

# ***Fiscal Sustainability of Health Systems: How to Finance More Resilient Health Systems When Money Is Tight?***

Launch event

Chris James and Caroline Penn, Health Division and Camila Vammalle, Public Management and Budgeting Division

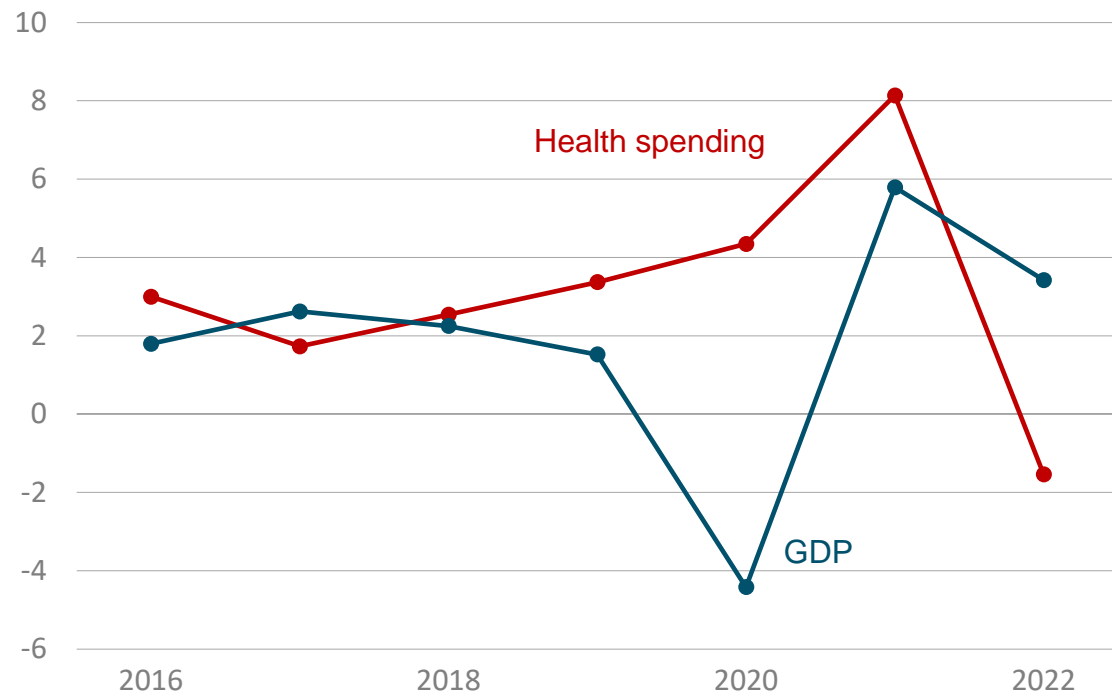
11<sup>th</sup> January 2024



# We need bold policies to put future health spending on a more sustainable path

## Health systems are under financial pressure

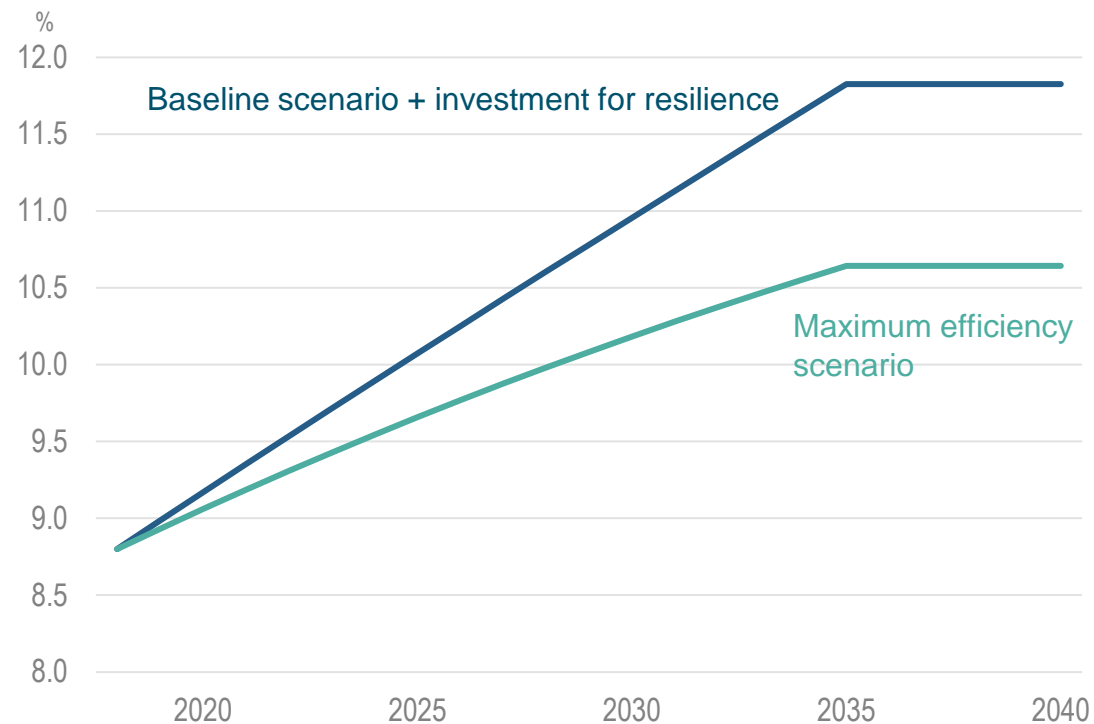
% annual real growth in health expenditure and GDP, per capita, OECD average, 2016-2022



