Medical Xpress

Health costs huge risk to advanced economies: IMF

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The cost of health care poses a burden to developed countries that could spark immense financial crises if not contained, the International Monetary Fund warned Tuesday.

Even countries that move decisively to contain and cut the costs of keeping their populations healthy will find it is not enough and will have to cut spending elsewhere for fiscal stability, it said.

"Rising spending on health care is the main risk to fiscal sustainability, with an impact on long-run debt ratios that, absent reforms, will dwarf that of the financial crisis," it said.

In a report on the world's financial health released Tuesday, the IMF warned that many advanced countries are living beyond their long-term fiscal means, especially in the wake of the 2008-2009 crisis.

Debt for an average of 29 developed countries was at 97 percent of the size of their economies, and 103 percent for the G20 group of advanced economies.

To get to a sustainable debt level of 60 percent of GDP by 2020 -- the median for the same countries before the crisis -- many have to begin cutting spending sharply, even as they confront greater social spending costs for aging populations.

Those with the highest debt levels -- Japan, Ireland, the United States and Greece -- would have to reduce their fiscal deficits at a pace of more than 10 percent of GDP a year.

In a separate report released Monday, the IMF called on Washington to begin slashing spending and boosting revenues this year or risk destabilizing global debt markets with its rising funding needs.

The IMF said health costs will be the biggest burden for governments, and that the main driver is not aging populations but generous health care systems, costly procedures based on new technologies, and the rising incomes that have so far afforded rising medical costs.

The United States, with the largest fiscal deficits and costliest health care system in the developed world, is most at risk.

But Western European countries and wealthy Asian nations like South Korea and Japan, are not far behind.

The burden of health care in 2008 averaged 7.0 percent of GDP in developed countries, with the United States close to that and France more than eight percent.

Twenty years from now, health costs will grow another three percentage points of GDP in all the countries, and five percent more in the United States.

All this increase of costs relative to governments' financial resources, the IMF said, will amount to "three times the estimated impact of the financial crisis on advanced economy public debt."

It said many countries have scope to wrest costs under control via market-based policies, caps on spending, and supply and price controls.

More competition among insurance companies for consumers was the best but not only way to cut health care costs, the IMF said. It also pointed to improved public management and budget ceilings.

But even the most aggressive reforms were not going to save the most indebted countries.

"The impact of these reforms may still fall short of what is needed in some advanced economies to stabilize public health spending as a share of GDP," it said.

"This means that further adjustment measures elsewhere in the budget will be required to control the growth of public spending."