

## **PRIVATIZATION WITHIN THE HUNGARIAN PUBLIC HEALTH SYSTEM**

**Ladies and Gentlemen,**

As you know, we have undergone significant social, economic and political changes in Hungary during the past 20-25 years. Although this process has not come to an end yet, the most important, material measures representing the essence of this shift have already been taken. This shows that Hungary is committed to democratic development, and has established a social and political scheme in which fundamental democratic rights and basic human rights are duly granted. We founded and stabilised these social and political changes by the major transformation of the economic background. Within the framework of this process and based on some roots existing in the previous regime, we implemented a comprehensive privatisation programme, as a result of which the private ownership of assets started to prevail in the Hungarian economy. It is well represented by the fact that, by now, the private sector covers more than 80% of Hungarian economy and business. At the same time, a total amount of more than 25 billion dollars of foreign working capital flew to the country, to a great extent in connection with privatisation, until the end of 2002, bringing along its manufacturing background, business relationships and the most advanced forms and methods of business organisation and management. Moreover, this capital inflow also brought to Hungary a system of company network relationships, both in connection with privatisation and through so-called green field investments.

As part of this process, the state has withdrawn from a considerable part of the economy: state ownership functions have gradually been curtailed and restricted only to a small segment of Hungarian economy. State intervention into economy and its impact on economic processes has essentially been reduced to the reasonable extent that is necessary in a mixed or social market economy. The means and methods of such intervention are characteristic of mixed economy and they are in harmony with market processes and requirements.

All of these fundamental changes, especially with regard to privatisation, not only had an impact on overall and general social, economic and political circumstances and processes, but also on all citizens, families, small or large communities. This impact was very different for various groups; depending on what basic social circumstances the affected people were living in when these changes occurred. However, I would rather talk about this in detail at the end of my short lecture, since our main topic, the privatisation of the health sector is primarily

centred around “human beings” and human issues. People get in connection with this extensive service system several times during their lives, and in many of these cases they are rather in an unfortunate situation.

### **Ladies and Gentlemen,**

Please, allow me to continue my lecture with the brief discussion of a relatively “easy” element from the multitude of issues concerning the privatisation of the Hungarian health sector. This issue is the privatisation of the Hungarian pharmaceutical industry. It is very often debated whether or not it belongs to the subject, but I decided to say a few words about it for two reasons. One of these reasons is that the health sector and the pharmaceutical industry of a country are closely connected, the interactions between these two sectors are inevitable, indeed, and they may even constitute an organic unity. The other reason is that the pharmaceutical industry, one of our sources of national pride, is and has always been one of the professional sectors of the greatest traditions in Hungary. In line with world trends, the Hungarian pharmaceutical industry was established at the turn of the 19<sup>th</sup> and 20<sup>th</sup> centuries, and the manufacturing of medicines started to develop rapidly in the 1920s. Large firms founded research laboratories, where many new chemical compounds, representing worldwide innovations, were discovered. The development of this industry was integrated with international processes.

Large companies established a broad representative and subsidiary network in foreign markets, and foreign investors also appeared among their owners. At the end of the 1940s, six companies were created through nationalisation and mergers, which continued their operation in Hungary under the conditions of restricted competition, but with a considerable scientific and research background. These firms were primarily regarded as reproductive and generic manufacturers; however, almost all of them had some original products as well.

At the beginning of privatisation, the Hungarian pharmaceutical industry seemed to be a good opportunity for investors. The protected markets that seemed to offer safety represented the greatest attraction, but a certain part of the manufacturing and R&D capacities were also attractive. The pharmaceutical industry has always been closely connected to the areas of science, education and social security, and it also played and still plays an important role in employment, domestic medicine supply and export. Therefore, a complex state privatisation strategy would have been necessary in this business sector. However, unfortunately, this strategy was not elaborated. The privatisation of this segment was arranged in a technocratic manner, without an appropriate economic policy background, often going with the flow, forced by external circumstances. Under these circumstances, corporate managements fundamentally determined the process, method and success of privatisation.