Source: OECD Health Statistics 2023

## Policies could reduce future health spending

Projected average health spending across OECD countries until 2040



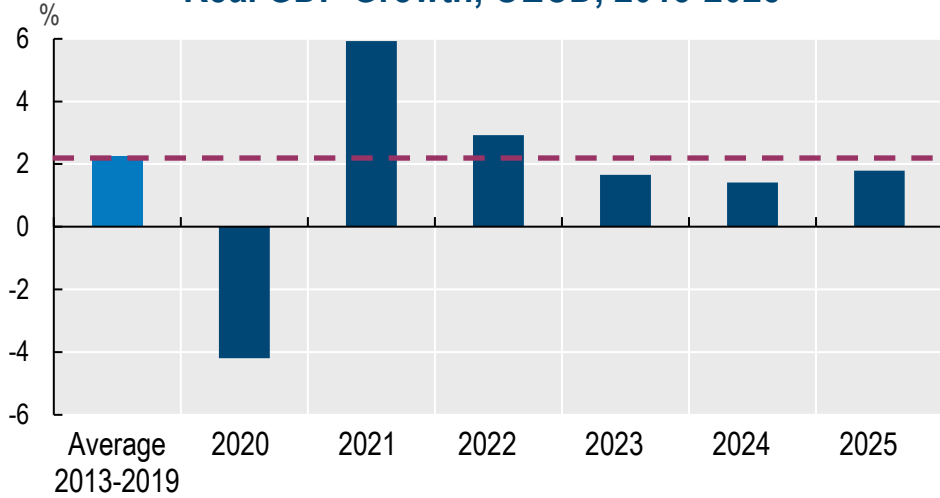
Source: OECD (2024), Fiscal Sustainability of Health Systems: How to Finance More Resilient Health Systems When Money Is Tight?



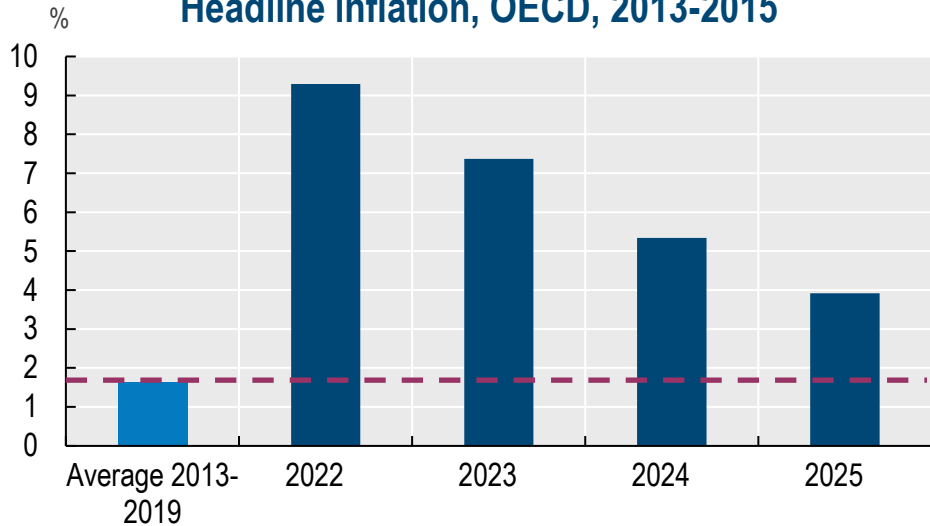
# Fiscal sustainability of health Systems: a challenging economic context

