

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

### Overview of the situation in the WHO European Region

#### BACKGROUND PAPER

This background paper provides a snapshot of developments related to the global financial and economic crisis in the WHO European Region since the situation worsened in 2008. It aims to portray the variety of developments and trends related to the sectors most relevant to health. It builds on selective examples from Member States and information publicly available in February 2009. It should be read in conjunction with the discussion paper on the same subject.

The document is divided into two parts. Part one, addressing the economic and social dimension, looks at developments in economic growth, public debt, currencies, labour and social implications and presents a selective overview of government responses to date. The health sector dimension is addressed in part two, focusing on health finance, health system resources, and health care provision and utilisation.

*The most recent internationally available data were used in this document, with the following limitations: first, this paper is not intended to present an exhaustive review of the situation. Second, there are substantial differences between the economic and employment data presented by governments and those available from international sources. Third, the data presented in this document have not been validated by WHO Member States or by WHO. In view of the rapidly changing situation and the lack of statistical validation, all information and data contained in this document should therefore be used with caution.*



## **Economic and social dimensions**

### **Economic growth trends**

Economic growth throughout the WHO European Region has substantially slowed down and most countries moved into recession in the fourth quarter of 2008.

In many countries in the Region, industrial production is declining, a consequence of the contraction of both external and domestic demand. Some sectors are more affected than others. The automobile industry is troubled in numerous western and central European countries including the Czech Republic, France, Germany, Italy, Portugal, Slovakia and Sweden. The housing market has seen substantial deterioration in France, Denmark, Iceland, Spain, Sweden and the United Kingdom. The construction boom that has contributed to strong economic growth rates in the past decade has reversed in many central and eastern European countries, including in Armenia, the Czech Republic, Georgia, Hungary and Poland.

International forecasts for rates of growth in gross domestic product (GDP) in 2009 have been continuously revised downwards in the majority of countries in the Region in the past six months (Economist Intelligence Unit, 2009). GDP growth has been particularly hard-hit in Iceland and Lithuania with a contraction of 12%, and substantial negative growth rates are also anticipated in Estonia, Ireland and Latvia (Table 1).

### **Public debt and public deficits**

The financial and economic crisis is having – and is likely to continue to have – major implications for the public finances of most European countries. First, government revenues are affected by the deceleration of growth and the declines in commodity prices. Second, governments are making extraordinary efforts to support the financial sector (through capital injections, asset purchases, credit lines to financial institutions, and guarantees for financial sector liabilities). Third, governments have adopted fiscal stimulus packages. As a result, fiscal balances are deteriorating and government debts are increasing. This is true for both high- and middle-income countries. (International Monetary Fund, 2009a).

In the WHO European Region, Italy currently has the highest proportion of GDP accounted for by public debt (more than 100%), followed by Greece, France, Belgium, Israel, Norway and Hungary. At least 12 countries are expected to have levels of public debt above 60% of their GDP in 2009, some of which is related to their financial commitments in economic response packages. Public debt in Iceland is expected to increase to above 100% of GDP in 2009. Public debt developments will have longer-term implications for public spending, including on health, in numerous European countries.

The European Commission expects the public deficit in the European Union (EU) to more than double in 2009, up from 2% of GDP in 2008 to 4.5% in 2009. Several Member States are projected to stay over the reference value of 3% of GDP in 2009 (European Commission, 2009).

### **Currency dynamics**

Substantial currency depreciation in central and eastern Europe is causing price increases in health-related commodities such as food, medical devices and pharmaceuticals. Depreciation is affecting Albania, Armenia, Hungary, Kazakhstan, Poland, the Russian Federation, Romania and Serbia. The Polish zloty and Ukrainian hryvna have lost about 30% of their value against the Euro and about 60% against the United States dollar, respectively, since 2008. A similar effect can be observed in Iceland and in the United Kingdom.

## Labour market and social implications

Unemployment is on the increase in most countries of the WHO European Region.

Many companies are being closed or are significantly reducing their activities. Most of the decline in employment has been in the construction and manufacturing sectors, affecting more males than females. In Belgium, nearly 3000 bankruptcies were reported in the fourth quarter of 2008 alone. In Croatia, 30 000 people lost their jobs during the first two months of 2009. A growing number of lay-offs are reported in export-dependent branches of the economy in Serbia, such as those producing food, rubber and plastics, metals and chemicals.