Privatisation found domestic pharmaceutical companies in a various conditions, the strategies of their management also differed, therefore, the method of privatisation also varied, but the industry could not have been privatised along a single scheme, anyway. Some companies had a firm privatisation strategy, while others just went with the flow. Those having a firm concept were obviously privatised faster and reached significantly better business results. By the end of 1996, all the six large pharmaceutical companies were acquired by foreign entities; the majority stake of five firms was bought by professional investors, while financial investors obtained the remaining one company.

All of these events well represented the fact that the so-called socialist large companies were transformed into business associations very rapidly: Biogal, Chinoin and Richter was transformed already in 1990, Alkaloida in 1991, Egis and Human at the beginning of 1992. The privatisation of these firms, carried out between 1991-1996, can also be regarded as similarly dynamic, and generated a significant privatisation income. In the meantime, pharmaceutical companies implemented a successful stabilisation programme, and owing to that, the pharmaceutical industry assets could be sold at a price much better than the average in the course of privatisation.

After privatisation the financial muscle, the market relations and the business results of these companies improved. It was only Alkaloida that made a loss, mainly owing to the economic difficulties of its first owner, the Canadian International Chemical Nuclear (ICN).

Out of the domestic pharmaceutical companies, the state continued to have a share only in Richter Rt. (with a 25% per cent of its shares is owned by the State Asset Management Company, which means that this company has the right to make independent decisions). Richter Rt. has the opportunity to become a regional multinational firm, continuing to maintain its independence.

### **Ladies and Gentlemen,**

The idea of extending privatisation to a part of the health sector was already raised in Hungary at the end of the 1980s. However, this idea was received with heated debates and protests. Therefore, on the one hand, these initiatives were partly discontinued, while on the other hand, a so-called functional privatisation was launched, mainly in hospital patient care, which meant that some areas of hospital operation (mainly in the field of diagnostics) were outsourced.

In the 1990s, considerable reform measures were taken in the health sector. These measures had an impact on the ownership of assets (the extension of local government property to the health sector), replaced the dual funding system (the funding of operations and development was separated), and a new funding system was introduced on all the three levels of health care

(in basic health care, a per capita quota, in outpatients' care, the German score system and in hospital patient care a new funding scheme based on the Homogenous Groups of Illnesses were introduced, furthermore, a lump sum and occasional funding system was also applied). The GP (general practitioner) system was introduced and the opportunity for providing general medical services as a private business activity was created, which laid down the foundation of the later privatisation of basic patient care. In the meantime pharmacies were also privatised, which also accelerated the privatisation of the whole system of health care. Furthermore, the obstacles were removed from the way of private investments (for example, the construction of private clinics, etc.), as a result of which many private hospitals and other private health facilities operate in Hungary at present. These facilities provide various health services, mostly for people with high income.

The Act on Medical Practice, passed in 2001, commenced the privatisation of basic patient care, and then, after a strong debate and many amendments, Act XLIII of 2003 on 'Health care service providers and the organisation of public health services' came into operation on 1 July 2003. This act enabled the facilities providing outpatients and hospital patients with medical services to transform into business associations, and it also facilitated the involvement of external (foreign) investors. In December 2003, the Constitutional Court rejected this latter act and sent it back to the parliament for reconsideration, which well reflects the controversy around the act and the privatisation of the health sector, which does not seem to cease even today.

Apart from the serious problems of Hungarian health care, nothing else has such a strong impact on the sector's reform processes than our accession to the European Union. Although the Amsterdam Treaty (1999) gave more power to the European Union in respect of health care policy, it clearly stated that exclusively the country concerned should make decisions regarding a country's health care policy, since health service systems significantly vary in structure and in the level of provided services even within the European Union. This is also true regarding the method of funding, the services provided by the national systems and their organisation. Therefore, harmonisation cannot become a possible short-term aim of European health care policy, at least not in the near future.

The eastern enlargement of the European Union will strengthen the need for cooperation in the health sector across borders. The hospital sector has been an exception to the freedom of service within the European Union so far. However, some decisions of the European Court of Justice simplified the use of hospital patient care outside a country's borders. Therefore, an increased use of hospital treatment outside the borders may be forecasted and must be taken into consideration. It obviously follows from the freedom of travelling and movement that patients will use the services of health institutions located in other EU member states more frequently. This need will be strengthened by the fact that in some countries (Germany,

France, Spain, Austria), the proportion of private firms is higher (between 30-50 %) in the health sector, which means that patients have to wait for a longer time to use a service or such services are more expensive.

