

TRANSCRIPTION:

From Double Shock to Double Recovery: Health Financing in the Time of COVID-19

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From Double Shock to Double Recovery: Health Financing in the Time of COVID-19

December 2021

Presented by Christoph Kurowski

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PRESENTATION:



Thank you, Pablo, thank you all for the invitation to join you this morning. It is nice to see a lot of the colleagues and friends from the region, and I'm absolutely delighted to share with you some key findings of our analysis of the macro-fiscal implications of the COVID-19 crisis on health spending. What I'll present today are some preliminary findings for Latin America and the Caribbean based on the most recent update of the IMF World Economic Outlook. We aim to finalize these over the next weeks. Unfortunately, the picture for the region remains somewhat incomplete, for some of the countries the IMF does not produce macro-fiscal projections, most notably Argentina.

From double shock —health and economic— to double recovery

No sustained economic
recovery ...



...without a health recovery

- > End the pandemic
- > Prevent future health crises
- > Regain losses in UHC

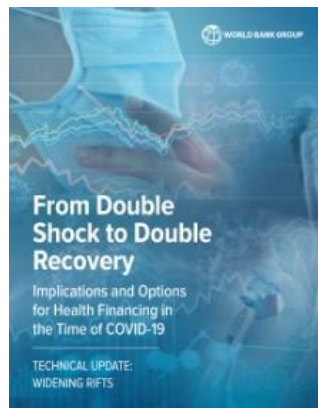


From Double Shock to Double Recovery

But before I turn to these findings, let me step back for a second and clarify some of the key premises of our work under the theme: “From double shock to double recovery”. First and foremost, getting over the economic crisis will require resolving the health crisis and the recovery from the health crisis will require three things.

First, the end of the pandemic, most importantly through the rollout of the COVID-19 vaccines. Second, prevent future health crises through strengthening health security, and finally, Ferdinando referred to this already, regaining losses in coverage is essential on non-COVID-19 health services.

Outline

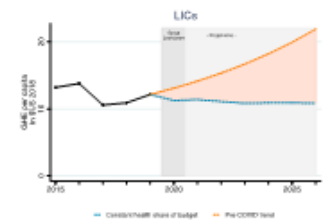
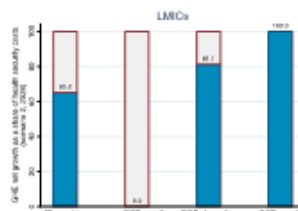
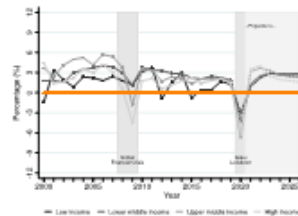


<https://openknowledge.worldbank.org/handle/10986/35298>

1 Macro-fiscal impact

2 Health spending consequences

3 Implications for the double recovery



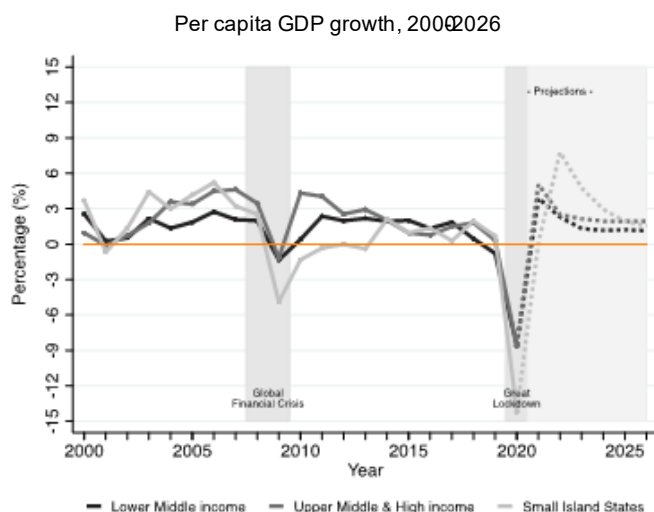
From Double Shock to Double Recovery

In the next few minutes, I will show you that this health recovery is at risk, and this is because of widening rifts in health spending.