According to Eurostat (2008), the Statistical Office of the European Communities, in October 2008 17.2 million people were unemployed in the EU (7.1% of the active population), over half a million more than in July 2008. Significant and rapid increases in unemployment rates have been observed in Estonia (from 4.1% to 7.5%) and Spain (from 8.5% to 12.8%). During the last quarter of 2008, more than 80 000 jobs were lost in France, not to mention the reduction of temporary jobs.

In 2009, the unemployment rate is expected to be above or close to 12% in Albania, Croatia, Georgia, Ireland, Latvia, Spain and Turkey, and above 9% in France, Germany, Poland and Portugal. In France alone, according to Unedic, the National Union for Employment in Industry and Commerce, about 450 000 jobs could be lost. In some countries such as Austria, Portugal and Sweden, unemployment is higher in younger and older age groups, and disproportionately higher among people with basic compulsory education.

In Bosnia and Herzegovina unemployment is close to 30%, in the former Yugoslav Republic of Macedonia 33% and in Serbia above 17%. In the latter country, unemployment of young people is also associated with higher educational status. About 50% of young women in Serbia are unemployed. The scale of unemployment in a number of eastern European countries is believed to be under-estimated, since many people do not register as unemployed or are sent on leave without pay. In Serbia, the number of self-employed people has increased markedly; they are considered to be more vulnerable to impoverishment than public sector employees.

Wages are falling on average in the WHO European Region. Real wages have decreased by 10% in Iceland. Estonia has cut salaries of state employees by 7%. Hungary has also cut civil servant wages and has taken back pension benefits. Romania is reporting wage decreases for the first time since 2000. Cut-backs in public wage bills have been resisted in Ireland, but may come. They are also likely to come in Albania, Belarus, Bosnia and Herzegovina, and Latvia. Migrant employment opportunities are expected to decline in countries such as the Russian Federation, which has hosted seasonal workers from Armenia, Azerbaijan, Belarus, the Republic of Moldova and central Asia.

Outward labour migration in Poland and many other central European countries has declined, and the return of migrants to regular employment in their home countries has been troubled by tight labour markets (World Bank, 2008a).

Numerous countries in the Region are finding it difficult to meet their poverty reduction targets owing to the financial crisis. The World Bank finds that Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are among the 40 countries considered to be most vulnerable to increases in poverty related to the financial crisis (World Bank, 2009). There are concerns about the increasing number of impoverished people in Serbia and the large proportion of the population living in poverty. Serbia is currently also seeing a new phenomenon of an increase in urban poverty. The number of poor people in Slovenia (according to the national definition of people living on less than €21.70 per month) has increased by about 10% since November 2008, from 40 450 to 44 340 persons (over 2% of the population). Iceland has seen one of the most dramatic falls in wealth in the Region.

Rising unemployment, poorer working and living conditions and dissatisfaction with government initiatives to mitigate the crisis can be a trigger for unrest in Member States across the whole of the WHO European Region.