One of the most important tasks of our country's accession to the European Union is the synchronisation the level of health care with the average of the EU. In this respect, all the Hungarian governments in power planned, as a key element of their programme, to implement some reforms concerning the health sector and enhance its working conditions. These endeavours, however, have only generated minor improvements, and the situation of our health service has badly deteriorated in many respects by now, owing to certain demographical, financial and external reasons. The differences between EU wages in the health sector and patient care continue to be extremely large, which is, naturally, attractive for possible emigrants, but it is unfavourable for domestic health care. As a result of the aging population, the low employment rate, the high proportion of shadow economy and the so-called 'fare-dodger' syndrome, the budget of the national health service usually shows negative results, which is also worsened by the fact that some capacities of the health system are oversized and the funding scheme supports the unjustified use of these capacities.

### **Ladies and Gentlemen,**

What does privatisation exactly mean in health service? In the most general sense, privatisation means restricting the scope of the public sector, or more precisely, the involvement of the private sector in health care. According to the economic interpretation of this process, the state (local government, social insurance body or other organisation) sells some of its institutions to a profit-oriented investor who is interested in maximizing its profit in the long run, or initiates the establishment of such an institution. Apart from the fact that the various forms of market mechanisms and state intervention may exist in health care schemes, the opportunity for privatisation is considerably different from that in the competitive sector. The liability assumed by the state continues to exist, moreover, transformations are carried out during the continuous operation of the scheme, ensuring that the provision of the services in question remain undisturbed in the meantime. These changes directly affect the entire society; consequently, they may involve considerable political risks. Although the whole health care system, and thus, the population may even benefit from the competition created by some market elements, regulation and professional control are more than necessary in this competitive situation. A sort of central supervision and guidance is necessary to ensure continuity and appropriate operation of services and also to prevent the society from splitting.

I intentionally used the phrase that the population *may even benefit from privatisation*, because I wanted to emphasize that privatisation is primarily a means, just one of the means,

and not the aim, and definitely not a social expectation. This is well shown by the current Hungarian public health situation, which I am going to characterise by just two closely interconnected examples. A Hungarian citizen's life expectancy is six years shorter on average than that of the majority of other European citizens, and at the same time, unfortunately, Hungary comes first worldwide in deaths caused by cancerous, cardiac and circulatory diseases. Hearing this, it is not surprising at all that in the case of some cancerous diseases, the proportion of incorrect diagnoses exceeds 20%, and as for breast cancer, the chance of survival in Hungary is the half of the chance, for example, in Finland.

Knowing this, can anyone state that the solution for the problems is only privatisation? I do not think so. Any responsible Hungarian government supported by any political party may only set one objective: the establishment of a modern, humane and compassionate health system to ensure a safe and high-quality service. The system, at the same time, shall encourage a more health-conscious life (prevention, regular screening, active life, sporting, healthy meals, etc.), and shall make the job of healing more effective and human-centred. The elements of privatisation and market competition may give some assistance in this field, which means that we must use these opportunities.

### **Dear Ladies and Gentlemen,**

As I already mentioned at the beginning of my lecture, privatisation of the health sector started in Hungary in 1988 and 1989, although some of its elements could also be seen earlier. In the middle of the 1980s about 5000 private medical practices existed, half of which was run by dentists, the rest was run by gynaecologists, surgeons and general practitioners. It was a great step for the private medical sector that social insurance subsidies were extended to medicines prescribed by private practitioners in 1988. A government decree issued in 1989 facilitated the establishment and operation of private enterprises in the health and social sector, and the foundation of private pharmacies. The decree prescribed the compulsory conclusion of a liability insurance policy (only for private service providers in those days), and the state health organisations (Public Health and Epidemic Station, National Public Health Authority) were responsible for the issuance of permits for medical enterprises. The decree, however, made the establishment of such companies considerably easier from another angle: it was not compulsory for 'one-person' health service enterprises to obtain an entrepreneur's certificate, it was enough to possess a valid permit from the National Public Health Authority. A sort of competitive situation was brought into being among various health service providers, since these requirements equally applied to everybody. The basic material condition of running a private medical practice was the maintenance of a private surgery suitable for the professional branch of medicine in question.

