

## Latest health spending trends: Navigating beyond the recent crises

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### Key messages

- Recent health spending growth has been erratic due to the COVID-19 pandemic and the energy and cost-of-living crises. After the exceptional growth seen in 2020 and 2021, health spending across the OECD fell back sharply in 2022. Preliminary estimates suggest only moderate real growth occurred in 2023.
- At the peak of the pandemic in 2021, almost 10% of public spending on health, on average across OECD countries, was directly related to tackling COVID-19. Spending on prevention jumped dramatically but has since fallen back to occupy a share of health spending similar to that observed prior to the pandemic.
- In 2022, health still accounted for a larger share of public budgets than before the pandemic. In the current fiscal context and sluggish economic growth, other priorities such as defence, energy, the green transition and social support increasingly compete with health for government spending.
- The overall health spending trajectory has returned close to the pre pandemic trend. This falls short of the estimated additional spending needed to make health systems better prepared for the next crisis and for long term pressures, such as ageing populations.
- Without an ambitious set of transformational reforms, health systems will struggle to navigate a calm path towards a sustainable long-term health spending trajectory.

With the COVID-19 pandemic and the ensuing energy and cost-of-living crises, many OECD countries have had to face significant economic and societal challenges over the last five years. The succession of crises has had important implications for health systems and the available resources allocated to health. This policy brief examines the recent trends in health spending and discusses what is driving the latest spending trajectory.

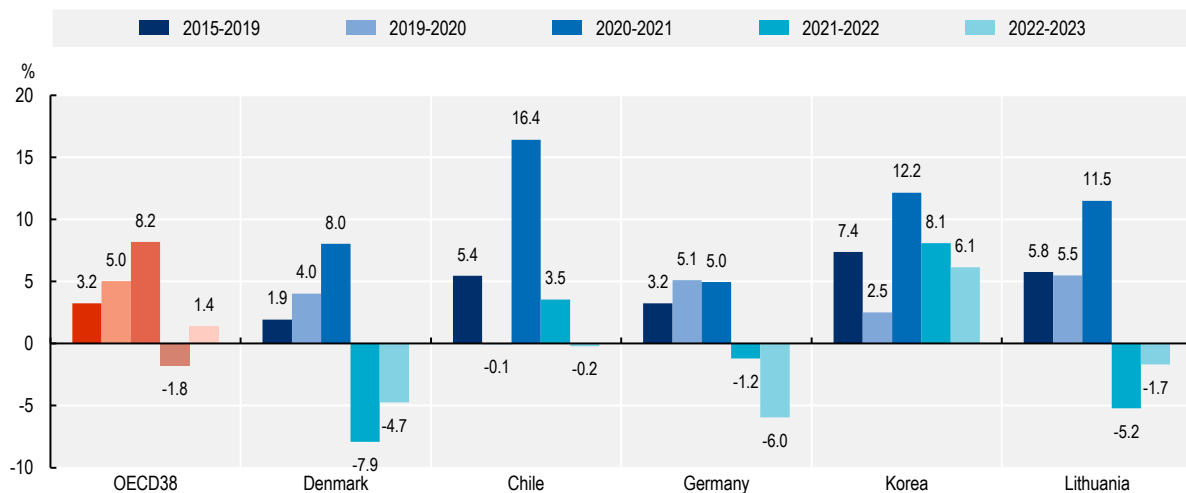
## Health spending growth has seen atypically large fluctuations in recent years

Overall health spending growth has been extremely volatile over the last few years, compared to the relatively stable pre-pandemic period (Figure 1). After consistent annual growth of around 3% (in real terms) during the pre-COVID period, health spending increased substantially across the OECD in 2020 (5.0%) and 2021 (8.2%) as a result of the inflow of additional financial resources needed to fight the spread of the SARS-CoV-2 virus and address its health consequences. As the world transitioned out of the acute phase of the pandemic, the financial resources dedicated to health declined as new public spending priorities emerged. In around three-quarters of OECD countries, health spending growth fell back in 2022 leading to an overall drop of around 2%. Preliminary data for 2023 point to slight positive growth across the OECD but with substantial heterogeneity across countries. Stubbornly high general inflation rates (particularly across some European countries) continued to constrain any “real” growth in health spending.