Table 1. Macroeconomic outlook<sup>1</sup>

Country	GDP growth (% change)		Public debt (% GDP)		Unemployment (%)	
Year	2008	2009	2008	2009	2008	2009
Reference <sup>2</sup>	(b)	(c)	(a)	(b)	(a)	(b)
Albania	6	4	51.2		12.5	12.0
Andorra						
Armenia	6.8 (a.)	1.1			6.3	
Austria	1.6	-1.6	60.3	62.1	3.8	4.3
Azerbaijan	10.8	2.5	5.9	7.1	0.8	1.0
Belarus	8.1	10.3			1.6	
Belgium	1.2	-2.0	85.7	88.2	7.9	7.8
Bosnia and Herzegovina	5.0	1.5	40.0	43.0	29	
Bulgaria	5.4	-0.6	14.9	16.5	6.3	6.9
Croatia	2.2	0.4	48.9		13.7	14.9
Cyprus	3.5	1.0	49	48	3.8	4.1
Czech Republic	3.5	-2.0	27	30.2	5.4	7.3
Denmark	-0.9	-2.5	23.2	25.4	1.9	3.7
Estonia <sup>3</sup>	-2.8	-5.0	4.3	5.8	5.3	7.3
Finland	1.6	-1.3	32.5	38.9	4.1	1.2
France	0.7	-2.5	65.4	71.0	7.4	9.0
Georgia	7.0	2.5	29 <sup>3</sup>	27.4 <sup>3</sup>	13.6	14.0 <sup>3</sup>
Germany	1.3	-2.4	64.2	69.8	7.8	9.2
Greece	1.1	-1.8	93.4	96.5	7.8	8.6
Hungary	0.4	-3.0	68.6	69.3	7.8	8.5
Iceland	-3.5	-12.3	29	109	1.8	8.7
Ireland	-2.8	-4.8	31.8	48.2	6.9	11.9
Italy	-0.6	-2.5	105.4	110.3	6.7	8.5
Israel	4.1	0.4	79.7	83.9	6.1	7.6
Kazakhstan	3.2	0.3	9.0	15.7	6.6	7.6
Kyrgyzstan	8.5	7.6	52.2	47.2	18	
Latvia	-4.6	-12.0	14.0	36.0	5.3	13.0
Lithuania <sup>3</sup>	3.2	-8.0	12.8	12.9	4.5	8.6
Luxembourg	0.6	-2.8	6.5		4.7	6.8
Malta	2.5				6.4	
Monaco						
Montenegro	6.5	2.0	26.8	32 <sup>3</sup>	14.7	
Netherlands	2.0	-2.1	41.7	43.6	4.0	5.2
Norway	1.5	-1.0	67.6	88.8	2.6	4.0
Poland <sup>3</sup>	4.8	0.7	44.8	45.8	9.8	10.4
Portugal	0.3	-2.0	64.5	69.1	8.9	9.1
Republic of Moldova	7.2	-1.0	21.9	28.8	1.5	2.6
Romania	7.7	-1.8	14.1	15.4	4.4	7.6
Russian Federation	5.6	-2.0	6.7	12.5	6.3	8.0
San Marino						
Serbia	5.4	0.0	38.0	35.0	17.6	20.3
Slovakia	6.8	2.0	35.3	37.9	7.7	9.0
Slovenia	4.0	0.5	23.0	28.5	6.7	8.1
Spain	1.1	-2.9	39.9	51.9	11.3	14.8
Sweden	0.5	-2.1	37.1	42.4	6.3	7.9
Switzerland	1.8	-1.8	44.0	44.8	2.6	4.1
Tajikistan	5.8	2.5			2.4	
The former Yugoslav Republic of Macedonia	4.9	1.0	29		33.5	35
Turkey	1.5	-1.5	39.6	40.3	10.2	11.0

<sup>1</sup> The most recent internationally available data were used in this table. There are substantial differences in economic and employment data from national and international sources. The data in Table 1 do not necessarily represent the position of WHO.

<sup>2</sup> Economist Intelligence Unit. Country Report February 2009 (or latest available); a – actual; b – estimates; c – forecasts.

<sup>3</sup> Data from national sources.

Country	GDP growth (% change)		Public debt (% GDP)		Unemployment (%)	
Turkmenistan	3.0	2.0			33,5	35
Ukraine	2.1	-6.0	10.0	11.4	3.0	4.0
United Kingdom	0.7	-3.6	52.6	62.8	5.7	8.0
Uzbekistan <sup>3</sup>	8.6	2.5	13.5	13.7	0.9	1.2

## Government responses

At global level, all financial packages amount to an estimated total of US\$ 2.8 trillion. Many western European countries have provided immediate financial relief to their banking institutions, such as credit guarantees and stabilization measures to counter liquidity problems in Belgium, Germany and Sweden. Sweden looks back to the successful recovery of its financial institutions from a crisis in the early 1990s (Box 1).

### Box 1: Drawing on experience from Sweden's banking crisis in 1992

In 1992, Sweden faced a banking crisis that it successfully handled by shifting bad assets to an independent supervisory authority to provide solutions to debts and to liquidate assets. After the crisis, the Swedish state recovered its investments by selling assets that it had nationalized. The Swedish experience has been considered as a model for financial crisis plans in the United States (Dougherty, 2008).

Most western European countries and several central and eastern European ones have launched economic stimulus plans, amounting to 0.3% of GDP in Italy (with some more measures expected to follow), 1.3% of GDP up to 2010 in France, 3.4% of GDP up to 2010 in Germany and 1.5% of GDP in the United Kingdom (International Monetary Fund, 2009b). They amount to 1.5% of GDP in Azerbaijan, 2% of GDP in the Czech Republic and as much as 15% of GDP in Kyrgyzstan. The Kyrgyz plan includes short-term measures on food security, energy, social policy and health finance. Cyprus has pledged to spend 1% of its' GDP on an economic stimulus package. Serbia has launched a €1.2 billion package (roughly 0.5% of its GDP).

