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Macroeconomic overview

In the year 2009 dealing with the consequences of the economic crisis prevailed. The previously envisaged 2-3% economic decline turned out to be much larger, 6.5%. Despite the heavy economic downturn the government succeeded in managing the budget and the deficit will presumably be somewhere around 4%, which is still a bit higher than the

originally planned 3.8%. Table 1 contains some of the important data on the Hungarian economy.

One of the main changes of 2010 will be the introduction of the so-called super-gross taxation of earnings. This means that the employer contributions are also counted in the personal tax base. At the same time the tax brackets also rise so at the end the tax burden on individuals decrease.

Table 1: Main macroeconomic figures

	2008	2009 forecast	2010 forecast
Real GDP growth	0.6	-6.5	-0.5
General government balance, GDP%	-3.7	-4.1	-3.7
Primary balance, GDP%	0.4	0.5	0.8
HICP*	6.0	5.3	3.0
Gross earnings growth	7.5	2.0	1.0
Unemployment rate	7.8	11.0	10.5

*: Harmonised Indices of Consumer Prices

Sources: Eurostat, Central Statistical Office, The Central Bank of Hungary, Ministry of Finance, GKI

Health financing overview

Starting with April 2009 outpatient and inpatient financing changed substantially. Previously cases were financed with a pre-determined fee up until a certain performance volume limit. The change introduced a new, approximately 30% lower limit that is financed with a pre-determined fee, while performances above this threshold get a floating fee. The value of the floating fee equals the available budget divided by the total performance above the volume-limit. This means that the providers' total financing depends on other providers' performance too, allowing for perverse incentives towards over-reporting of treated cases. The new financing scheme did not prove to be long-lasting. Growing performances together with declining budget appropriations resulted in a plunging floating fee and making provider budgets virtually unpredictable. The main problem of provision of course was the insufficient budget. This was somewhat eased by an October agreement between the Ministry and the provider's

associations that added an extra HUF 10.5 billion to the specialist care budget. This agreement also changed the financing scheme back to the pre-April status abolishing the floating fee concept.

In July regulations concerning sick-pay were hardened in terms of wage-replacement and days of eligibility.

The revenue collection side of health financing has also changed in 2009. From July 2009 the health contribution paid by the employer declined from 5% to 2% for earnings below twofold the minimum wage, while remained 5% above. From 2010 the decline applies to all earnings. Also from next year the itemized health contribution payable after each employee will be abolished. To compensate the loss of the Health Insurance Fund due to the above mentioned measures, the central budget contribution after eligible but not insured persons (pensioners, youngsters, homeless, etc) is raised from HUF 4500/person to HUF 9300/person.

Table 2a and 2b gives an overview of the revenue and expenditure trends of the Health Insurance Fund.

Table 2a: Revenues of the Health Insurance Fund (in HUF millions)

	2008 (closing account)	2009 (budget estimate)	2010 (budget estimate)
Revenues of Health Insurance Fund	1 445 184	1 408 714	1 376 095
Contribution revenues	1 028 377	1 044 915	689 480
Central budget contributions	354 385	319 141	617 271
Other revenues connected with health insurance activities	59 015	43 698	68 364
Revenues for operation	3 382	936	936
Revenues from asset-management	26	24	44

Source: NISHR, http://www.eski.hu/alaptabla/English/Ealapki_e.xls

Table 2b: Expenditures of the Health Insurance Fund (in HUF millions)

	2008 (closing account)	2009 (budget estimate)	2010 (budget estimate)
Expenditure of Health Insurance Fund	1 445 111	1 417 566	1 445 503
Pension provision	25 022		
Provisions in cash of the Health Insurance Fund	233 198	242 587	237 657
Provisions in kind	1 136 340	1 126 020	1 161 471
Curative-preventive provisions in kind	757 214	727 583	757 632
Primary care	121 110	119 318	118 146
Service of dispensaries	4 635	4 735	2 300
Special nursing at home	3 648	4 630	3 678
Outpatient specialist care+CT, MRI (with laboratory fund)	139 320	128 957	137 230
Inpatient care	435 269	416 458	440 671
Other curative-preventive provisions in-kind	53 233	53 484	55 607
Pharmaceutical reimbursement	325 720	343 040	345 374
Reimbursement of therapeutical appliances	41 877	42 450	45 400
Other provisions in-kind	11 529	12 947	13 064
Health insurance budgetary agencies and centrally managed estimates	23 092	23 065	20 952
Other expenditure	27 460	25 894	25 424

Source: NISHR, http://www.eski.hu/alaptabla/English/Ealapki_e.xls

Regarding forecasts for 2009, analysts expect an approximately HUF 150 billion deficit, which is considerably higher than planned.