To do so, I'll briefly highlight some key features of the economic and fiscal outlook for the region and then demonstrate some of the consequences for health spending.

In our work, we also assess the implications of the health spending forecast for the recovery from the health shock. Given time constraints this morning, I'll skip this third component of our analysis.

After a sharp decline in 2020, the LAC region will see a return to growth ...

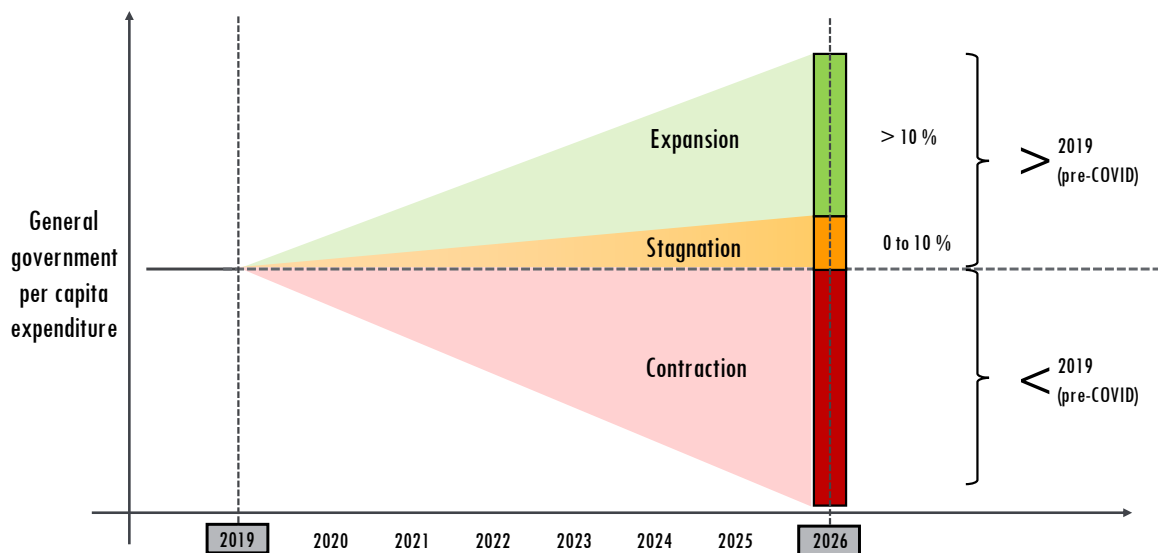


Economic growth

- 2020: GDP pc - 10.3%
- 2021: GDP pc 3.3%
- Return to pre-COVID GDP pc: 2024

So, let's turn to some of the macro-fiscal features of the recovery. You probably have seen such a figure before, it shows the growth trend of GDP per capita. The good news is the strong return to growth in 2021 in all countries in the region, except Haiti. On average across the region GDP per capita is expected to grow by 3.3%.