The majority of stimulus plans have focused on boosting public investment, promoting employment, providing credit support and increasing private demand. It is hoped to enhance private consumption through cuts in tax rates, including payroll tax (social insurance) contributions. The EU10 countries<sup>4</sup> have provided immediate support to ensure the liquidity of their financial institutions (World Bank, 2008a). Their financial capacity to invest in economic stimulus plans is more limited. Economic stimulus plans in the Czech Republic, Germany and Hungary provide for the reduction of social health insurance contributions by employers (Hungary) and employees (Germany, the Czech Republic). Finland has adopted general tax cuts to boost employment. France, Greece and Israel have launched or introduced tax cuts for its lower- and middle-income groups. Poland has decided to establish a solidarity fund, financed through increased excise taxes on alcohol and car imports. Benefits financed by the fund will likely focus on vulnerable population groups. Slovenia has decided to increase excise taxes on alcohol, tobacco and fuel.

The Italian plan is more modest in terms of expenditure, owing to concerns about its public deficit. It is an example of a plan that is targeted at vulnerable population groups (Box 2).

<sup>4</sup> Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

**Box 2: An economic plan to support vulnerable and special population groups in Italy**

The plan includes several measures directed at low-income families and individuals, such as the creation of a guarantee fund for couples with newborn children, a family bonus, subsidies for purchasing milk and diapers for infants; rental subsidies and a halt to the increase in regional train tariffs, as well as a freeze on increases in motorways tolls. On employment, €1.2 billion have been earmarked to sustain social protection instruments, and incentives in terms of tax cuts have been decided for professors and researchers who have been working abroad and return to Italy.

Environmental experts have started to argue in favour of linking expenditures in stimulus plans with “green economy” action aimed at reducing carbon pollution through both short-term objectives (creating jobs, helping households to afford housing and cope with electricity price volatility) and longer-term ones (sustaining jobs, reducing greenhouse gas emissions, increasing energy efficiency, promoting the export of “green industries”). The extent of greenhouse gas emissions will have a longer-term impact on health. The EU in 2007 extended the commitments of the Kyoto Protocol to the United National Framework Convention on Climate Change (UNFCCC), agreeing to reduce the EU’s greenhouse gas emissions by 20% below 1990 levels by 2020; to increase the use of renewable energy sources to 20% of the EU’s overall energy mix by 2020; and to improve energy efficiency by 20% by 2020 (World Bank, 2009). So far, there is no information whether implementation of environmental plans will be postponed in view of the financial crisis.

The United Nations Environment Programme considers the Chinese and South Korean stimulus plans as leading in ecological terms (UNEP, 2009). About 13% and 7% of the volume of funding in the German and British stimulus packages, respectively, is devoted to environmental activity.

**International measures supporting governments**

Hungary has been provided with a rapid package worth €20 billion from the International Monetary Fund (IMF), the World Bank and the EU. It is also continuing to receive EU funding until 2013 for several public health programmes (cancer, cardiovascular diseases, child health), extension of health care provision (general practice, outpatient care) and IT developments. Latvia has received €7.5 billion.

Assistance for Romania is currently being considered. In view of the financial crisis, international collaboration has also been intensified with Bosnia and Herzegovina: the EU plans to provide €40 million of support to infrastructure development and small- and medium-sized businesses. Implementation of ongoing projects funded by the World Bank will be accelerated, and negotiation of new projects and consultations with other international financial institutions will be intensified.

Armenia has been awarded a US\$ 35 million grant aimed at supporting employment in rural areas through road construction and investment in infrastructure (World Bank, 2009).

Ukraine has agreed with the IMF on a US\$ 16 billion loan to cover current funding gaps. Serbia will receive a US\$ 518 million loan from the IMF and will seek further international support to keep the growth of its budget deficit under control. Belarus will receive a 15-months loan of US\$ 2.46 billion. Iceland has obtained IMF support through a loan worth US\$ 2.1 billion. Georgia has approached several institutions for financial assistance.

Although a number of measures have been taken to support individual countries, it is also clear that general flows of international remittances to countries in need will decrease.

## The health sector dimension

### Health financing

#### *State and health care budgets*

Downward revisions of state budgets for 2009 and beyond can be expected in many countries, owing to a lower revenue base.