To illustrate these differences, Denmark and Germany followed a similar trend pre-COVID and in the early phase of the pandemic but diverged to some extent thereafter. Denmark saw a significant drop in overall health spending in both 2022 and 2023. While the same was true for Germany the fall was mostly delayed until 2023. In both countries, these drops in spending were mainly due to the phasing out of the substantial COVID-19-related funding introduced early on in the pandemic. In Lithuania, real health spending growth in 2021 was much higher than the OECD average, but with much of the additional funding of a temporary nature, health spending steeply declined in subsequent years. This fall in real terms was partly a result of unusually high inflation in the country in 2022 and 2023. Away from Europe, other spending patterns can be discerned. In Chile, for example, health spending stagnated in 2020 but growth was more than double the OECD average in 2021 and, in contrast to most OECD countries, continued to grow in 2022. Korea has seen strong health spending growth continue over many years. Apart from 2020 with the global onset of COVID-19, growth rates have continued to remain above the OECD average.

### Figure 1. Health spending fell sharply in 2022 and returned to only moderate growth in 2023

Average annual growth in current health expenditure, real terms, OECD average and selected countries, 2015-23



Note: Actual Individual Consumption is used to deflate current health expenditure. The 2023 data for the OECD38 average includes estimates by the OECD Secretariat for those countries not submitting preliminary data.

Source: OECD Health Statistics 2024.

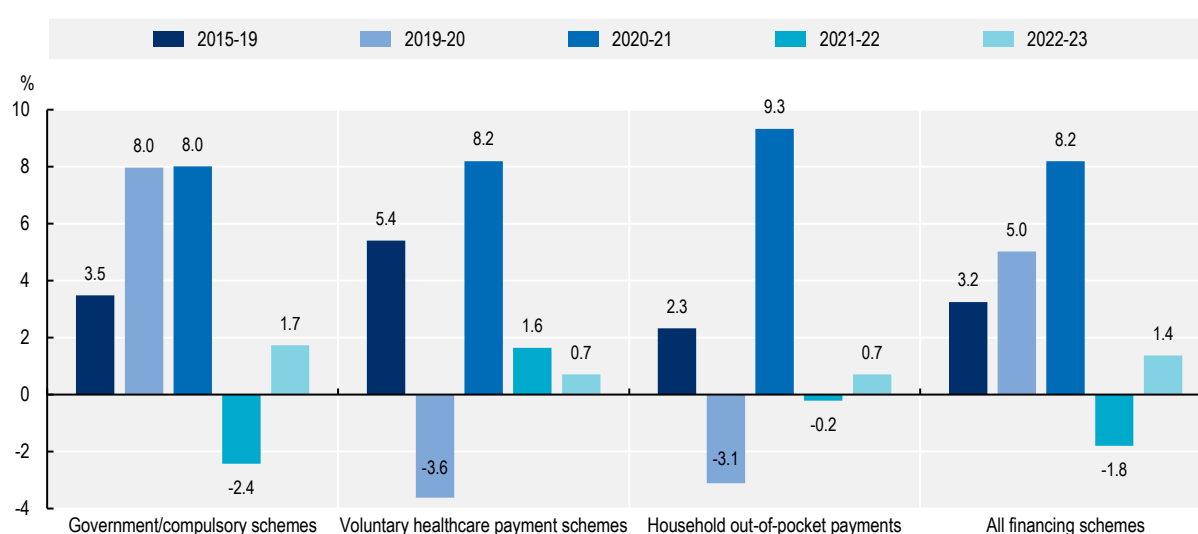
## Public spending was the main driver behind the exceptional health spending growth in 2020-21 and then the decline in 2022

The peak in health spending in OECD countries was mainly triggered by the increase in public spending (Figure 2). Governments were quick to mobilise additional funds for health in 2020 and 2021 in response to the public health challenges posed by the pandemic. In both years, spending by government schemes and compulsory insurance schemes grew by 8% on average (in real terms). As the pandemic subsided in 2022, public spending fell. The war in Ukraine, the energy crises and a high inflationary situation caused governments to reconsider their post-pandemic priorities. For 2023, first estimates point towards only a marginal increase in public spending on health.