The main reason is decreasing contribution-revenues due to dropping employment and the lowered health contribution rate.

Operation of public hospitals in Hungary

The present discussion addresses the forms of operation of publicly financed hospitals in Hungary. The discussion may also be regarded as a review of the general situation of hospitals, since public hospitals virtually mean all hospitals in Hungary. The private market in acute inpatient care involves only several small, single-profile „specialty hospitals” and one private hospital.

The ownership relations of public hospitals have not much changed in the past 20 years. In recent years the separation of ownership and operation in many hospitals may be considered a substantive change.

Distribution of hospitals by legal status

In Hungary the majority (66%) of the hospitals and clinics that are funded by social health insurance is owned by local governments, 9% are state and university institutions, and 16% are foundation or church-owned healthcare institutions. The rate of private institutions is 7%, though this involves only 0.2% of the total number of beds.

It can be noted that the characteristic area of operation of private institutions is not so much inpatient care as the more investment-intensive diagnostic services (CT, MRI, PET) and certain independent sector services (dialysis, lithotripsy), as well as some services to widen patient choice or the provision of outpatient and primary care (especially GP practices).

Distribution of hospitals by operator

There are 3 forms of operation that state and local government hospitals can take:

- The state/local government runs the hospital as a budgetary institution
- The local government runs the institution through a (for-profit or non-profit) company that is 100% its own property
- Operation is passed to an outside private enterprise

Thus public institutions can be placed in the following categories by their forms of operation:

- Local government or state property operated as public institution
- Local government or state property operated as company owned by the public body
- Local government or state

property operated as company by private enterprise

- Non-profit operation of foundation or church-owned hospital
- Commercial operation of private institution

Funding of hospitals

The recurrent and operational costs of public hospitals are financed by the Health Insurance Fund by means of contracts with the National Health Insurance Fund Administration. Capital (development, renovation) costs are funded by the maintaining entity (mostly through the owner local governments, in addition to the hospital's resources). The majority of local government and state hospitals functions as budgetary institutions. Their financial management is limited to a fix budget and they may not receive credit or draw external capital - they can partake only of the general credit received by the local governments. However, local governments spend unevenly on hospital estate development and the depreciation of assets. This often hinders development activities and the modernisation of outmoded equipment and facilities in poor condition, thereby hindering the improvement of service standards. Besides the limitations of the state

and the local governments to invest in development, the real value of the hospitals' operational expenditures is also on the decrease (in acute inpatient care 86.5% in 2008, 79.3% in 2009 compared to 2004 figures). In the meantime the number of acute inpatient beds was reduced by about a quarter due to restructuring measures in 2007.

Changes in the operation of hospitals

The past years' government programmes have supported the transformation of hospitals from budgetary institutions into companies as a way to expand financial possibilities and to draw in private investors. The commercial form of operation allows more flexible adaptation and human resource management and direct reception of credit. Whether the hospitals themselves transform into companies or their operation is taken over by private companies (which decide on the form of association), their nature as budgetary institutions (the status of employees as civil servants) ceases to exist. From 2004 examples for both forms of transformation can be seen.

Out of the 126 state and local government hospitals providing acute or chronic inpatient care 36 operate as companies, plus some divisions in 3 more institutions (28-30% of the facilities). Among the hospitals transformed into companies priority institutions can also be found: hospitals in Veszprém County, Vas County and the city of Dunaújváros, as well as smaller regional hospitals (e.g. Dombóvár). Their form of operation is also variable: e.g. non-profit closed incorporated company, non-profit limited liability company.

In the course of functional outsourcing the companies generally take over only the institutions' right of operation without changing ownership relations. At the same time the investors pledge to continue the development of the assets that remain in local government ownership. It is mostly the small municipal hospitals with financial troubles who opt for this option. The 2007 hospital restructuring in their case led to significant reduction of acute care, thus in general they possess uneconomic plant size.