Belgium, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Portugal and Slovakia have already announced budget revisions to adjust for lower than expected revenues. Estonia, Latvia, Lithuania, Hungary and Romania have also announced health sector budget cuts or intend to make spending cuts to balance the budget deficit. The Ukrainian health budget remains at the level of 2008, despite 21% inflation and local currency depreciation in 2008. Montenegro has cut health insurance expenditures by about 3%, partly through a reduction of its basic benefit package in primary care (mostly diminishing coverage for dental care) as a result of ongoing system reform. Budget adjustments are also expected in Belarus, Bulgaria and the Republic of Moldova, as well as in Azerbaijan, although it is hoped that the Azeri State Oil Fund will make up any deficits in revenues and that the health budget will remain a spending priority.

Initially, a number of countries had planned to expand their 2009 budgets. Increases had been announced in Armenia (about 20%), Albania (about 4.7%), Georgia (about 21%), Lithuania (13%) and the Republic of Moldova (30%), as well as in the former Yugoslav Republic of Macedonia, Kyrgyzstan and Turkey. However, most budgets were drawn up on the basis of previous revenue and spending projections, and these have since changed dramatically. It is uncertain whether these increases can be sustained. Some of these countries may have to deal with a situation where they obtain only 50% of the revenues that they had expected when developing their draft budgets.

#### *Health system financing responses*

Depending on the design of their health systems, western European countries currently seem to be considering different options for tackling declines in revenue and forecasted deficits, such as increasing state subsidies to social health insurance, introducing new distribution formulas for regional funding and containing the costs of health care provision. Decentralized health system funding, such as in Sweden and Italy, may require some adjustments in terms of transfers of central funds and redistributions between regions in view of the crisis (Box 3).

#### **Box 3: Compensating for diminished health funding at regional levels in Sweden and Italy**

In Sweden, municipal and county councils pay for the bulk of health system expenditure, with local taxes as the main source of revenue. Most county councils had already decided to raise taxes during 2008. Based on their approved budgets and taking account of reductions in current revenue projections, they can be expected to run into budget deficits during 2009, since revenue falls are greater than expected in 2008. Since deficits must be “clawed back” in the following year, developments in 2010 will be crucial when it comes to monitoring how counties and municipalities manage to bring their deficit into balance. It will also be important to monitor the spread of financial risks between the councils, and the varying options to tackle the risks.

In Italy, some regions have been assigned additional resources to fund their health sector budgets. New norms have also been established to ensure that regions align with national health targets.

The Czech Republic has cut health insurance contributions, and reductions are also considered in Hungary. In 2007, Montenegro decided to cut health insurance contribution rates from 12 to 10.5%. Germany and Austria have introduced state subsidies to tackle growing social health insurance deficits (Boxes 4 and 5).



**Box 4: Measures to tackle the plunge in social health insurance revenue in Austria**

Social health insurers in Austria reported an accumulated deficit of approximately €1.2 billion in 2008. Several of the health insurance funds expect additional budget deficits in 2009, owing to further growth in expenditure and declining revenues due to the current economic slowdown. Government plans indicate an increase of state subsidies from 2010 onwards, amounting to €450 million. In addition, a structural fund of €100 million per year is to be established. Subsidies from this fund to health insurers will be linked to efficiency

**Box 5: A new central fund in Germany introduces more government leverage on social health insurance**

In Germany, the crisis has coincided with the establishment of a new central fund on 1 January 2009, which will pool all social health insurance contributions at federal level. A standard contribution rate (15.5% of gross income, up to an income ceiling) had been set initially, but the forecast revenue base – based on 2007 figures and calculated in October 2008 – has been corrected downwards to adjust for declines in total wages, wage averages and employment. The second stimulus plan contains a further tax-based injection of funding, to lower the contribution rate to 14.9%. The government loan subsidy to the social health insurance scheme will be gradually increased up to €14 billion in 2012 (Federal Ministry of Health, 2009). Establishment of the new central fund facilitates more centralized monitoring of social health insurance revenues and increases the opportunities to effect transfers from taxed sources. The financial crisis may prove to be an important test phase for its implementation.

Coverage of services and population groups will be significantly affected. Some countries have made plans to extend coverage and some to reduce it. For instance, Georgia has extended its Medical Assistance Programme (a fully subsidized voucher for health insurance covering a government-defined package of basic health care services) to an additional 200 000 people below the poverty line. Slovenia introduced state coverage of health insurance contributions for vulnerable population groups in January 2009. Serbia is at risk of losing public coverage of some of its vulnerable population groups owing to financial constraints. However, the health ministry is continuing to implement an action plan to protect the health of its Roma population, one of the most vulnerable groups. The Republic of Moldova is currently considering refining its existing state subsidy for health insurance contributions, to ensure a sharper focus on the most vulnerable groups.