The growth pattern for both voluntary health insurance and household out-of-pocket spending deviated from that of public spending. In 2020, private spending on health fell, frequently the result of the postponement of non-urgent outpatient and elective services to preserve capacity for COVID-19 patients or to reduce the risk of infection. This trend reversed in 2021, as healthcare utilisation rebounded and patients and providers “caught up” with deferred service use. In 2022 and 2023, health spending for both schemes stabilised, with either flat or marginally positive growth.

### Figure 2. After two years of exceptional growth, public spending on health dropped sharply in 2022

Health spending by financing scheme, average annual growth in real terms, OECD average, 2015-23



Note: 2022-23 growth for Voluntary healthcare payment schemes and Household out-of-pocket payments is estimated by combining the two categories. Actual Individual Consumption is used to deflate current health expenditure.

Source: OECD Health Statistics 2024.

### Health remained a high priority in 2022, but room for further growth is limited

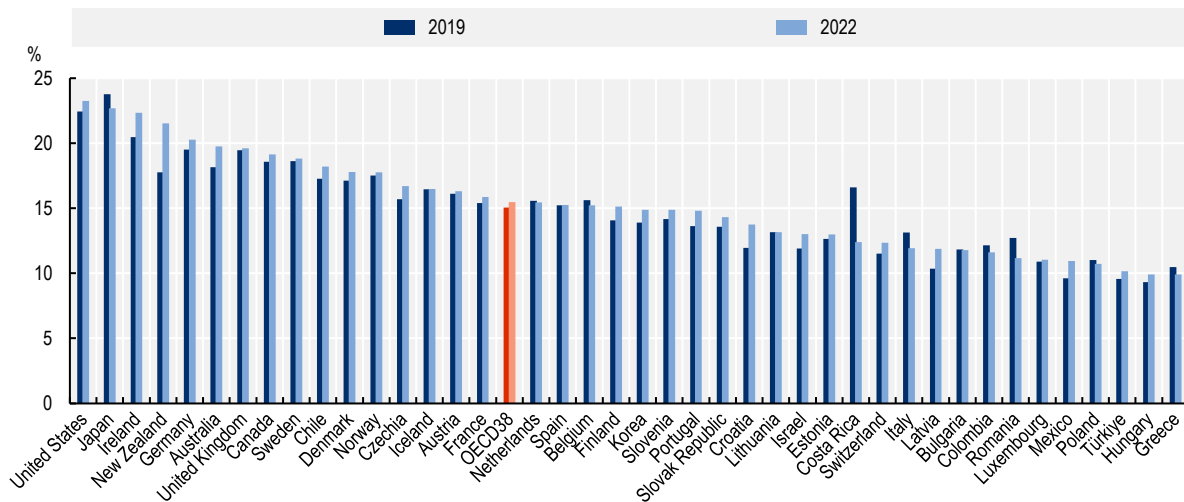
Despite the fiscal pressures, the priority of health within government budgets remained higher in 2022 compared to the pre-pandemic years (Figure 3). In 2019, OECD governments allocated just over 15% of their total spending to health. This share increased by around half a percentage point between 2019 and 2021, and it remained at this level in 2022.

At around 22-23%, the United States, Japan, Ireland and New Zealand allocate the highest shares of their public budgets to health. This is roughly double the share allocated in Greece, Hungary, Türkiye, Poland,

Mexico and Luxembourg. In New Zealand, the share of public spending on health in total government expenditure increased by nearly 4 percentage points between 2019 and 2022, and by more than 1 percentage point in Australia, Finland, Ireland, Israel, Latvia, Mexico and Portugal. By contrast, it dropped by 4 percentage points in Costa Rica and by around 1 percentage point in Italy and Japan.

