices, notably that:

- **Clear rules, monitoring and review mechanisms should be agreed upon across the annual budget cycle.** This includes separating the cost of new health policy initiatives from baseline costs of maintaining existing services and coverage; the use of explicit criteria to facilitate budget negotiation; ensuring regular in-year budget monitoring, with corrective mechanisms to improve compliance; and using spending reviews to analyse health expenditures and ensure they are aligned with government priorities.
- **Medium-term budgeting for health** enables countries to move to a more proactive forward-looking strategy that goes beyond the regular annual budget cycle. It should allow health agencies to plan based on a reasonable assumption of the financial resource envelope available, while preserving the government's flexibility to adjust to the public finance and macroeconomic climate.
- **Programme budgeting promotes more performance-oriented budgets,** improving alignment between health sector objectives and financial resources. By shifting the focus towards outcomes, it also offers more flexibility for health authorities in the use of public resources, while improving transparency and accountability of results. Common objectives are programmes on improving health promotion, digital health, medical education; and when the scope of programme budgeting is greater, can include broad health service type (such as primary care, hospital services and long-term care).

Maintaining the fiscal sustainability of health systems requires co-ordinated policy action across budget and health officials. Questions about the fiscal sustainability of health systems are likely to become ever more challenging to address. This publication provides an in-depth analysis of the policy options available to meet the growing price tag of sustainable and resilient health systems, and the central role of effective budgeting practices for health in optimising the effectiveness and efficiency of public spending on health.



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