A particular concern remains over the role of private funding in adjusting for public health funding deficits. In Portugal, a political initiative has suggested abolishing or decreasing user fees in emergency and hospital care, and Slovenia is considering lowering health service user charges in general, but in most central and eastern European countries private sources of funding will be increased. Estonia, for instance, is implementing a cost containment package which includes cuts in public administration costs and reductions in sick pay benefits. It has also introduced value added tax (VAT) on pharmaceuticals. Hungary is considering raising VAT and excise taxes. Croatia is planning increases in user charges for pharmaceuticals (Box 6). Latvia is increasing or introducing user charges for primary and secondary care and co-payments for pharmaceuticals. Georgia is launching a state-subsidized voluntary health insurance scheme (Box 7).

**Box 6: Government plans in Croatia to increase health service user charges and prescription fees and promote complementary insurance coverage**

In order to reduce the health insurance deficit, the government plans to increase co-payments for pharmaceuticals and service user charges by up to 20% and promote the uptake of supplementary health insurance. Certain population groups, particularly the vulnerable and socially deprived, will be exempt from co-payments and user charges. The increased charges apply to health insurance members without supplementary state health insurance cover. Supplementary state health insurance premiums will increase, dependent on incomes. The plans are opposed by some of the opposition parties and approximately half of all the general practitioners throughout the country, who fear that higher prescription fees and higher supplementary insurance premiums will deter patients from seeking needed care.

**Box 7: Government-subsidized private health insurance scheme in Georgia**

In March 2009, Georgia launched a voluntary state-subsidized health insurance scheme which covers emergency care and a variety of primary care services for Georgian citizens between 3 and 60 years of age. Two thirds of the insurance premium will be covered by the state. The insurance policy is provided by private health insurance companies.

**Health care resources*****Human resources***

There is a mixed picture when it comes to human resources for health. In many western European countries, the health sector is one area that experienced a growth of professionals during 2008. For instance, the Austrian region of Tyrol reports a 10% increase in employment of health professionals during 2008. Germany reports an overall increase of employment of health professionals during 2008 (33 000 new employees, + 3.2%), although data from the Federal Agency for Employment show an upward trend in unemployed physicians, dentists and other health professionals since November 2008 (not seasonally adjusted).

Measures vary when it comes to increases in levels of pay of health professionals. Bulgaria and Hungary have frozen salary levels of health professionals in state-owned hospitals and the ministry of health, and Hungary has introduced a marginal cut of health professionals' wages for those who earn above a certain threshold, whereas Finland and Greece have increased the levels of pay of health professional staff, following agreement with the trade unions. Salaries of health professionals in Romania are set to rise by 7% (Economist Intelligence Unit, 2009). Slovenia is implementing an increase of health professional salaries that was planned before the crisis and which is now expected to put pressure on the health insurance budget.

***Health care providers***

We have so far no evidence of trends in reducing health care provider capacity as an effect of the financial crisis. Reducing hospital capacity by closing rural hospitals is currently being considered in Latvia but there is considerable opposition to these plans.

In Portugal, the ongoing reforms affecting providers in primary, secondary and long-term care will likely be sustained in view of the crisis, as they are expected to yield budget savings (Portuguese Republic, Ministry of Finance and Public Administration, 2009). Most countries in the Region are currently expecting to continue implementing health system reform programmes in spite of the crisis.

Several economic stimulus packages in western Europe (e.g. Danish, French and German plans) focus on boosting public investment in infrastructure, which might open up opportunities for

capital investments in health care facilities (Box 8). Greece is promoting private–public partnerships in its infrastructure investment initiative (which includes hospitals) but public funding for these initiatives is limited.

**Box 8: Stimulus package 2: Opportunities for hospital investments in Germany**

German hospitals have accumulated an investment halt of billions of Euros in recent years. The second stimulus package contains a €50 billion investment programme, for which €10 billion are earmarked for local investment programmes that can be used for hospitals regardless of form of ownership. The regions – which are responsible for capital financing of hospitals – are expected to share 25% of the investment costs (Federal Ministry of Health, 2008).

### ***Pharmaceuticals***

The pharmaceutical market is affected because the financial crisis is exerting upward pressure on drug prices. In Estonia and Latvia (Box 9), price rises are linked to VAT increases. Kazakhstan, the Republic of Moldova and Ukraine report pharmaceutical price increases of up to 30%. The general upward pressure on prices across the Region is exacerbated by country-specific currency depreciations, as in the case of Armenia (Box 10).