### Figure 3. The pandemic led to an increase in the proportion of public spending going to health

Public spending on health as a proportion of total government expenditure



Note: Data for Türkiye refers to 2020.

Source: OECD Health Statistics 2024; OECD National Accounts 2024.

### Key health services saw their growth patterns disrupted between 2020 and 2022

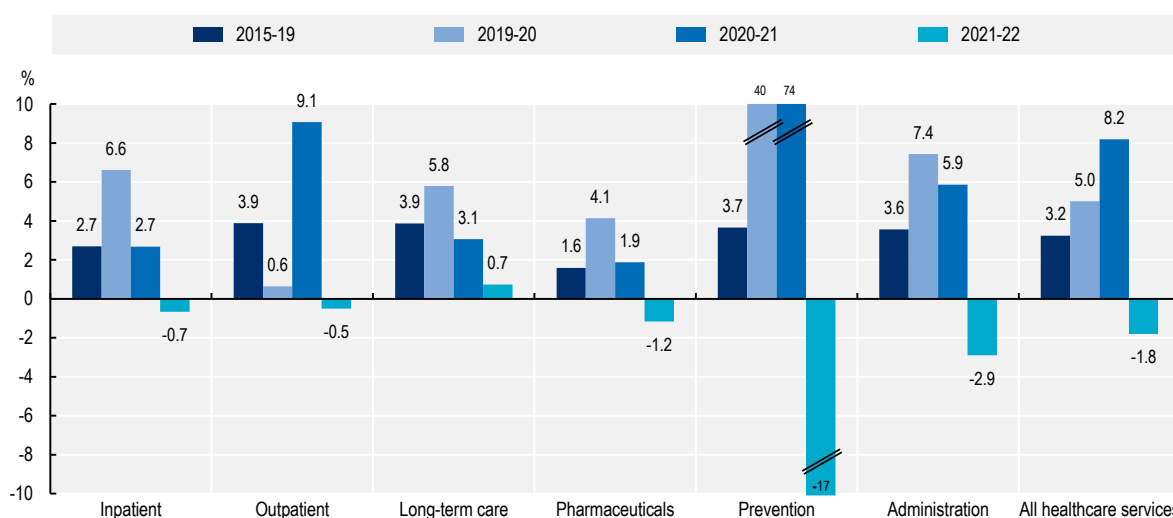
The pandemic and the cost-of-living and energy crisis led to diverging growth patterns across key health services (Figure 4). Whereas the average annual growth rates of services such as inpatient care, outpatient care, long-term care, prevention, pharmaceuticals and administration remained relatively stable (2-4%) from 2015 to 2019, this changed drastically with the onset of the pandemic. In response to the public health emergency in 2020, growth in spending on inpatient care, pharmaceuticals (including medical non-durables such as face coverings) and administrative services roughly doubled while preventive spending increased by 40%. This extra spending was a result of the increased capacity to treat COVID-19 patients, additional bonuses to hospital staff and in some cases substantial subsidies to hospitals to avoid financial difficulties. There was significant investment in public health measures to detect and combat the spread of the virus. There was also a surge in administrative spending to cover additional emergency and response planning. On the other hand, spending on outpatient care stagnated in 2020, as many health providers and patients postponed care, partly to reduce the risk of infection. This was particularly true for dental and specialised care. Spending on long-term care remained more in line with historic growth patterns.

In 2021, average outpatient spending growth rebounded by 9% with attempts to “catch up” delayed or deferred treatment. Preventive spending growth further accelerated in 2021 with the roll-out of the COVID-19 vaccination campaigns. After the exceptional growth in 2020, inpatient spending returned to historic growth rates as the additional hospital funding was phased out. In 2022, spending dropped across all categories (apart from long-term care) as most OECD countries transitioned out of the acute phase of the COVID-19 pandemic. With Russia’s war of aggression in Ukraine and the ensuing energy crises and high inflationary pressures, public spending on health came under pressure.