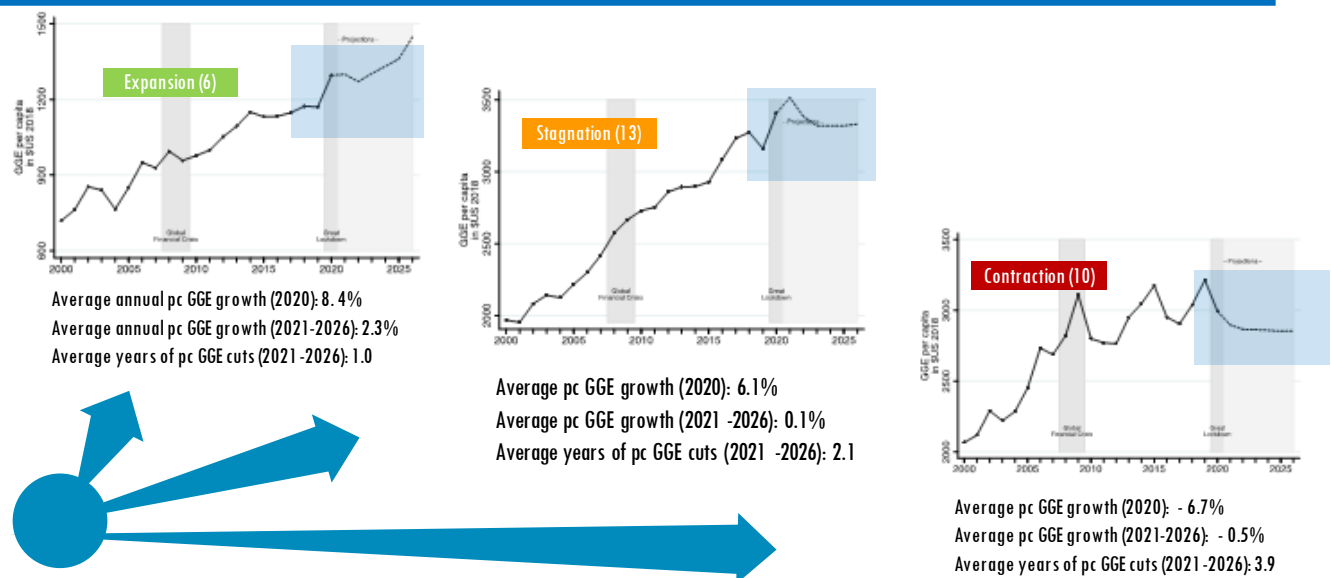
... yet, multiple pathways are emerging



Two points that are important to recognize though. First, different from the global financial crisis, the great lockdown affected all income groups, including low and middle-income countries, and second, after de decontraction in 2020, the recovery starts from a very low base and most countries will only reach pre-COVID GDP per capita levels in 2024. This is 3 years from now.

The return to growth is critical but also the ability of countries to build out key public investment. In our analysis, we see large disparities among countries. We used a simple metric, what is expected per capita general government spending in 2026? And we use pre-COVID-19 levels of general government spending as a benchmark. Based on these two variables we distinguished three country groups: first, the group of countries with a substantial expansion of general government per capita spending in 2026; second, a class of countries with stagnating or slightly sluggish spending growths; and, finally, a group of countries with the contractional government spending per capita.

... with large disparities in the countries' capacity to build out public investments.



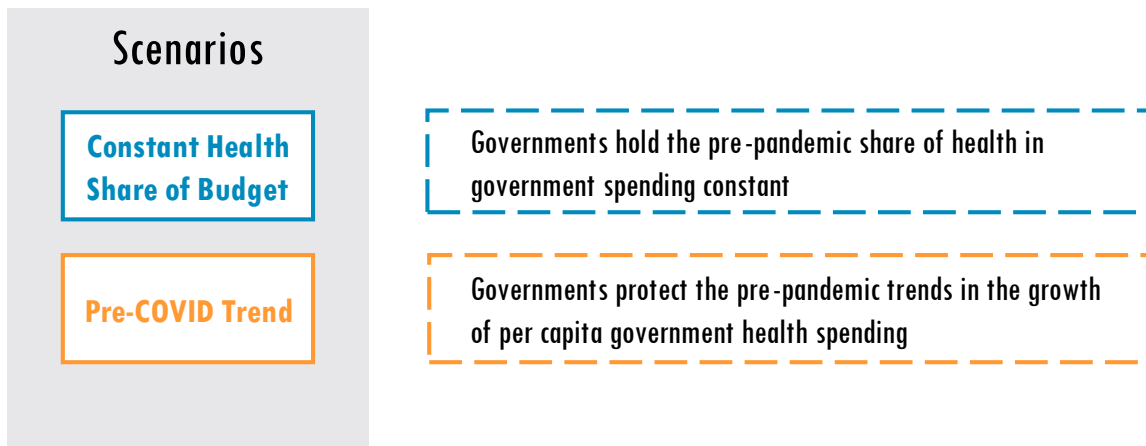
From Double Shock to Double Recovery

Let's turn to the expansion group first. In Latin America and the Caribbean 6 countries fall into this group. Following strong fiscal stimulus, general government per capita spending will continue to significantly outgrow pre-COVID levels by 2026. It's of course a favorable outlook but not without challenges, for example, despite the general positive trend in expanding growth countries are expected to go on average to at least one year of cuts in general government per capita spending.