Global growth is projected to remain subdued

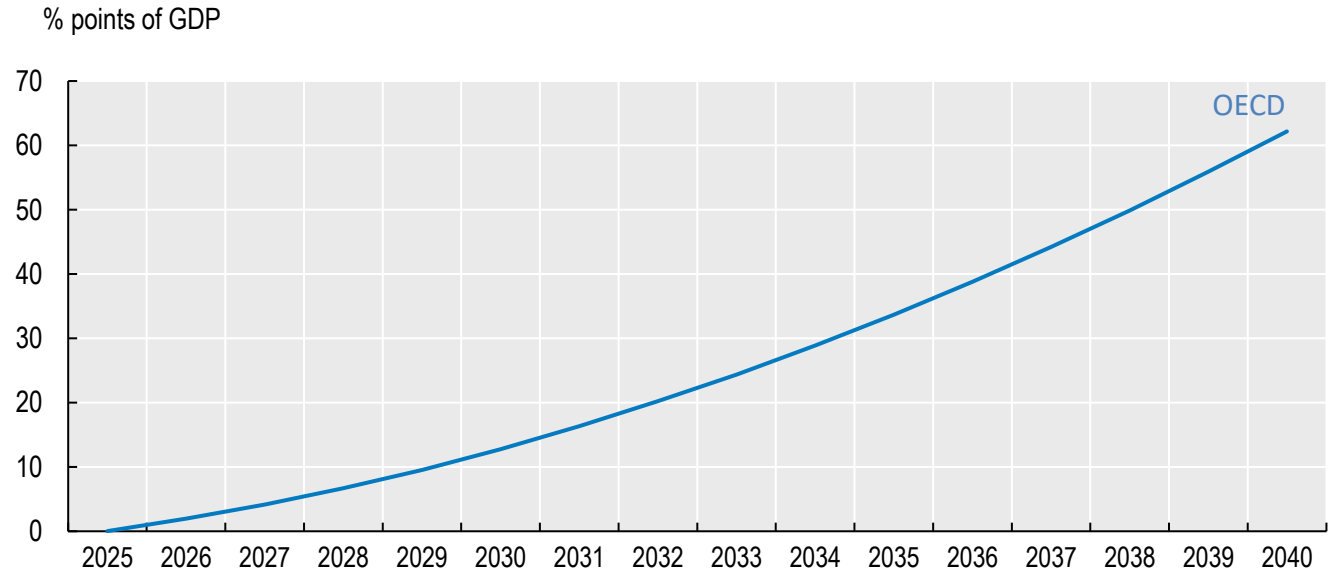
### Real GDP Growth, OECD, 2013-2025



### Headline inflation, OECD, 2013-2015



### Projected change in net government debt assuming no corrective action

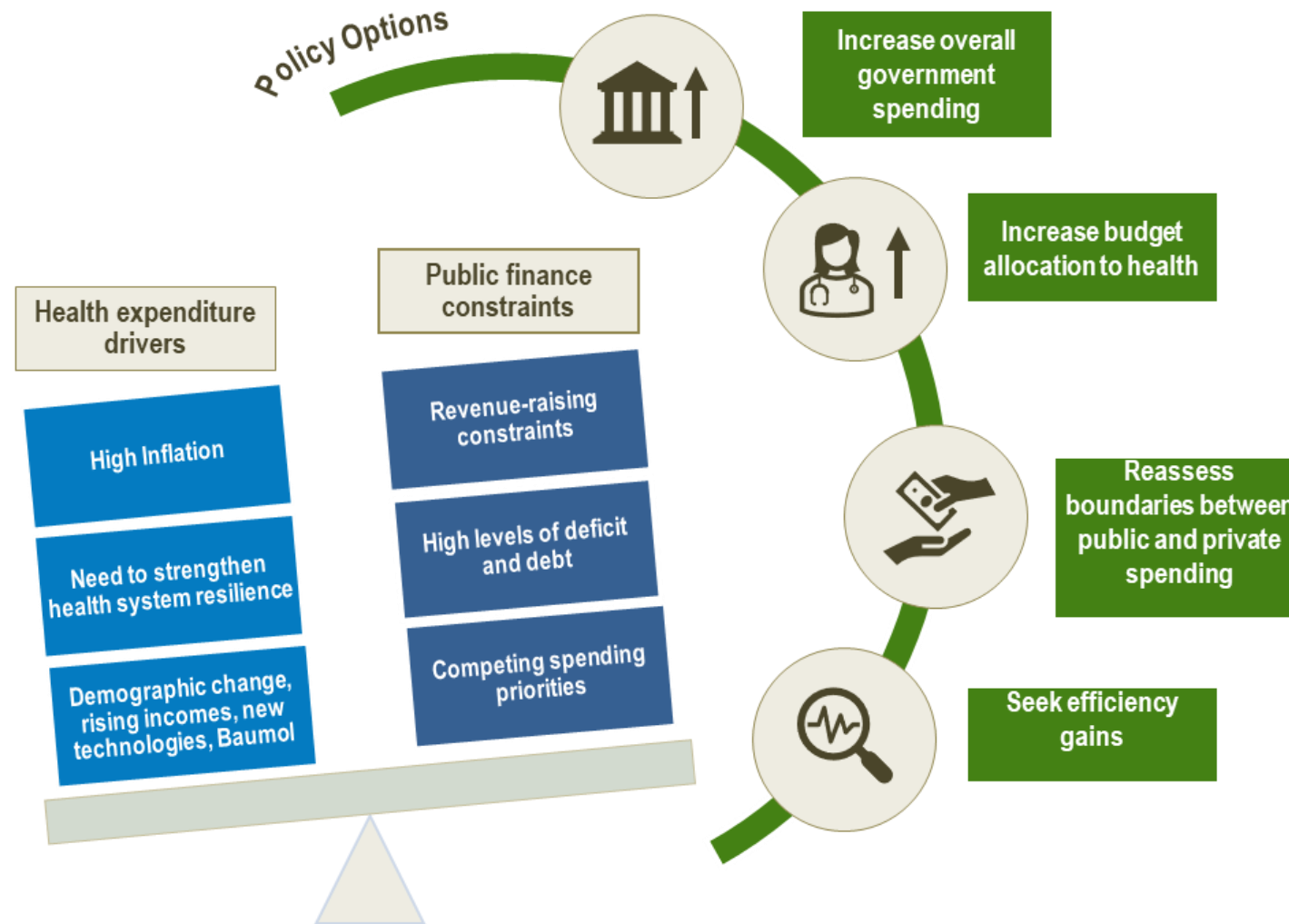


The projection is a mechanical simulation based on a scenario of no policy change. OECD governments' current receipts as a percentage of GDP is assumed to remain constant at its 2025 value, while expenditure is projected to evolve as a function of population ageing.