The financial resources *directly* associated with COVID-19 were unprecedented. In the first year of the pandemic, an estimated 6% of all public spending on health across the OECD was spent to fight the spread of the virus or provide treatment to COVID-19 patients. This proportion jumped to nearly 10% in 2021 as infections peaked in many OECD countries and vaccination campaigns were rolled out. By 2022, the acute phase of the pandemic ended, and many OECD countries cut back on these additional resources. As a result, the proportion of public spending on health dedicated to the pandemic dropped below 5% in 2022 and is estimated to have fallen to around 1% in 2023.

#### Figure 4. Average spending on prevention increased by almost 150% between 2019 and 2021

Annual average growth by healthcare function, in real terms, OECD average, 2015-22



Note: Actual Individual Consumption is used to deflate current health expenditure and its components. The category “Pharmaceuticals” also includes non-medical durables such as face coverings.

Source: OECD Health Statistics 2024.

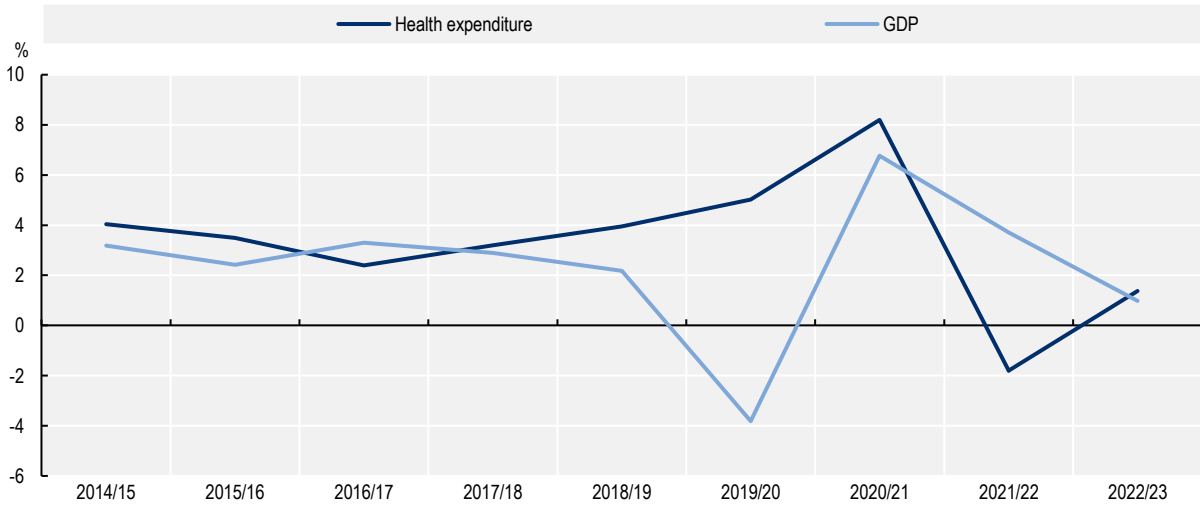
#### Health as a share of GDP dropped from its 2021 peak but remained above pre-pandemic levels in 2023

While health spending and economic growth were closely aligned in the years leading up to the pandemic, their trajectories widely diverged with the onset of COVID-19 (Figure 5). Health spending growth quickly accelerated in 2020 and 2021 before dropping in 2022. On the other hand, widespread lockdowns and other public health measures severely restricted economic activity and consumer spending in 2020, sending many OECD economies into freefall before the economic rebound in 2021. Russia’s war in Ukraine and the ensuing energy crisis and disruptions in supply chains led to slower than expected post-pandemic economic growth in 2022 and 2023 in many OECD countries.