**Box 9: VAT increases in Lithuania push pharmaceutical prices and health care expenditure upwards**

In December 2008, Lithuania removed the VAT rate of 5% on pharmaceuticals. Drugs are now taxed at a standard rate of 19%, leading to a close to 14% increase in pharmaceutical prices and a 10% increase in health care expenditure in December 2008 as compared to

**Box 10: Inflationary pricing in Armenia**

Consumer price inflation in 2008 stood at 9%, a relatively high level, but dropped to 5.3% at the end of the year. However, in early March 2009, Armenia abolished the fixed exchange rate for the Armenian dram and introduced a floating rate. This led to an immediate increase in prices of commodities such as oil and food of between 20 and 30%. There are concerns that this will affect the price of essential drugs, such as antibiotics and vaccines.

### ***Health care provision and utilization***

Concerns about the effect of the crisis on the utilization of care are only now emerging. In Italy, the risk of excluding patients from dental care that traditionally comes with high levels of user charges and correspondingly heavy financial burdens on household budgets has led to a regional initiative to protect dental care for vulnerable population groups (Box 11).

**Box 11: Regional initiative to combat the risk of excluding patients from dental care in Italy**

The Italian Society for Dental Care warns that the current crisis has already been affecting the number of patients asking for dental health treatments, enhancing fears of negative medium- and long-term effects on the people's health. In December 2008 the regional council of Lazio launched a "social dental care" programme, aimed at meeting the needs of those in economic difficulties.

In the eastern part of the European Region, there are substantial concerns about increases in the price of health services and pharmaceuticals. In Ukraine during first two months of 2009, for instance, health service prices increased by more than 30% compared with the same period in 2008. Price increases have a considerable effect on private health expenditures (in the form of official user charges and co-payments, payment for medicines, or informal payments) in numerous countries in the Region, and it is feared that this may deter patients from seeking the necessary care as it becomes unaffordable. Even before the crisis, in 2005 WHO recorded private health

expenditure as accounting for more than 50% of total expenditure in Albania, Armenia, Azerbaijan, Cyprus, Georgia, Greece, Kyrgyzstan, Tajikistan, and Uzbekistan (WHO, 2008). Various consequences of the crisis, particularly the downward pressure on overall public spending and rising prices for key inputs such as medicines, are already creating the potential for forcing greater reliance on private financing sources throughout the Region.

### ***Health related lifestyles***

One of the fears is that increases in prices of essential commodities will force consumers to adopt lifestyle changes that may affect their health. The World Bank reports the double threat of globally rising oil and food prices since 2006. Rising prices will threaten the health of households that spend between 50 and 90% of their income on food. The food situation is critical for the health of children and young people, and for pregnant and nursing women (World Bank, 2008b). Although oil prices have fallen between mid-2008 and early 2009, they are expected to increase substantially as the crisis unfolds further (UNEP, 2009). Oil price rises will further exacerbate those in food prices, owing to their effects on production, distribution and transport. The ongoing food crisis has increased price inflation by about 40% in Uzbekistan and 30% in Kyrgyzstan (Box 12).

#### **Box 12: Rising food prices in the Republic of Moldova and Kyrgyzstan.**

Following a drought in 2007, food prices in the Republic of Moldova increased by 60% from January 2007 to January 2008. In May 2008, food price inflation was estimated at 24%. For the poorest households, food constitutes 80% of total household income. The government extended a fixed one-time subsidy to all farmers to support agricultural activities in 2007.

Food price inflation in Kyrgyzstan amounted to about 32% in 2007, the highest value in the European Region. The government has introduced nutritional supplements and cash transfer programmes for the poor and vulnerable groups, including pregnant women and children under five years. The food crisis, seasonal fuel imports and agricultural modernization will require an estimated US\$ 400 to 475 million (World Bank, 2008b).

Policy concern in the WHO European Region over the burden of disease caused by alcohol and drug use and mental illness has been substantial and may be further triggered by the crisis: in Sweden, about 30% of the population is estimated to suffer from some form of mental health problem (Ministry of Health and Social Affairs, 2009).

Similar concerns relate to the abuse of illicit drugs. In Italy, for instance, a possible relation between increased heroin substance abuse and the financial crisis is being signalled (Box 13).

#### **Box 13: Can the increase of heroin seizures in Italy be related to the economic crisis?**

A causal relation between heroin consumption in Italy and the current crisis has been hypothesized, based on the argument that drug dealers seem to be push high-dependency drugs such as heroin onto the market to ensure a more reliable source of income. The hypothesis seems to be supported by an increase in heroin seizures by the police and an increase in demand for drug addiction-related services in health care facilities.