# Fiscal Sustainability of Health Systems: the big picture

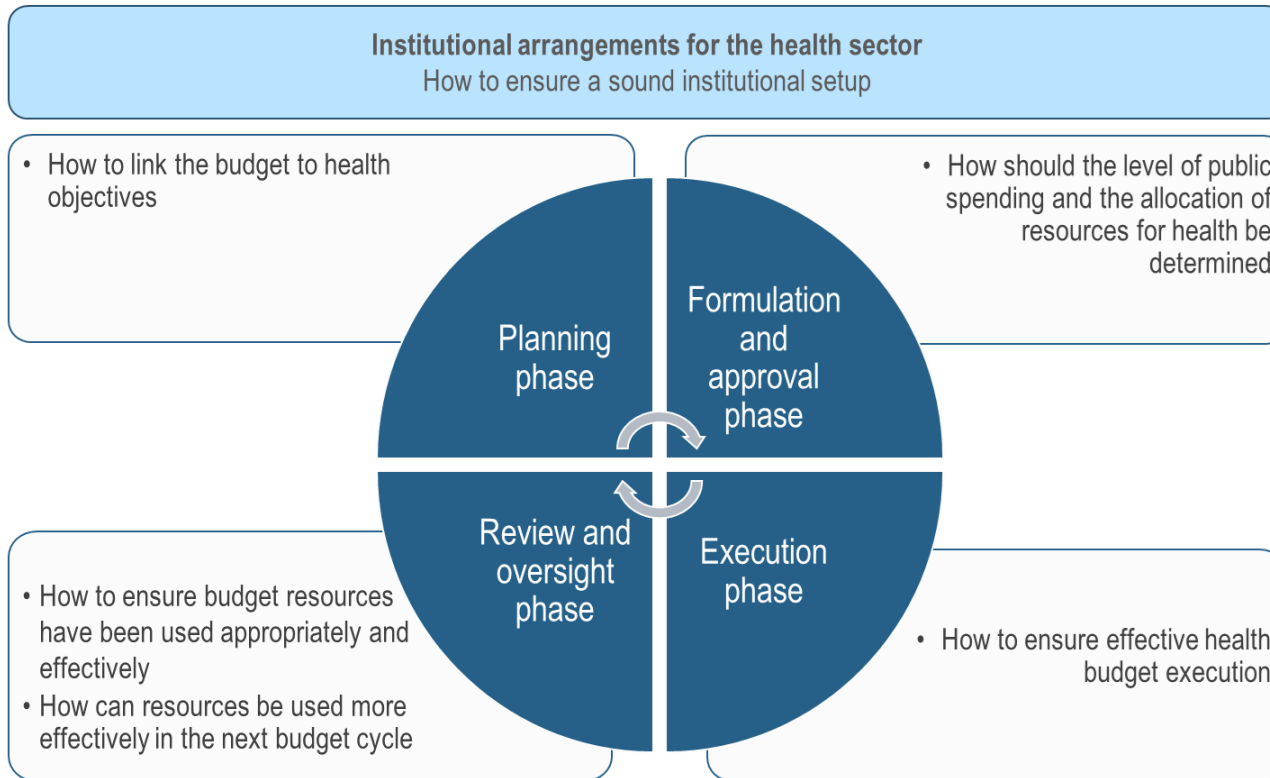
How to raise sufficient funds for health in this difficult economic context?





# How can applying good budgeting practices help?

## APPLYING GOOD BUDGETING PRACTICES ACROSS THE WHOLE CYCLE



An effective budget process for health...



Improves the dialogue between finance and health ministries



Improves decisions on whether, when and by how much public funding for health can increase