At the beginning of 2009 there

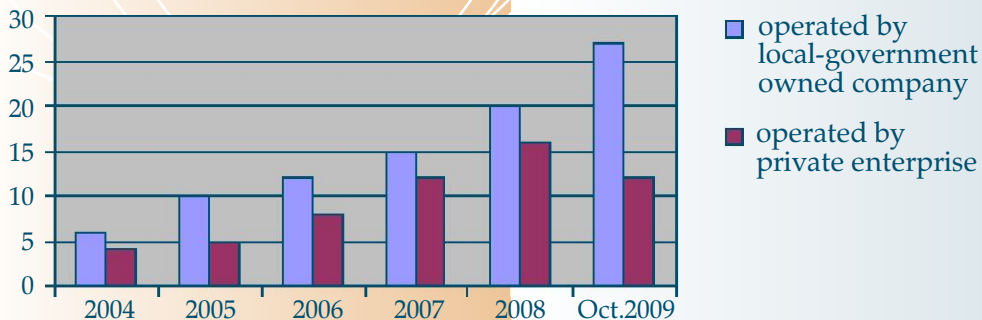
had been 8 private companies operating hospitals: Hospinvest, Medisyst (seceding form Hospinvest in 2006), Palotahosp, Medcenter, Mega-Logistic, Medical Investment, Budai Egészségközpont, Releváns Befektető. Altogether they operated 16 institutions or part of an institution. The largest and best-known private company for hospital operation was HospInvest. Since its establishment in 2000 the company assumed ownership of the first facility, the hospital in Kiskunhalas in 2004, then had run additional 4 hospitals (Gyöngyös, Hatvan, Parádfürdő, and the largest of all, the Eger County Hospital), as well as 5 outpatient clinics. When HospInvest won the right of operation of the Eger County Hospital, it was caught in the crossfire between the municipal government and the county assembly - the former politically allied with the opposition majority, the latter with the governing party majority. Owing to this circumstance its activity was accompanied by constant demonstrations and protests. After its largest investor (with 30% share), the European Bank for Reconstruction and Development broke its partnership in the spring of this year, HospInvest failed to find a

business partner and in June 2009 submitted to the court its request of liquidation. Out of the healthcare facilities operated by HospInvest, 4 were taken over by local government-established non-profit companies, and one hospital's operation was won by Medical Investment through tendering. In November 2009 Medisyst - the largest operator after HospInvest - announced that it would return the right for operation of 3 hospitals to the local governments. The decision was justified by claiming that due to legal regulations the operation of a healthcare institute costs more if carried out by a private company

than if carried out by the local government or a state agency (e.g. it has to pay industrial tax, it does not receive supplemental wage subsidies from the Health Insurance Fund, etc.).

So far the functional privatisation of hospitals has been expanding. The operation of hospitals has been shifting in larger and larger proportion toward the form of company. In this form of operation the withdrawal of market leader operators led to the reduction of market-based operation and to the increase of operation through local government-owned companies.

Restructured local government hospitals by operators (cumulative data)



The figure does not include the withdrawal of Medisyst from hospital operation. Not counting it, the number of institutions (or part of institution) run by private enterprise is 9, however it is not yet known how the local government ensures the operation of these hospitals.

In the summer of 2009 the State Audit Office of Hungary published its report on the outsourcing of hospital activities. With respect to hospitals with transferred operation the report stated that the operators only partly comply with their contracted obligations - which in general refer to the stability of operation, the improvement of investments and service provisions - while accounting for these obligations by local governments is fortuitous. According to the State Audit Office the operators handle problems with tools similar to any other institute: e.g. matrix organisation instead of the traditional structure of hospital departments, employment of physicians by enterprise contracts, etc. An increasing problem for privately operated institutions is that they are unable to finance depreciation. The private players should create funds for depreciation costs from their operational income if they do not want to finance the capital costs from their own resources. The State Audit Office proposes to the

government to enact legal regulation on the role of the private sector in inpatient care, taking into consideration the principle of sector neutrality. To this effect it also proposes a detailed, guideline-led formulation of the basic insurance benefit package.

The Act CV of 2008 on the legal status and financial management of budgetary institutions effective from the summer of 2009 may bring change in the operation of hospitals that function as budgetary institutions. Introduction of the legislation is gradual according to the issues regulated and extends into the year 2010. On the basis of the act, from 1 January 2010 hospitals will characteristically operate as public institutions, though the possibility to become an enterprising public institution will also be given. Such an institution will be entitled to limited exercise of ownership rights, independent financial management of its assets, and reception of credit for development.