In 2023, OECD countries are estimated to have devoted around 9.2% of their wealth to health on average (Figure 6). This is unchanged from 2022 but significantly down the peak in 2020 and 2021. Yet, it was still above the pre-COVID level of 2019, when OECD countries were allocating around 8.8% of their GDP to health. The pattern bears some similarities with the economic and financial crisis of 2008/09, with health spending significantly increasing and economic output declining, leading to a jump in the health spending-to-GDP ratio of about 1 percentage point. This resulted in a “step increase” as the higher ratio was generally maintained over the following years (up until 2019). Whether the same crisis-driven effect will prevail post-pandemic is unclear for the moment. Data for 2023 remains preliminary and there is uncertainty as to how health spending evolved in 2024.

**Figure 5. Health spending and economic growth widely diverged during the pandemic**

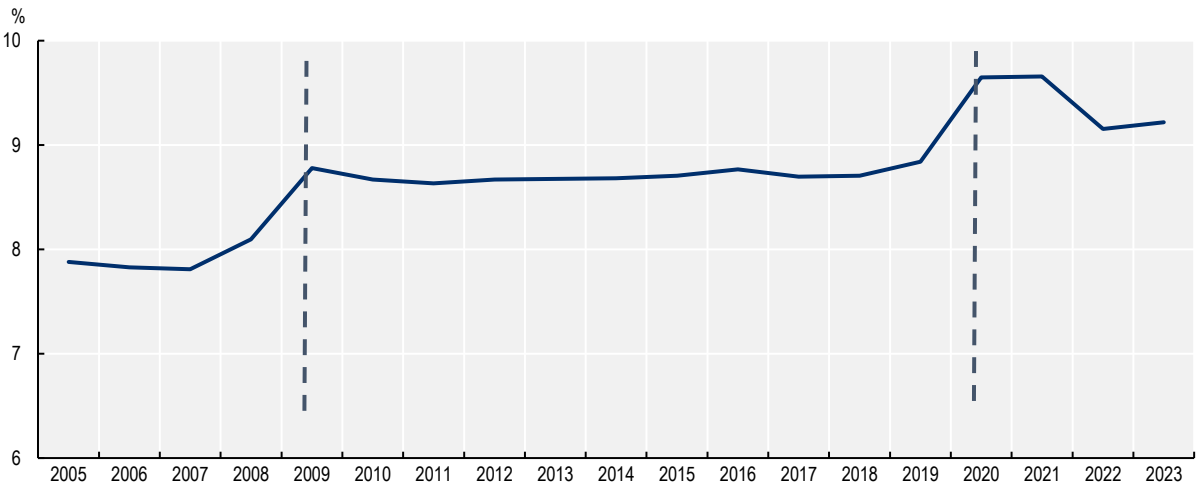
Current health expenditure and GDP growth, in real terms, OECD average



Source: OECD Health Statistics 2024; OECD National Accounts.

**Figure 6. The 2008 financial and economic crisis and the COVID-19 pandemic have both led to hikes in the health spending to GDP ratio**

Current health expenditure as a share of GDP, OECD average, 2005-23



Source: OECD Health Statistics 2024.