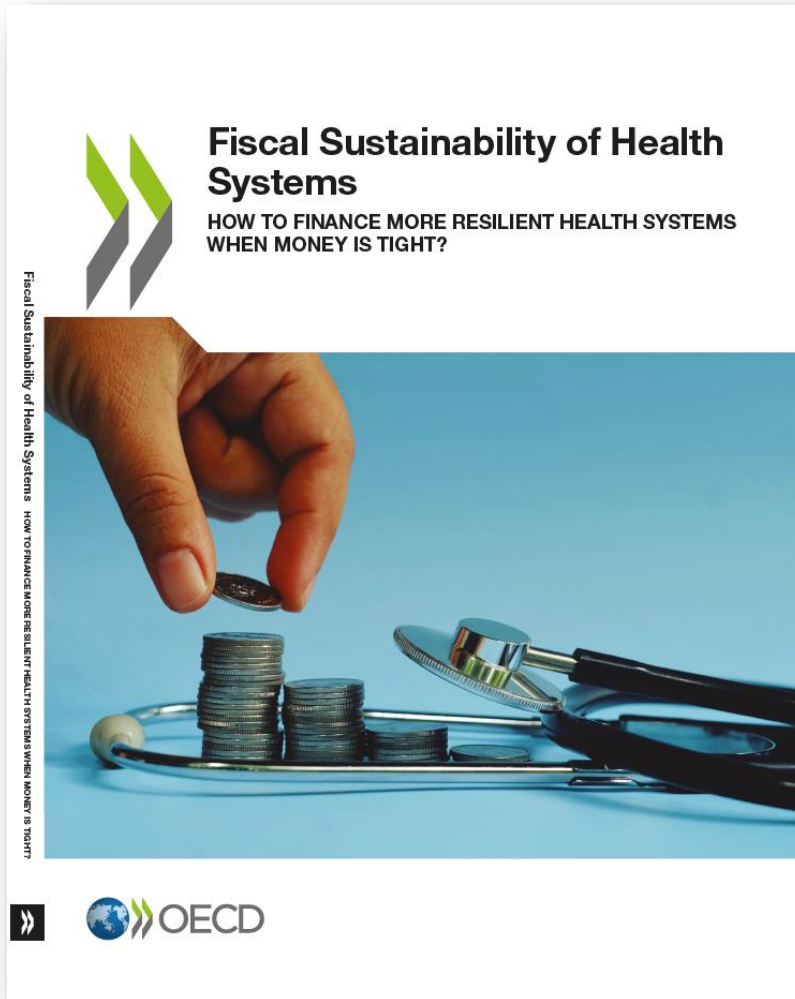


Improves how well the health budget is spent

Source: Vammalle, C., C. Penn and C. James (2023), "Applying good budgeting practices to health", OECD Journal on Budgeting



# Fiscal Sustainability of Health Systems: how to finance more resilient health systems when money is tight?



1 Financing resilient health systems in times of crisis: How finance and health authorities can find common policy solutions

2 Examining the latest trends in health spending: Are we heading back to a time of austerity?

3 Long-term projections: Different paths to fiscal sustainability of health systems

4 Budgeting practices for health in OECD countries

5 Medium-term budgeting for health: Looking beyond the annual focus of the budget

6 Programme and performance budgeting for health: Linking budgets to results





# A collaborative process

## Applying good budgeting practices to health

Camila Vammalle, Policy Analyst, OECD  
Caroline Penn, Research Officer, OECD  
Chris James, Senior Health Economist, OECD

---

This journal article presents a set of high-level good budgeting practices in the health sector. The purpose of these good practices is to support countries in assessing their own budgeting arrangements for health, and in designing budgeting reforms. The article builds on 10 years of work by the OECD Joint Network of Senior Budget and Health Officials.

---

---

### Macro-level management of health expenditure, with a special focus on multi-annual financial planning for health

*Purpose of the survey*



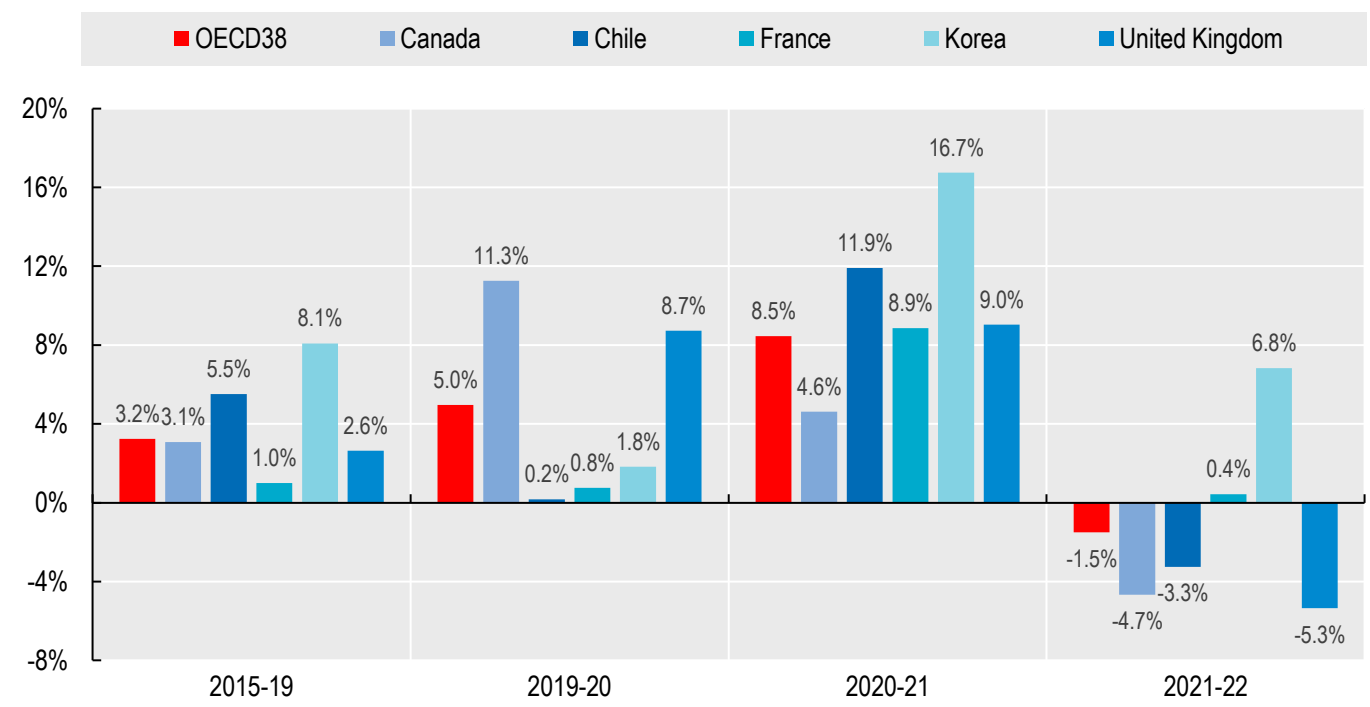


# Key finding: Health spending growth peaked in 2021, before dropping in 2022

## 2 Examining the latest trends in health spending: Are we heading back to a time of austerity?

- The pandemic saw unprecedented growth in countries' health spending, **with 5% growth in 2020 and 8.5% in 2021 in real terms.**
- However, after this substantial increase, **real health spending in 2022 dropped by 1.5% on average** across OECD countries.
- Budget information from selected countries suggest that **nominal health spending may return to pre pandemic growth rates.**
- But with average inflation expected to remain above 5% in 2024, this will continue to **significantly reduce any nominal increases.**