Private interest can also be found in several other areas of the Hungarian health service, i.e. there are many private enterprises operating in this system. There are medical services (such as plastic surgery) that have never been financed by social insurance, therefore, these services are only provided for patients by private enterprises. The proportion of private enterprises is rather high among certain medical activities. These medical activities include some diagnostic processes requiring many instruments, haemodialysis stations or infertility treatment. This is explained by the fact that in such cases National Health Fund financing is outstandingly advantageous, or the conclusion of some agreements or the allocation of some capacities are advantageous. In these areas, Hungary significantly fell behind the developed world earlier, therefore, private entrepreneurs were given the opportunity to elaborate the system and provide medical services on the basis of agreements concluded with Health Insurance Fund.

Based on the aforementioned, we may conclude that private capital and private entrepreneurs are present in Hungarian health care to a considerably greater degree than most people may think. The general practitioner system, basic dental care and pharmaceutical retail services are nearly 100% operated by private enterprises nowadays. The presence of the private sector in the transport of patients and home patient care is also growing. A significant part of the modern diagnostic hospital units, such as x-ray, computer tomography (CT), magnetic resonance examination (MR) and medical laboratories usually operate as private enterprises. The majority of haemodialysis stations are also owned by private entities. Out of the 11 operating infertility centres, only 4 are owned by the state. More than 80% of home patient care is provided by private enterprises.

The regulation of the provision of professional medical services facilitated the involvement of private enterprises in the area of new, specific medical tasks. It was especially true in professional areas where the provision of specialist patient care needed a large amount of capital investment, and for which the local governments (or the state) could not or could hardly provide the sufficient financial resources. No wonder that private enterprises operating in the area of health care have become dominant in areas where a significant capital investment is required, such as haemodialysis treatments, infertility treatments or new picture diagnostic methods. On the other hand, in many traditional, less profitable areas of specialist health care, the role of private enterprises has remained marginal. Hospitals buy a significant part of supplementary services, such as washing and cleaning, from private enterprises. So we can conclude that private enterprises operate in almost all the professional areas of health service by now. 16 % of the total amount of approximately 500 billion HUF disbursed by the Health Insurance Fund in 2002 was paid to private enterprises, which is only a small proportion of their sales revenue from all the health services provided.

My attempt so far has been presenting a picture on how far we have come so far: private capital has penetrated public health system and private undertakings have gained foothold. Apart from this however, today in Hungary a state regulated and managed public healthcare system exists, that is based on compulsory social security and in this system every citizen of the country has the right of access to the services of the public health system. The political transformation, the privatization of the public health system has left basically unchanged this provision system, which is of low efficiency, wasteful, expensive and the state can hardly finance it any longer. As a result, reforming the public health system cannot be avoided any longer.

At the same time I would like to stress that the solution, according to which the state should completely withdraw from the healthcare provision system and that it is necessary that we based the whole system on a market basis so that everybody would purchase the services on the market, etc. is not viable in Hungary today. The reason is not merely that the healthcare system is capital-scarce, but also because the social and welfare consequences of transforming the system on a market basis completely, as well as the income-situation of the individual citizens make this impossible.

### **Ladies and Gentlemen,**

As a consequence the most important question of the Hungarian reform today is what kind of health service we want to provide. We have already answered this question from the angle of content. As far as the form is concerned, three systems are possible. One of them is a *public health service* based on a general social insurance system organised and managed by the state (this is what we would like to transgress). The second is a *'market-supervised' health service system*, while the third is a dominantly *market-based health care*, which can be seen in the USA. These schemes fundamentally differ from each other in their philosophy and objectives. Again, I would like to strongly emphasize that the latter is incompatible with the present Hungarian situation.

All the three systems considered have both advantages and disadvantages. Public health services (existing in Hungary before 1990, still in operation in England and the Scandinavian states even nowadays) provide health services for everybody as part of their citizenship rights through a system of state health care. This system is fair, cheap and provides good health conditions. It has its drawbacks, though: owing to the "gradual flow" of services provided, waiting lists, inappropriate accommodation, etc. the population is not as satisfied as they should be based on the level of services. A sufficient financial background is a precondition of the good operation of this scheme.



