

## Health in times of global economic crisis: implications for the WHO European Region

### DISCUSSION PAPER

The world is confronting a severe financial and economic crisis at a time when it is also facing major energy and environmental problems (such as global warming), while it still has to address wide social inequalities. Perception of the crisis has been global from the beginning and seems to be increasing on a daily basis, but the symptoms, magnitude and impacts of the economic crisis vary greatly between regions and countries. There is so far only anecdotal evidence of these impacts, but there is a general feeling that the storm lies just ahead and will have manifold and long-lasting consequences on health and health systems in Europe and all over the world. Needless to say, the current complex and stormy situation may also trigger significant – but potentially both positive and negative – changes in social norms, lifestyles and health-related behaviours.

## Introduction

The Oslo conference *Health in times of global economic crisis: implications for the WHO European Region* is one in a series of meetings organized and/or supported by WHO to address the main aspects of the current situation from a health and health systems perspective. It is intended to help European countries anticipate risks and opportunities and explore policy options in the turbulent context ahead. It comes after the high-level consultation on the financial and health crisis held in Geneva on 19 January 2009 and will contribute to preparation of the discussion on health and the economic crisis to be held during the fifty-ninth session of the WHO Regional Committee for Europe (Copenhagen, September 2009).

This paper (to be read in conjunction with other relevant documents) intends to offer elements for a rapid review of the situation and to help identify issues and options for further discussion at the Oslo conference. The recommendations that will emanate from the Oslo meeting, together with further documentation to be produced in the coming weeks and months will contribute to decision-making in the Regional Committee session in September.

In addition to this introduction, this paper has three parts: the second section describes the situation, while the third section analyses the impact of the crisis on health and health systems. The final section suggests a number of possible strategies and includes proposals for (some) possible anti-crisis packages for health and health systems.

## A multidimensional and severe crisis

1. In reaction to major issues in financial and banking systems and alongside a slowdown of global trade, the global economy started contracting in 2008 and has not stopped doing so. According to the International Monetary Fund (IMF), world growth is expected to continue to slow down, from 3.3% in 2008 to 0.5% in 2009. While all regions and countries are affected, the magnitude of the economic downturn varies between them:

- In 2008, the United States and European Union (EU) countries entered into recession. Growth in all advanced economies is projected to further contract in 2009 by an average of 2% (2.8% in UK, 2.5% in Germany, France and Japan, and 1.6% in the United States).
- Central and eastern European countries and those in the Commonwealth of Independent States (CIS) are expected to enter into recession in 2009.
- Growth in emerging and developing economies slowed down in 2008, and this trend is expected to continue, with average growth a mere 3% in 2009 compared to 8.3% in 2007 (in China to 6.7% in 2009 compared to 13% in 2007).

2. The sharp reduction in investments and industrial production during this global economic downturn is resulting in a rapid increase in unemployment. Millions of jobs in both the industrial and services sectors are under threat. The International Labour Organization (ILO) estimates that the global unemployment rate could rise to 7.1% in 2009. In the EU, the unemployment rate is expected to reach 9.5% in 2010 (from 7.5% in 2007) and about 20 million jobs could be lost. The unemployment rate in the non-EU countries of central and southern Europe and the countries of former Soviet Union is also expected to rise in 2009 (it stood at 8.8% in 2008).

3. A relatively limited decrease in global demand has resulted in the collapse of certain commodity prices. Oil and wheat prices, for example, have decreased by over 60% since January 2008 (although no one can really predict how oil prices will evolve in the coming months). Other prices have stagnated or have increased only moderately. According to the IMF, inflation in the advanced economies is expected to decrease to a record low of 0.25% in 2009, and the risk of a deflation cannot be totally excluded.

4. The financial and economic crises have resulted in the depreciation of a number of national currencies. Since November 2008 the United Kingdom's pound sterling, for instance, has depreciated by about 30% against the Euro in less than a year, as have the Polish zloty (32%), the Czech koruna (18%), the Romanian lei (17%) and the Hungarian forint (15%).