### Annual average growth in current health expenditure, real terms, OECD average and selected countries, 2015-22



Note: 2020 growth in Canada is overestimated as the country records vaccination costs in the year that vaccines were procured (2020) rather than when they were administered (2021).  
 Source: OECD Health Statistics 2023

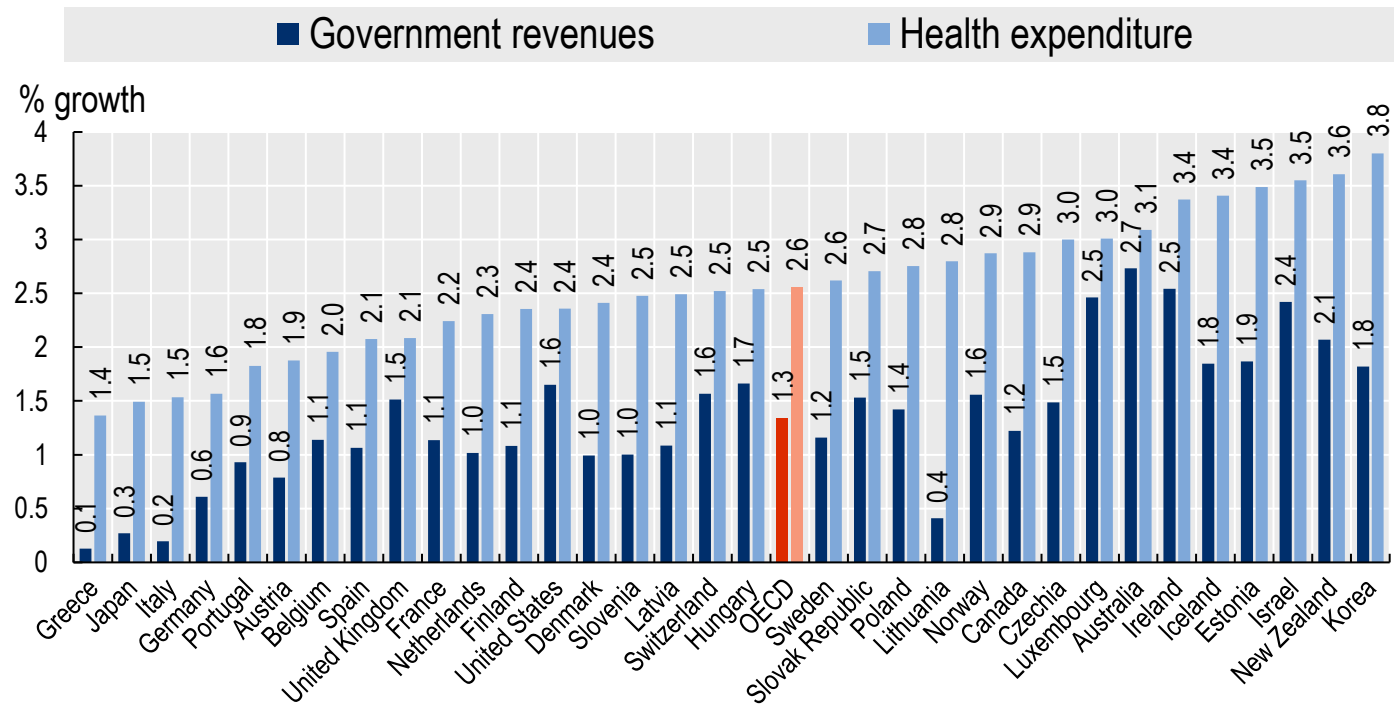




# Key finding: Health spending is projected to grow twice as fast as government revenues

## 3 Long-term projections: Different paths to fiscal sustainability of health systems

### Average annual percent growth in real terms of health spending and government revenues, 2019-40



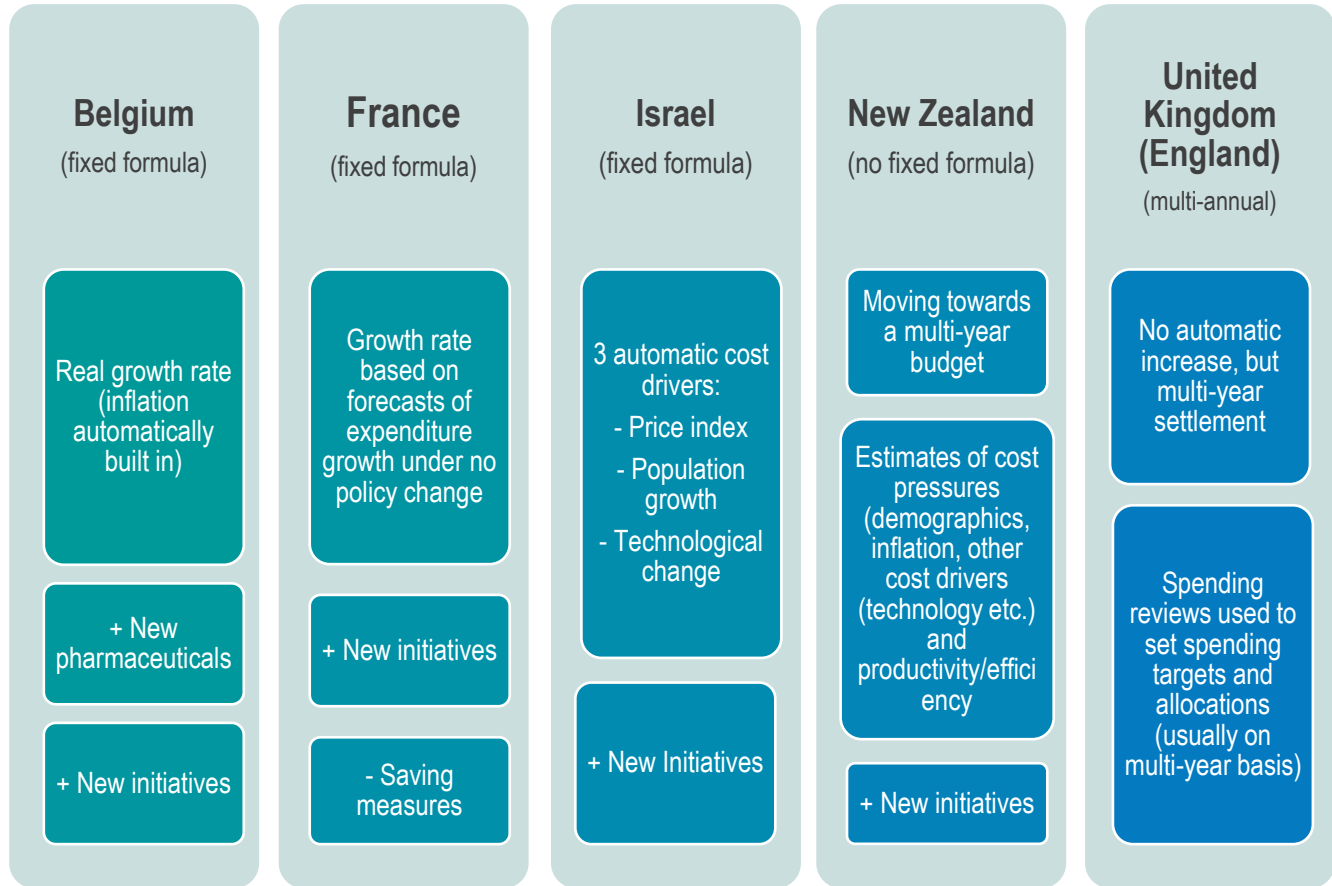
- Growth in health spending from public sources is projected to be twice the average growth in government revenues (2.6% and 1.3% respectively), on average across OECD countries between 2019-40.