Then there is a group of 13 countries without a significant fiscal stimulus, general government per capita spending will stagnate or only slightly grow. This group also includes a set of countries with high debt service requirements [that] mute the rather rapid growths in government per capita spending. For this class of countries, the outlook is pretty troublesome for some of the countries in this group are expected to reduce general government per capita spending on average in 2 out of the next 5 years.

And finally, there's a group of 10 countries that saw instead of a fiscal stimulus, substantial spending caps in 2020 and general government per capita spending will further contract below pre COVID-19 levels in 2026. In this group, the ability to build out key public investments will be highly constrained, for example, the countries in this group are expected to cut back on general government per capita spending on average in 4 out of the next 5 years.

Multiple pathways of government spending on health are possible

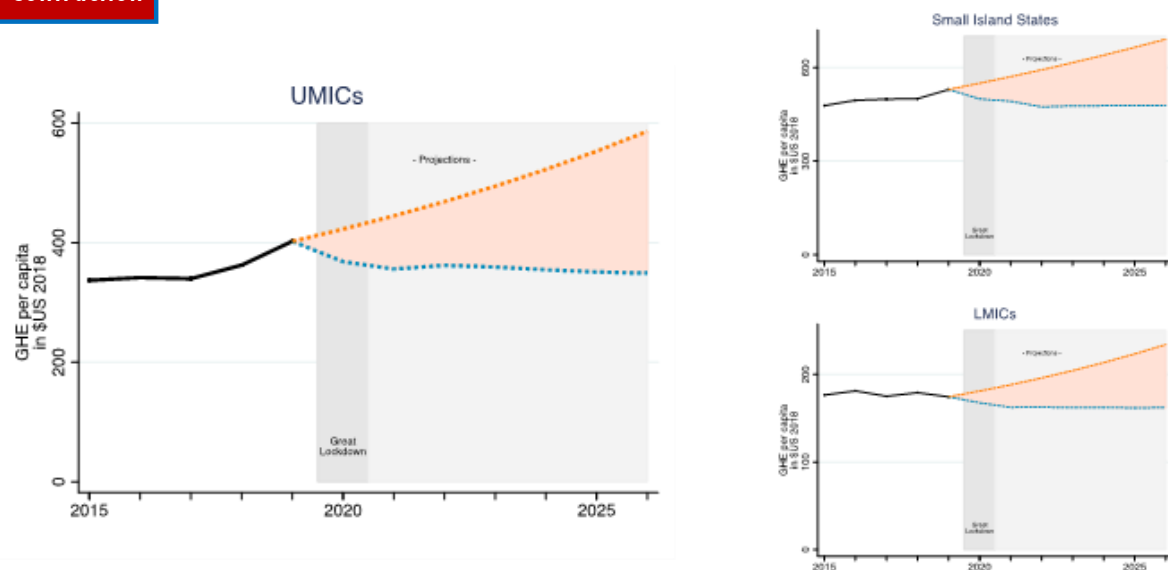


So, how will this fiscal outlook impact health spending? We've developed various scenarios for countries, today I want to focus on two, both look at the government per capita spending on health as the most crucial source of health funding. In the first scenario, we analyze how per capita government health spending will develop if governments hold the share of health in their spending constant. You can think of this as the business-as-usual scenario, the priority given to health does not change and government's spending on health would be driven by the size of the overall government resource envelope.