Medical tourism in Hungary

Medical tourism is on the agenda of our everyday life. Its importance is even growing with the changing expectations of patients towards service provision. Traditionally medical tourism all over the world was primarily oriented towards facilities built over natural resources - for rehabilitative purposes -, while by now it has become an industry on its own that helps patients to obtain the most appropriate treatment for their problems. This change created a new branch of medical tourism: medical tourism based on

physicians' services that began to develop besides rehabilitative tourism based on natural healing resources and curative services. Patients of medical tourism may set out either from developed or developing countries. Countries issuing the greatest number of patients are the following (without attempting completeness): United States of America, United Kingdom, Germany, United Arab Emirates, Kuwait. Countries of destination are to be found in at least three continents (America, Europe, Asia). Countries receiving most of the foreign patients are Thailand, India and Singapore.



Hungary has a centuries-old tradition of rehabilitation based on thermal water, but in the course of recent decades it has been joined by dentistry, a successful branch in which Hungary has become the market leader in Europe. Besides these, providing care for foreign patients shows an upward trend in the field of plastic surgery, ophthalmology, surgery of the joints and gynaecology.

The market of dentistry, plastic surgery and ophtalmological operations attached to laser technologies is dominated by private providers. Rehabilitation, joint surgery, larger scale ophthalmology (crystalline lens and eyeground operations), care for people suffering from cancer diseases or autoimmune diseases and gynaecologic interventions are dominant in the private services of publicly financed institutions.

One of the main fields of medical tourism in Hungary is rehabilitative tourism based on thermal water. Our supply of medicinal waters is unique, the rehabilitation based on the

therapeutic factors of medicinal waters and the related establishments are well-known in the world. The natural resources allow complex therapies (covering the whole spectrum of treatments) in certain disease groups. There are 13 Hungarian settlements with “health resorts”. Thermal or medicinal baths can be found in 385 settlements, there are 66 certified medicinal baths, as well as some medicinal caves, sites of therapeutic mud and mofettes (dry baths).

The “flagship” of Hungarian medical tourism based on medical services is dental tourism, which looks back on a past of many decades. Towns at the Western border (Sopron, Győr, Szombathely, Moson-magyaróvár) were the starting points, where primarily Austrian patients came in large numbers. By now, in addition to the Western border, Budapest has also become a centre for dental tourism. At the same time the group of sending countries has been expanding; even if patients mainly come from the United Kingdom, Ireland, France, Denmark, Germany and Switzerland, the visits of Italian, Dutch, Russian patients and clients from overseas countries prove to be

more and more frequent. The most important pull factor is the extremely good price-value rate guaranteed by the country, which means that for half or one-third of the Western European prices the same high standard of medical services is ensured.

The question arises: what is the scale of the market potential of medical tourism in Hungary? We have used the data and information on the care offered for foreign patients by public and private providers to estimate the market of medical tourism based on physicians' services.

Health care provision for foreign patients by publicly financed providers can be followed through the data officially supplied by the institutions. As to private patients seeking care at private providers we do not have exact data, as the activity from such provision is not measured. As a consequence we have made estimates on the activity of this market segment. In order to assess the number of patients arriving in our country, we made use of data issued by the Central Statistical Office, the "Treatmentabroad" database¹, special publications, the Union of the Leading Hungarian

Dentist Surgeries, as well as the Travel Offices dealing with arriving medical tourists. While assessing the whole revenue thereof, we have also taken account of the price of the medical services, as well as the tourism expenditure related to the visitors' nights spent in Hungary. According to the estimates, the whole revenue of the country (based on medical services and tourism) resulting from the export of medical services is 130-200 m EUR.

80-90% of the cases² and 50-60% of the revenues are supplied by the dental tourism of the Austrian-Hungarian borderland. The main part of the other half of the revenues comes from British, Irish, French, Danish, German and Swiss patients arriving by means of organized trips prepared by medical tourism operators. Patients arriving for consulting with public providers have not represented an important part (2-3%) of the market yet, but they may imply the potential of a future segment of the market. In this field the visits of the citizens arriving from Romania constitute a great

number of cases. Services sought for by them are mainly eye operations and gynaecological interventions and are to be paid for (prices are freely set by providers).

The acknowledgement of the central role of incoming medical tourism in Hungary is marked by

the fact that the Hungarian National Tourist Office has decided to declare the year 2011 the year of medical tourism.

¹<http://www.treatmentabroad.com/about/medical-tourism-survey/>

² without including the number of foreigners obtaining publicly financed out-patient care



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