- Health spending from public sources is projected to reach **20.6% of government revenues** across OECD countries by 2040, an increase of 4.7 percentage points from 2018.
- Policies that support **prevention and promote healthy lifestyles** as well as policies that **enhance efficiency** may rein in projected growth in health spending.



# Key finding: Budget formulation should provide predictability while control expenditure growth

## 4 Budgeting practices for health in OECD countries

### Setting the budget for health, selected countries



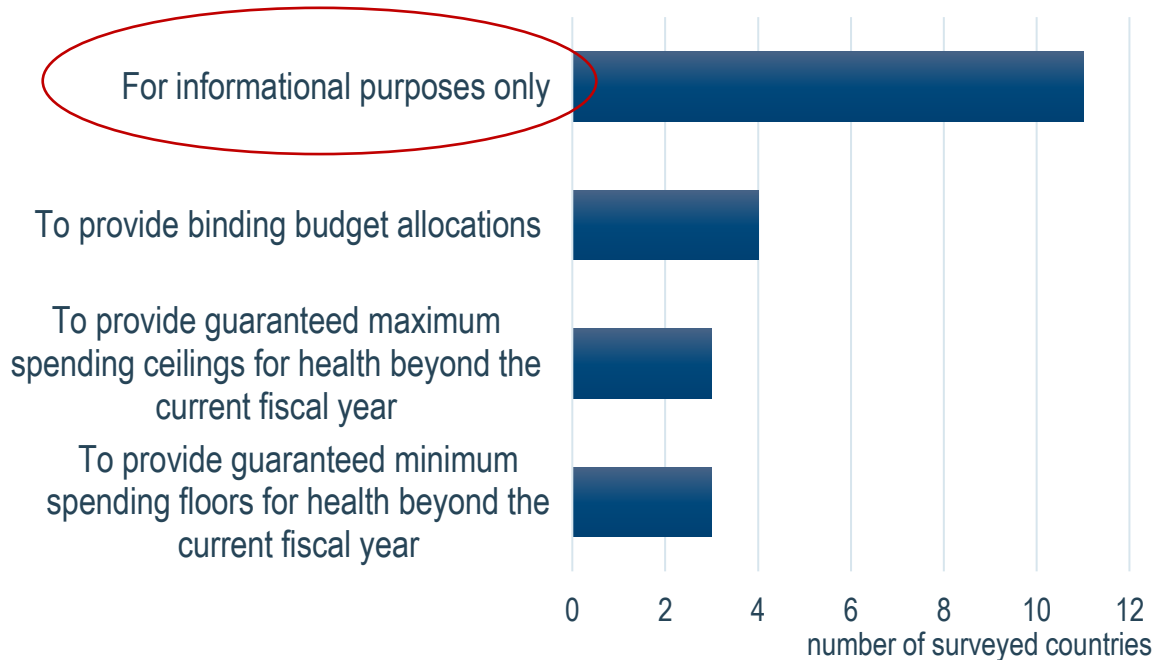
- Examining how the budget for health is determined across OECD countries:
  - Fixed formulas or automatic increases
  - Which factors are considered (country experience points to benefits from the use of explicit criteria)
  - How inflation is incorporated
  - Annual versus multiannual budget ceilings
  