5. The prompt reactions and extraordinary efforts of central banks and governments have helped avoid a global collapse of the financial and banking sectors, and yet the global financial architecture remains under intense stress. Some banks are still at high risks of defaulting; in some cases, nationalization – at least partially – may become necessary. Insurance companies and pension funds have also been severely hit. Less affected at the beginning, many central and eastern European banks and insurance companies are now specifically in the front line.

6. Governments (and through them taxpayers and societies) are also making remarkable efforts to extend financial support to various other economic sectors, stimulate consumption, protect employment and assist the fast-growing ranks of the unemployed. In the richest European countries, a wave of economic recovery programmes has been designed and the first steps in implementation taken. In other countries, governments have only limited scope to deal with the crisis through tax reductions and fiscal easing.

7. The economic downturn and the cost of these stimulus packages are rapidly leading to a deterioration of public finances, with public deficits and levels of public debt increasing significantly. This is already the case in nearly all advanced and emerging economies, and the situation may soon become even more critical in middle income countries. For example, a significant deterioration of fiscal balances is expected in 2009 in the Baltic states and central and eastern European countries.

8. Evidence from past crises shows that the poor and the most vulnerable are likely to suffer the most in times of crisis. Indeed, a significant proportion of the population of the WHO European Region is already at risk of poverty. In the EU, for instance, 16% of the population is at risk of officially defined poverty even after social transfers (the proportion ranges from 10% in Nordic countries to almost 25% in Italy or the Baltic states). It is also known that the living standards of poor people vary considerably across the Region, and that poverty tends to be more severe in countries where numbers in poverty are highest. Children and the elderly usually face a higher risk of poverty – from the information available so far, unemployment seems to affect more men than women and people below 24 and over 50, probably because the industrial sector is the hardest hit.

9. Fortunately, most governments in Europe appear to be continuing to pay significant attention to social cohesion and social protection. It seems clear that the crisis will not only affect living conditions and lifestyles but also accelerate changes and trigger shifts in social norms or economic policy. For example, the need for coordinated global regulation of the financial and banking sector is now more widely recognized, and the (previously taboo) increased public deficits and debt ratios are now seen as necessary evils.

10. The intense political and technical debate that is being held also focuses on the ethical dimension in this financial and economic crisis. As individuals feel more vulnerable, the perception of social inequalities seems to be changing and becoming less abstract in many countries, going far beyond traders' bonuses or chief executives' "golden parachutes". Opinion surveys and social barometers show widespread pessimism and a strong feeling of injustice; many people are demanding that the ethical dimension of the crisis must become a more important part both of the political debate and of the fiscal solutions. It is worth noting that concerns about how to increase social justice are moving up the political agenda at a time when the WHO Commission on Social Determinants of Health is underscoring existing health inequalities and calling for the gaps to be closed.

## First observed and potential impacts of the crisis on health and health systems

11. We know from past experience that in times of crisis, health outcomes and the risk of health-related financial hardship may be affected by changes in the resources available for health systems (financial and human resources, drugs and medical devices, running costs and infrastructure), by changes in living conditions, lifestyles and consumer behaviours, and by changes in social norms and values. For countries whose health system is financed through general tax revenues, decreases in gross domestic product (GDP) and economic outputs may result in significant reductions in public revenue for health. Alternatively, for countries that rely predominantly on wage-related contributions to health insurance funds, increases in unemployment are likely to constrain revenues earmarked for health. International prices for drugs and other consumables could increase owing to inflation and currency depreciation. These pressures on revenue generation and purchasing power may in turn persuade policy-makers to cut budgets, introduce or increase user fees co-payments or other forms of private financing, reduce benefit packages or tolerate longer waiting times.