In the second scenario, we assume that the positive pre-pandemic trends in per capita government's health spending will continue in the future, we consider this for most countries an optimistic scenario.

Contraction

Government spending on health will fall far short of pre-COVID trends ...



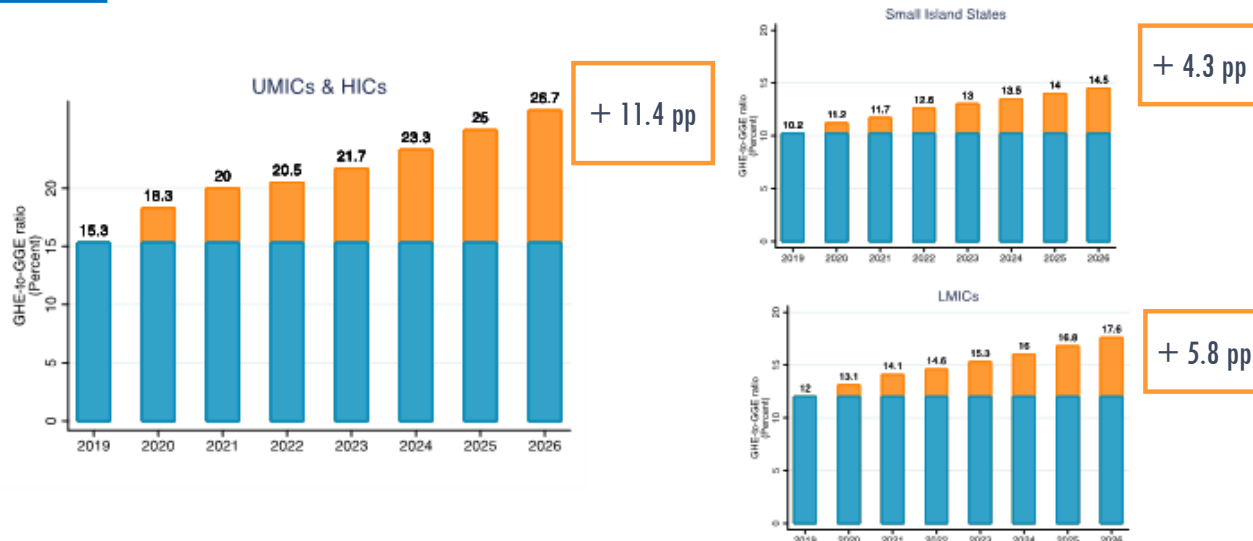
From Double Shock to Double Recovery

The scenario analysis demonstrates how the large disparities in countries' capacity to build out key public investments would likely result in severe rifts in government health spending across countries. Although not without challenges the outlook for the group of the 6 countries with the substantial expansion in general government per capita spending is quite favorable. In contrast, the prospects for most of the 13 countries with an expected stagnation or sluggish growths in general government per capita spending is troublesome.

And the prospects for the 10 countries with an expected contraction in general government per capita spending are dire. The patterns across different country groups are similar, let me explain them using the example of the upper-middle and high-income countries in the region. In the first scenario, the constant health share budget scenario is shown in blue; per capita government spending on health will drop from roughly 400 dollars in 2019 to 350 dollars in 2026.

Contraction

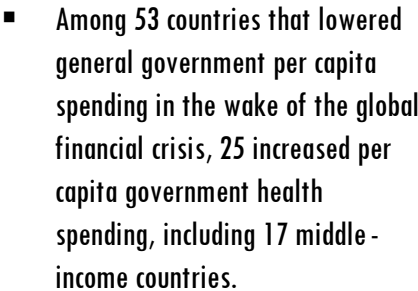
... with past growth rates out of reach.