- An effective budget formulation process should balance **health expenditure needs** with **fiscal constraints**, and provide predictability to the health sector



## Key finding: Countries need to strengthen the link between medium-term planning and the budget

### 5 Medium-term budgeting for health: Looking beyond the annual focus of the budget

#### Purpose of multi-annual financial planning of health expenditure in OECD countries



Source: OECD (2021), Survey on macro-level management of health expenditure, with a special focus on multi annual financial planning for health.

- OECD countries have taken steps to build a **medium-term perspective** into the budget process for health
- Only just under half of surveyed OECD countries (11 of 24) use medium-term budgeting for health as the basis for **future budget allocations.**
- Identified preconditions for success:
  - ✓ Strong baseline estimates that capture cost drivers and (designating clear lines of responsibility for estimates)
  - ✓ Credible future allocations for a reasonable number of years
  - ✓ Flexibility instruments for unexpected shocks



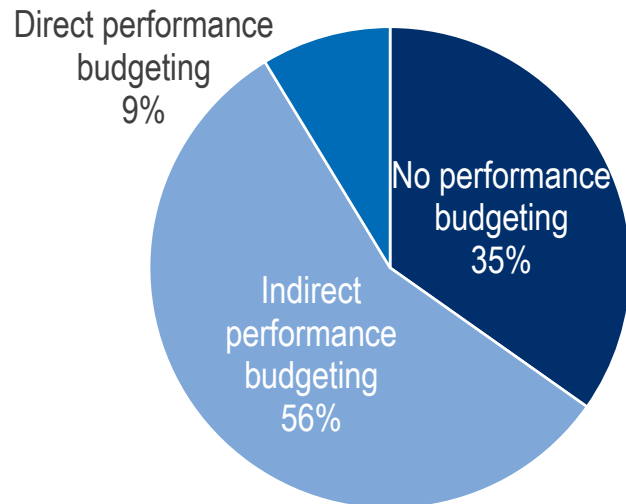
# Key finding: Governments are focused on making health budgets more performance oriented

## 6 Programme and performance budgeting for health: Linking budgets to results

### Example of a programme budget in health

Programmes
1. People receive high-quality, safe care in our hospitals
2. People can access care in out of hospital settings to manage their health and wellbeing
3. People receive timely emergency care
4. Keeping people healthy through prevention and health promotion
5. Our people and systems are continuously improving to deliver the best health outcomes

### Type of performance budgeting for health



- Move towards budget **structured around programmes**:
  - *Policy-orientated programmes* (e.g. reduce risky behaviors, improve wellbeing for the elderly, reduce waiting times)
  - *Service-orientated programmes* (e.g. primary care, hospital and specialist services, dental care, long-term care)
- Countries report **relaxed spending controls** for health agencies and **improved transparency** as common benefits
- But there is **no formal link between health objectives and budget decisions** for health in a third of surveyed OECD countries



- Country specific and cross-country analysis on:
  - Strengths and weaknesses of budgeting practices for health in OECD and non-OECD countries
  - Monitoring budget execution in health: addressing over/under spending in health
  - Boundaries of public and private spending for health



# How to access the publication



## Fiscal Sustainability of Health Systems

### *How to Finance More Resilient Health Systems When Money Is Tight?*

Finding sufficient funds to pay for more resilient health systems is challenging in the current economic context. COVID-19 has shown the need for additional targeted spending on public health interventions, the digital transformation of health systems, and bolstering the health workforce. Rising incomes, technological innovation and changing demographics put further upward pressure on health spending. This could result in health spending reaching 11.8% of GDP across OECD countries by 2040. This publication explores the policy options to finance more resilient health systems whilst maintaining fiscal [More](#)

Forthcoming, will be released on January 11, 2024



Get citation details

Access the report [www.oecd.org/health/fiscal-sustainability-of-health-systems-880f3195-en.htm](http://www.oecd.org/health/fiscal-sustainability-of-health-systems-880f3195-en.htm)





# Thank you

[www.oecd.org/els/health-systems/sbo-health](http://www.oecd.org/els/health-systems/sbo-health)