12. The truth, however, is that although both detailed and synthetic economic reviews and forecasts are published at least quarterly, the direct effects of this multidimensional crisis on health are still unclear. So far, the information and evidence available on the precise impact on individuals, vulnerable groups and the health system in general remain anecdotal and fragmented. Furthermore, this type of data is proving difficult to compile and analyse; existing health information and monitoring systems are proving rather unfit to serve the needs of policy-makers regarding these critical issues in many countries.

13. Few changes in health system expenditures have been observed. The European health sector<sup>1</sup> (which employs about 10% of the total workforce) seems not to have lost many jobs and in fact appears as a stabilizing sector. As is also the case in the United States, health is indeed one of the very few economic sectors that is still creating jobs. The “credit crunch” seems to have mostly affected health-related private investors or medical insurance schemes and undermined some forms of public/private partnerships. Budget cuts or budgetary measures significantly affecting health or other social sectors have only been observed so far in a limited number of countries – although there are signs that they could become more frequent and drastic in the near future.

14. Currency depreciations are increasing the prices of imported medicines and medical devices in the countries concerned, causing initial problems to the less rich among the affected countries. Already facing threats in terms of expiry of patents on “blockbuster drugs” and rising research and development costs, the pharmaceutical industry has signalled difficulties in accessing credit and seems to expect additional downward pressures on drug prices.

15. Whether or not it is related to unemployment, the foreseeable reduction in household income could affect private expenditures on health and the ability of families to pay for health care. So far there are no reliable data – but there is some anecdotal evidence – of any major deterioration of financial accessibility to health care in Europe (compared to the United States, where some red-light signals have already been observed), but reduced access to complementary medical insurance has in some cases been reported.

16. It is known that non-adherence to medical treatment could in the longer term result in wider prevalence of disease, complications of chronic conditions and increased drug resistance in the case of infectious diseases. However, only limited changes in effective health service utilization and consumption of medicines have been observed – an important fact since, in middle-income European countries, out-of-

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<sup>1</sup> Roughly speaking, the health sector includes the health system as defined in the Tallinn Conference on Health Systems, Health and Wealth (“Within the political and institutional framework of each country, a health system is the ensemble of all public and private organizations, institutions and resources mandated to improve, maintain or restore health; health systems encompass both personal and population services, as well as activities to influence the policies and actions of other sectors to address the social, environmental and economic determinants of health”), together with the industry and general services directly related to that system.

pocket payments for medicines for persons with chronic conditions seems to be the biggest “risk factor” for experiencing health care-related financial catastrophe.

17. Rising unemployment, the deterioration of millions of people’s living conditions, and the additional stress caused by the crisis may lead to less healthy lifestyle choices or riskier behaviour – such as increased use of drugs and alcohol. It is known that even small changes in behaviour today, compounded over time, could manifest themselves in health outcomes years later. Signs of individuals changing their behaviour have been reported in ways that could have both positive and negative impacts on health. For example, there have been reports of increasing consumption of cheap fast food, but people in several countries also seem to have cut back on driving, turning instead to public transport and/or increased physical activity.

18. While no clear statistics are available yet on the impact of the crisis on migration, the present situation is deemed likely to trigger shifts in migration and mobility patterns, with workers (and their families) moving to countries where job prospects are brightest or returning home from countries where job prospects have deteriorated. A related global decline in remittance flows is projected, but it could remain relatively limited (less than 6%), even if specific countries could be more severely affected. Very limited changes in mobility of health workers have been observed to date.

## **Navigating through particularly difficult times**

19. According to the last IMF report, global growth rates could gradually recover in 2010 (up to 3%) though only to lower levels than the ones observed in 2007. The World Bank, the Organisation for Economic Co-operation and Development (OECD), the European Commission (EC) and some other agencies have produced similar forecasts. However, in the current economic climate, experts agree that the uncertainties attached to any forecasts are very large – the risks are many, financial market conditions will take time to normalize whatever the approach adopted, and it takes longer for industries to recruit than to fire. Not only is the outlook on the downside, but the risks of a long and deep recession or even a depression cannot be excluded.