From Double Shock to Double Recovery

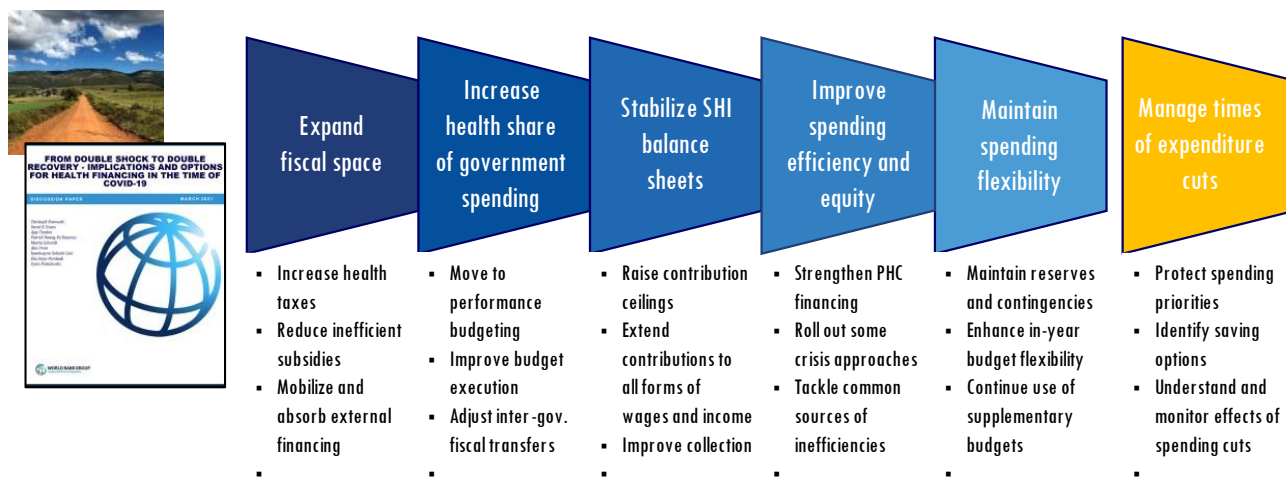
In the second scenario, the pre-COVID trend scenario, shown in orange, per capita government spending on health will increase from US\$400 in 2019 to US\$590 in 2026. In sum, if governments hold the share of spending on health constant, future spending inevitably will fall far short of the pre-COVID trends with starred gaps between the two scenarios.

This raises the question of whether return to pre-COVID 19 per capita government health spending trends is at all feasible. In short, for most countries in this group the answer is no. For example, for the upper-middle and high-income countries this means almost doubling the share of government spending going to health, from roughly 15% in 2019 to 27% in 2026. Increases of this magnitude over such short periods are unprecedented and will for most countries result in historical heights.



Moreover, the fiscal trends that underpin our analysis are not inevitable. So, what can countries do? In the first volume of our “Double shock, double recovery” paper, we discussed the various policy options that countries can deploy to sustain and eventually increase government health spending. The recommendations are based on our review of the experiences through macro-fiscal crises going back to the 1980s. It is beyond the scope of the presentation today to lay them all out but let me highlight just a few general points.

... and can draw on a wide range of policy options and experiences ...



First, the range of options is broad, and several do not only benefit the sector but can contribute to fiscal health more broadly, pro-health taxes are a case in point but there are also others.

Second, improvements in efficiency, the focus of the discussion today will be critical not only to prevent lasting damage to health systems but also to support efforts to mobilize additional resources for the sector. This also holds true for improvements in equity of spending.

Third, given the high uncertainty about the course of the pandemic, it will be important to maintain significant degrees of spending flexibility. This can be done for example, by sustaining substantial resources in contingencies in the budget.

And finally, in times of austerity and spending cuts, policymakers have options and can learn from the past how to minimize the damage to the performance of the health systems.

... to avoid toxic either/or choices.



From Double Shock to Double Recovery

So, to conclude, most LAC countries will have to take bold steps to avoid finding themselves in a catch 22, if not, the likely outcome is sluggish progress in the vaccination rollout, little improvements in health security, and at best, stagnation on the road to universal health coverage. Such a response will pose great risks to fully recover from the COVID-19 double shock, both in health and economic, and not only in these countries but for the region and globally.

Thank you so much.



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