

The current financial crisis: Implications for health in the SEA region

I. The global financial crisis and its implications for SEAR economies.

1. The backdrop of the surge in fuel and food prices. Even before the current financial crisis set in the 2008, the world saw an historic commodity price 'boom' between early 2003 and mid-2008: oil prices climbed by 320 per cent in dollar terms and internationally traded food prices by 138 per cent. Inflation averaged five percentage points and all currency (except the Yen and Yuan) depreciated against the dollar.

2. The impact of the commodity price 'boom' on SEAR economies. Fuel is a major import item for SEAR countries and the surge in fuel prices increased their import bill substantially. Without a corresponding change in the prices of their exports, countries have had to pay proportionately larger export earnings for essential imports (fuel, food and also medicines) than before. Such net export earning losses ranged from as much as 36 per cent of GDP in Maldives to eight per cent in Bangladesh.

SEAR countries have made domestic adjustments to ease the situation, mainly in the form of government subsidies for fuel and food. This, in turn, increased the fiscal deficit as the gap between government revenues and government spending widened. India increased its fuel subsidy from 1 to 4 per cent of GDP in 2007, reversing the consistent reduction in fiscal deficit in 2003-07; Sri Lanka, on the other hand, already had persistently high fiscal deficits and was compelled to pass on the increase in fuel prices to consumers.

3. The nature of the current global financial crisis. Unlike the crisis of 1997, which was initiated by a collapse of the Thai baht and restricted largely to East Asia, the current crisis is different in both its origin and magnitude. Originating in the United States credit market due to distorted incentives and irresponsible sub-prime lending in 2007, by September 2008 it had rapidly become a global financial crisis of unprecedented magnitude: real GDP growth estimates are being revised downwards almost daily – from 2.5 per cent in 2007 to 1.4 per cent in 2008 for high income countries and from 7.9 to 6.5 per cent for developing countries. The prediction for 2009 is -0.1 and 4.5 respectively. The crisis is still unfolding and its magnitude will ultimately depend on corrective measures taken at each stage. What is unique about this crisis is that such measures are needed from all countries, not just from the US alone (where the crisis originated). Countries are in fact actively considering the entire range of options for rescuing their economies – even the devoutly market-oriented US government is using public works to mop up unemployment for the first time in over 50 years. Also, recovery in developed countries is only part of the solution – in the current economic order, what happens in China and India will have significant consequences for the future of the crisis. This is even more relevant in the regional context e.g. Bhutan and Nepal have indicated that developments in India will influence how the crisis impacts their economies.

4. The potential impact of the global crisis on SEAR economies.

- The main risk to SEAR countries is from the impact of the crisis on domestic investment and economic growth. Private domestic investment is constrained by the slowdown in foreign funding – India has down-sized its forecasted increase in foreign direct

investment in 2009 by over 50 per cent. Also, there is the possibility of an increase in non-performing assets of domestic banks (reflecting the lower profitability of producing for the export market). Public investment is already constrained by fiscal stress. The brunt of this will be felt in employment and earnings, in the formal sector but, especially, in the informal sector by the marginally employed who do not have a cushion of savings.

- SEAR economies are more integrated with the global economy than in the 1990s – exports account for over 20 per cent of GDP and are a major growth stimulus. As a result, depending on the magnitude and period of recession in OECD trading partners, the adverse effects on exports may be substantial.
- Foreign remittances have grown rapidly in SEAR countries over the past few years. This provides both a balance of payment cushion at the macro level and a safety net for low income households at the micro level. While remittance from the Middle East e.g. to Bangladesh are still substantially higher than in 2002 in real terms, remittance from OECD countries e.g. to India will suffer a downturn.

II. Potential implications of the crisis for health in SEAR countries.

1. Public health and health outcomes. While there continues to be some debate on the impact on health outcomes, evidence from the 1997 Asian crisis does indicate a fall in immunization rates as well as in utilisation of primary health centres, especially among the poor (evidence from Indonesia).

- Already during 2008, higher food prices may have increased the number of children suffering from malnutrition by 44 million -- Timor Leste, which is among the ten most affected countries for both stunting and wasting indicators, experienced double-digit food inflation in 2007-08.

2. Financial access to health services. Experience from previous crises indicates a fall in private (household) health spending as a share of total health expenditure. Households in SEAR countries rely heavily on their own resources to access care – over two-thirds of total health expenditure in the region is financed by out-of-pocket expenditure. In this context, the health implications of commodity price ‘boom’ and financial crisis are of particular concern:

- The poverty impact of the increase in fuel and food prices alone is estimated to have increased the number of global poor by at least 100 million and pushed those already poor further below the poverty line. Progress towards meeting the poverty MDG is thought to have been set back by seven years.
- The further poverty impact of crisis-related fall in incomes and/or unemployment will have additional adverse implications for household capacity to finance health needs, especially in case of the poor(est).