20. The health impact of the rapid deterioration of public finances is likely to be fully felt at the end of this year, when budgets for 2010 will be discussed. In view of the levels of public debt, it is more than likely that the fiscal “room to manoeuvre” will remain limited. The deterioration of public finances and a consequent shrinking of fiscal space could force governments to adopt drastic adjustment and austerity measures. Resources for health systems could be under severe pressure in the years ahead; health authorities and related stakeholders will have to navigate through particularly difficult times in the foreseeable future.

21. As the crisis evolves, a number of issues are emerging regarding possible approaches and measures to help resolve the crisis. Some revolve around the relative priority to be given to investment versus boosting consumption in economic recovery programmes, about how to minimize social damage and protect the most vulnerable groups, and even about what role the health sector could play as an economic area to help countries get out of the crisis. So far, and while some recovery programmes occasionally include a “green investment” component with a potentially positive impact on health in the medium to long term, health-specific sub-packages can hardly be identified. In many countries however, the potential for energy-efficient investments in the health infrastructure can be explored, in order to reduce the running costs of hospitals in particular and health systems in general. This would enable a greater share of available public resources to be allocated to variable inputs supporting patient treatment (e.g. medicines and supplies) rather than fixed costs (e.g. heat, electricity).

22. The effects of the crisis on health and health systems will vary significantly from country to country, depending on the structure of their economy, their dependency on exports and/or fluctuations in their domestic currency, as well as the policy actions developed by their government. There will certainly be no “one size fits all” or ready-made approach. In such a context, solutions will have to be customized to meet countries’ specific needs. Exchange of information and experience between countries and

coordination of activities will certainly be needed, but supporting the preparation and implementation of country-specific programmes has to be the top priority.

23. Evidence from past crises indeed calls both for confidence in the future and for determination in action. The worst is never certain, and crises have also provided opportunities for governments to push reforms that might have been politically unfeasible in normal times. In that and other senses, crises have the potential for both positive and negative impacts on health outcomes and health systems. There is also evidence of people having developed very effective coping strategies, which have proven to remain effective long after the storm.

24. Moreover, unlike in previous crises, governments are now more sensitive to the vital importance of the health sector and to the role of health for the economy. Thanks to campaigns to introduce primary health care, Health for All and Health in All Policies, the work of the Commission on Social Determinants of Health and the Tallinn Charter on Health Systems for Health and Wealth, many policy-makers in the WHO European Region now recognize that making health services accessible is one of the most effective and efficient ways to reduce poverty and social inequalities, and that investing in health is good for social stability and for the economy.

25. The coming weeks and months still offer a window to prepare health systems better for the storm to come. As in any period of tight fiscal constraints, rationing decisions (postponement or revisions of investments, exclusion of certain services, increased co-payments or longer waiting times) may be unavoidable. Ministries of health need to identify and agree on core areas, services and activities to be fully protected, to build up both an understanding of the crisis and a consensus on solutions among key health stakeholders, and in many cases rapidly to enact long-needed but challenging essential reforms. This document includes some lines of thought about such possibilities.

26. Member States in the WHO European Region have committed themselves to strengthening their health systems based on the values and principles agreed in the Tallinn Charter (“to promote the shared values of solidarity, equity and participation through health policies, resources allocation and other actions while paying due attention to the poor and other vulnerable groups”). The particular social context will need to be carefully taken into account.

27. As stewards of their respective health systems, ministries of health have a duty to advocate for government policies that take a pro-health and pro-poor approach across all sectors. This is certainly the case when it comes to discussions with ministries of finance, in the context of economic recovery plans, regarding the share of the budget to be allocated to health and other social sectors, which should not focus merely on growth or on the immediate protection of existing jobs. However, the opportunities offered by the first wave of economic recovery programmes have been missed, as many of these have left health and environmental problems to be tackled at a later date. “Health- and environment- smart” investments could help save energy, reduce pollution, reduce security risks attached to communicable diseases, respond more efficiently to the need of the elderly and the vulnerable, and significantly reduce certain costs for both households and society as a whole.