Overall, evidence of the impacts of the financial and economic crisis on health and health systems is currently sparse throughout the Region, suggesting a need for further continuous and systematic monitoring.

## References<sup>5</sup>

Dougherty C (2008). Stopping a financial crisis, the Swedish way. *New York Times*, 22 September 2008 ([http://www.nytimes.com/2008/09/23/business/worldbusiness/23krona.html?\\_r=4&em&oref=slogin](http://www.nytimes.com/2008/09/23/business/worldbusiness/23krona.html?_r=4&em&oref=slogin)).

Economist Intelligence Unit (2009). *Country reports*. London ([http://countryanalysis.eiu.com/country\\_reports](http://countryanalysis.eiu.com/country_reports)). (Note: the reports are subject to subscription fees.)

European Commission (2009). *Interim forecast January 2009*. Brussels ([http://ec.europa.eu/economy\\_finance/pdf/2009/interimforecastjanuary/interim\\_forecast\\_jan\\_2009\\_en.pdf](http://ec.europa.eu/economy_finance/pdf/2009/interimforecastjanuary/interim_forecast_jan_2009_en.pdf)).

Eurostat (2008). Euro area unemployment up to 7.7%. *Eurostat news release: euroindicators*, 28 November 2008:167 ([http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP\\_PRD\\_CAT\\_PREREL/PGE\\_CAT\\_PREREL\\_YEAR\\_2008/PGE\\_CAT\\_PREREL\\_YEAR\\_2008\\_MONTH\\_11/3-28112008-EN-BP.PDF](http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_11/3-28112008-EN-BP.PDF)).

Federal Ministry of Health (2009). *Maßnahmenpaket der Regierung stabilisiert Gesundheitssektor in schwierigen Zeiten*. Bonn ([http://www.bmg.bund.de/cln\\_117/nn\\_1168278/SharedDocs/Pressemitteilungen/DE/2009/pm27-01-09.html?\\_\\_nnn=true](http://www.bmg.bund.de/cln_117/nn_1168278/SharedDocs/Pressemitteilungen/DE/2009/pm27-01-09.html?__nnn=true)) (press release 27 January 2009).

International Monetary Fund (2009a). *The state of public finances: outlook and medium term policies after the 2008 crisis*. Washington DC (<http://www.imf.org/external/np/pp/eng/2009/030609.pdf>).

International Monetary Fund (2009b). *The size of the fiscal expansion: an analysis for the largest countries*. Washington DC (<http://www.imf.org/external/np/pp/eng/2009/020109.pdf>).

Ministry of Health and Social Affairs (2009). *Sweden's strategy report for social protection and social inclusion 2008-2010*. Stockholm (<http://www.sweden.gov.se/content/1/c6/11/42/69/1009c964.pdf>).

Portuguese Republic. Ministry of Finance and Public Administration (2009). *Stability and Growth Programme 2008-2011. January 2009 update*. Lisbon ([http://www.min-financas.pt/inf\\_economica/PEC\\_2008-2011\\_En.pdf](http://www.min-financas.pt/inf_economica/PEC_2008-2011_En.pdf)).

UNEP (2009). *The environmental food crisis*. Nairobi ([http://www.unep.org/pdf/FoodCrisis\\_lores.pdf](http://www.unep.org/pdf/FoodCrisis_lores.pdf)).

WHO (2008). *National health accounts*. Geneva ([http://www.who.int/nha/country/nha\\_ratios\\_and\\_percapita\\_levels\\_2001-2005.xls](http://www.who.int/nha/country/nha_ratios_and_percapita_levels_2001-2005.xls)).

World Bank (2008a). *EU10 regular economic report, October 2008*. Washington DC (<http://siteresources.worldbank.org/ECAEXT/Resources/258598-1225385788249/EU10+Main+Reportoct08.pdf>).

World Bank (2008b). *Rising food and fuel prices: addressing the risks to future generations*. Washington DC (<http://siteresources.worldbank.org/DEVCOMEXT/Resources/Food-Fuel.pdf?resourceurlname=Food-Fuel.pdf>).

World Bank (2009). *The global economic crisis: Assessing vulnerability with a poverty lens*. Washington DC (<http://siteresources.worldbank.org/NEWS/Resources/WBGVulnerableCountriesBrief.pdf>).

<sup>5</sup> All URLs accessed 24 March 2009