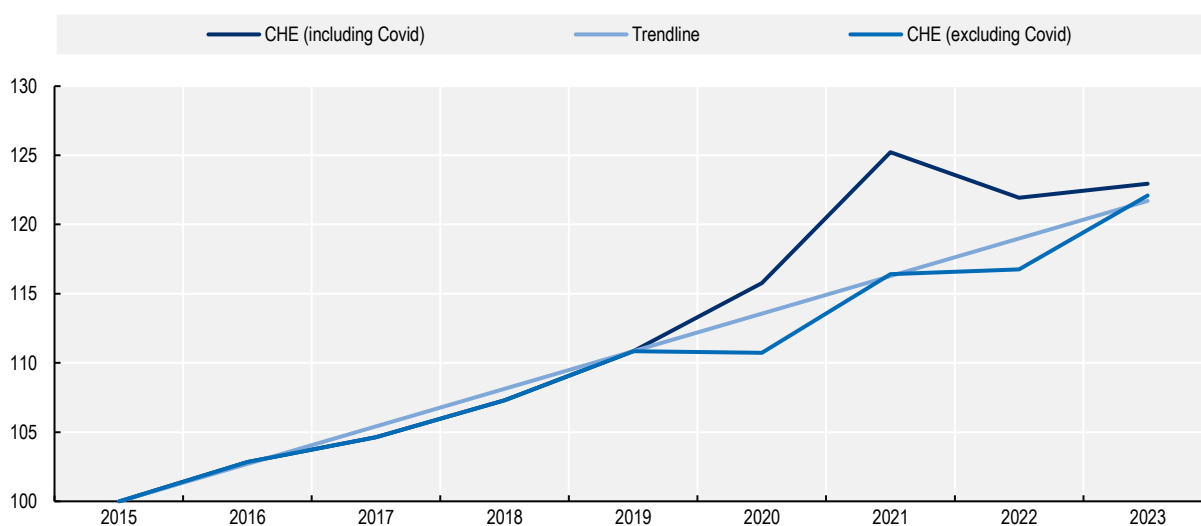
For most OECD countries the shift in the health spending-to-GDP ratio mirrors that of the OECD average, with a peak in 2021 followed by a sizeable drop. Austria, Canada, Colombia, Denmark, Germany, Latvia, Portugal and the United Kingdom all saw their health-to-GDP share fall by more than 1 percentage point between 2021 and 2023. By contrast, the same ratio increased by nearly 1 percentage point in Korea and New Zealand as the pandemic and countermeasures continued to have a delayed impact.

## Health systems remain unprepared for the next crisis, while transformative policies are needed for long-term financial sustainability

With the drop in health spending in 2022 and only a marginal uptick in 2023, the overall level of health spending in 2023 is close to the underlying pre-pandemic trend (Figure 7). This means that with the exceptional COVID-19 financing ending, countries remain far away from the estimated 1.4% of GDP additional health spending (on average) required to make health systems better prepared for future crises (Morgan and James, 2023<sup>[1]</sup>). A simple look at the trajectory of resources allocated to health suggests that OECD countries are perhaps just as vulnerable now to a health emergency as they were in 2019.

### Figure 7. OECD countries remain far from the necessary investments to make their health systems more resilient

Current health expenditure (CHE) in real terms per capita (2015=100)



Source: OECD Health Statistics 2024.

It is doubtful whether substantive spending to close the “preparedness gap” of health systems can be mobilised by countries in the short term. While economic growth across the OECD is projected to remain around 1.9% in 2025 and 2026 and headline inflation will continue to slowly decline, important challenges for public budgets remain: Governments face significant fiscal challenges from higher debt and, in the long-term, additional spending pressures arising from ageing populations, climate change mitigation and adaptation measures, plans to increase defence spending, and the need to finance new reforms (OECD, 2024<sup>[2]</sup>). Even without the additional spending on building resilience, OECD projections show that over the next two decades, the growth in health spending from public sources across OECD countries is likely to outstrip both the growth in the economy and in government revenues. Without significant policy change, an average underlying increase of 2.4 percentage points in the health-to-GDP ratio by 2040 is projected compared to pre pandemic levels. Amongst the realistic options open to governments, improving efficiency of health spending to increase the fiscal space of countries will most likely remain high on the agenda (OECD, 2024<sup>[3]</sup>).

Classic cost control measures and policies that improve healthy ageing, while welcome, are not enough in themselves to fundamentally alter the long-term upward trajectory of health spending. More ambitious and transformative policy changes are therefore needed: cutting ineffective and wasteful spending, while reaping the benefits of technology and the digital transformation of health systems. This is imperative if countries are to meet the cost of underlying megatrends while also improving health system resilience.

## References

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## Contact

Michael MUELLER (✉ [michael.mueller@oecd.org](mailto:michael.mueller@oecd.org))

David MORGAN (✉ [david.morgan@oecd.org](mailto:david.morgan@oecd.org))

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