28. In order to anticipate risks, it will be essential to make regular analyses at national and international levels of the economic and social situation and its effects on health and health systems. In many cases, the existing information systems in Member States may not be able to provide, in a timely manner, the health intelligence needed by decision-makers and other stakeholders. A WHO-supported virtual network and exchange platform and a “hot line” are being put in place at regional level to help ministries and stakeholders access relevant information and advice. Ministries or other health-related authorities may also need to function in a “crisis management” mode, emphasizing the collection of information (including anecdotal), regularly analysing the situation, articulating strategic options and suggesting anti-crisis measures and interventions.

29. With the scarce information available, as indicated, it is hard to predict with any accuracy how people in Member States will be affected. However, the experience gained and lessons learned from previous

crises helps to direct attention towards specific issues in order to anticipate difficulties, explore options and prepare anti-crisis measures. The following are not precise recipes for action but rather general recommendations intended to trigger ideas that Member States could use in their own contexts in building proposals for possible anti-crisis packages for health and health systems.

- *Establish an anti-crisis unit within the health ministry that can collect and analyse information in real time, rapidly explore strategic options and discuss (when needed) the technical feasibility and political economy of potential practical measures. Address the reorientation of activities and the reallocation of resources as much as possible, to ensure that core activities are protected and pro-poor measures are increased or extended.*
- *Processes are sometimes as important as content; keep stakeholders informed. Develop arguments to support advocacy efforts with other government departments, main stakeholders and partners even before you have drawn up a well delineated “anti-crisis package”. Maintain a permanent dialogue with trade unions, consumer associations and other bodies to help build consensus and in any case “feel the pulse” of society regarding the crisis.*
- *However good they may already be, improve direct lines of dialogue inside the government and maintain especially close links between the ministries of health and finance. Advocate for protecting health budgets and for the inclusion of health- and environment-related investments – especially cost-reducing investments – in economic recovery plans.*
- *Revise existing development plans and programmes to reduce investments in sophisticated equipment and infrastructure and increase support to more labour-intensive activities.*
- *Monitor carefully and, where appropriate, try to maintain employment in the health sector. If cost-beneficial, explore options to involve staff in preventive and primary care services. Negotiate with trade unions and staff representatives and develop initiatives to promote home-based care and other services for the elderly and the most vulnerable.*
- *Prepare for reallocation of resources to core health and health systems priorities. More specifically, reallocate funds in support of prevention of communicable diseases, including immunization and prevention of outbreaks.*
- *Get all stakeholders ready to rationalize and do better with less money. More specifically, explore options and implement measures to reduce the cost of medicines and medical devices. Develop “anti-waste” campaigns to promote all form of savings (energy, medicines, etc.) among health workers.*
- *Encourage the establishment or improvement of facility management support teams to produce specific technical guidelines and directly help managers of hospitals, primary care centres and other health services to adjust to the new context by reducing costs while protecting quality and safety.*
- *Explore and identify options for maintaining and expanding access to necessary medical services. Whenever necessary, revise benefit packages to cut non-essential benefits should that be necessary, so that the most cost-effective services are available to all.*
- *Remind everybody of the importance of addressing health inequities (as emphasized by the WHO Commission on Social Determinants of Health and in the Tallinn Charter), including analysing and monitoring their causes through robust health indicators, as well as of improving access to health care services in order to reduce the risk of poverty. Social and economic policies have an impact on how fairly health is distributed across the social spectrum and on the degree of protection from the disadvantages associated with ill health.*

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<sup>2</sup> All websites accessed 13 March 2009