3. Public finance and provision of health services. Experience from previous crisis also suggests a greater reliance on public finance and provision of care. Government response will, in fact, be central to safeguarding the national health agenda during the crisis. In spite of being the epicentre of the 1997 financial crisis, government commitment and a comprehensive strategy for universal coverage saw Thailand emerging stronger in health than before – the crisis would appear to have been an ‘opportunity’ for long term reform. However:

- The heavy costs that the food and fuel shocks imposed on SEAR economies undermine government ability to respond adequately to health implications of the crisis. Increasing, even maintaining, public health spending in absolute terms will be challenging – both due to

the existing fiscal situation as well as the current priority of public expenditure being rescue packages to stimulate economic growth (in fact subsidies to this sector may need to be at the cost of social development, including health. Countries expect the health budget situation to be clearer at the end of the financial year but are already reporting a likely freeze on infrastructure spending (Maldives, Sri Lanka).

4. External assistance for health. Past crises that originated in developed countries resulted in significant declines in donor contributions to health. Dependence on external assistance is relative low in SEAR countries – only Timor Leste funds more than 20 per cent of health spending from this source – but:

- Important contributions are made by donors to specific areas of work e.g. tobacco and health systems development.
- So far, donors have committed to maintaining development funds – most recently in Doha. However, Gates for example has indicated that while it will still be increasing funding for health in 2009, this increase is likely to be lower than anticipated.

III. WHO support to SEAR countries to mitigate the health impact of the crisis.

WHO has set up a Working Group on the Financial Crisis and Global Health to monitor the situation and assist countries in safeguarding health during the crisis. The WG is headed by the Deputy Director General, Dr Asamoah Baah and Regional Director, Europe, Dr Marc Danzon with representation from all regions and regular consultations held with global experts. The WG has produced guidance materials (see link below) which underline WHO's commitment to:

1. Prioritising health. Much progress has been made in profiling health in national and global development agendas. WHO will work with ministries of health in SEAR to:

- Continue to advocate for health at country level, particularly to **protect health budgets.**
- Emphasize the importance of health in SEAR for global health, including achievement of the MDGs, to **secure needed donor investment** to bridge urgent gaps in domestic resources. (Platforms for further regional discussion are being identified e.g. the ECOSOC meeting for the Asia Pacific region in Sri Lanka in March 2009.)

2. Primary health care. WHO continues to emphasize **PHC oriented health sector reforms as a relevant approach to address the public health implications of the crisis.**

- Health systems strategies that anchor health efforts -- public and non-state -- at the community level will be all the more relevant during the crisis.

3. Social protection for health. WHO will provide technical support to countries to scale-up **financial and social protection for health, especially for the poor.**

- The poverty impact of the commodity price boom and crisis highlights the importance of social protection for health. Countries in the region have already taken significant steps in this direction through the initiation of contributory schemes (social insurance) to supplement government efforts in a mixed system of financing. It is important this continues to be consolidated to alleviate the impact of the crisis, especially for the poor – with the **crisis even being an impetus for further reforms.**

Links: To address the growing concerns about the potential impact of the financial and economic crisis on global health, WHO Director-General Dr Margaret Chan convened a high-level consultation on 19 January 2009. Participants of the consultation included delegates from Member States, civil society, private sector, international organizations and the media. Documents are available on:

http://www.who.int/mediacentre/events/meetings/financial_crisis_20090113/en/

Glossary of key economic terms.

1. Terms of trade or TOT is the relative price of a country's export to import. The surge in fuel prices increased the relative price of SEAR country imports without a corresponding a change in the prices of their exports i.e. a deterioration in their TOT. As a result, countries had to pay proportionately larger export earnings for essential imports (including medicines) than before.

Note: for some countries, like India, that export food (rice) the increase in food prices off-set the increase in fuel prices to *some* extent: TOT deteriorated nevertheless.

2. Balance of payments has three components:

a. Current account =

- i. Balance of trade (export earning *minus* import earnings) *plus*
- ii. Net factor income from abroad (inflow *minus* outflow of investment income) *plus*
- iii. Net unilateral transfers from abroad (inflow *minus* outflow of e.g. remittance from abroad – these are inward payments from nationals of a country working abroad. As noted, this provides both a balance of payment cushion at the macro level as well as a safety net for low income households.)

b. Financial account =

- i. Net Foreign Direct Investment (FDI): increase in foreign ownership of domestic assets *minus* increase in domestic foreign ownership of foreign assets *plus*
- ii. Portfolio investments (stocks and bonds)
- iii. Other investments (e.g. transactions in currency)

c. Capital account = inflows and outflows of payments and transfer of ownership of fixed assets (capital goods) e.g. heavy machinery.

As noted, much of the impact of the commodity price surge and the crisis impact SEAR economies through the balance of trade and FDI.

3. Fiscal deficit, quite simply, is the gap between government revenues and government spending. Increasing public subsidies to adjust for the fuel and food price boom without an increase in taxes caused this gap to widen in SEAR countries. This existing **fiscal stress** constraints government response to the financial crisis.

4. Public works – construction activities (roads, bridges) – have been used to provide government-supported employment during times of economic stress. This is usually restored to in countries where economic policy does not rely on market solutions.