In health care systems organised on the basis of the service principle, a compulsory social insurance scheme buys services for the insured. The organisation buying services is a public organisation, but private enterprises have a more important role here than in public health systems. This system can also be fair, the population is usually satisfied with the services provided, but it is generally more expensive. Oversimplifying this difference, we can say that state health care is cheap, covers everybody but it is less “patient-friendly”, while the latter scheme is more flexible but also more expensive.

In the United States, health services are provided by private enterprises under market conditions, moreover, public administration itself is also organised on the basis of the managerial principles of business enterprises. In American thinking, a compulsory social insurance system that is based on the contributions paid by citizens seems impossible, since it would restrict consumers’ free choice, further increase public burdens and require the establishment of a central public administration organisation, etc.

The transformation has started earlier in Hungary between a health care provided by the state (public) and a service-based scheme as the only, realistic solution: we have already launched a kind of service-based system, but the institutional background has not been appropriately transformed yet, the financing has to be refined as well. A closer connection should be established between the paying of social security contributions and the claimable services, among others. The latter is the basic method of substantially widening the circle of those paying a contribution, the strong decrease of those not paying and the creation and operation of the system of co-insurance payments. Our present situation is characterised by that fact that our health care is undercapitalised, the majority of hospitals are indebted, but their so-called “internal indebtedness” (the costs of cancelled developments, renovations, structural changes, etc.) is even more serious. The real value of state expenditure has been continuously decreasing for a long time. The fundamental restructuring of the current budgetary system for the benefit of health care is rather unlikely in the present economic situation of Hungary. Therefore, the further involvement of private resources is essential, but state resources should also be used more efficiently. One method of involving private capital is to clear the path for private ventures in additional fields of the public health system. The other form is the co-operation of public and private spheres in the framework of the so-called PPP projects. Utilizing the latter in a wider circle in the future would be useful by having a clear definition of the mutual obligations and requirements.

**Ladies and Gentlemen,**

Finally, I would like to briefly summarise the essential elements of the reform (privatisation) of Hungarian health care to be implemented.

- Several pillars should support the health insurance system, the so-called “fare-dodger” phenomenon shall be terminated or minimised (today we estimate the number of “fare-dodgers”, who use health services without the payment of health insurance contribution, as if it was provided as part of their rights of citizenship, at around half to one million).
- On such basis, so-called service packages shall be determined: the **basic package** shall include services provided as part of the rights of citizenship (as part of human rights) and the **insurance package** shall include all the services to be provided on a social insurance basis (already available at present). Finally, a **supplementary package** can also be created to cover further services provided to those who conclude voluntary insurance agreements and who are willing to pay an additional sum for extra services and comfort.
- The system of health care must also be restructured so that the efficiency of using existing capacities can be improved in the broadest sense of the word.
- This latter step shall be accompanied by the diminishing and gradual termination of regional differences and disproportionate burdens.
- The income of the players of the health sector shall be increased, terminating the cause for giving or requesting unsolicited extra money.
- Considering the present income structure, the nature and frequency of services used, it is necessary and reasonable to introduce the payment of personal contribution (self-help), continuously expanding the resources available for the purpose of health services.
- It is essential to find a solution for the problem of old-age patient care within the scheme, the first step of which may be the integration of existing social services in central and local government schemes into an organic system.
- We must stop the continuous increase of the prices of medicines within health services and we must decrease the prices in the long run. For this purpose, we should disclose the whole system of medicine prices and price subsidies. We must also encourage and strengthen a real (price) competition in the manufacturing, supply and trade of drugs.

Taking the above-mentioned challenges into consideration, the reform (privatisation) of Hungarian health service and the implementation of the process of privatisation requires the

simultaneous, harmonised solution of obviously much more complex tasks than just those related to the privatisation of the competitive sector.

I wish to emphasize that, merely for this reason, the privatisation process of the health service cannot only be regarded as an economic (business) issue in our region. Its necessity may not only be justified by merely economic, economic policy factors or reasons, but also, to the same extent, by social, human and political reasons.

The state endeavour to serve public interests and to safeguard social and economic policy values and objectives to the maximum possible extent, also required by the entire society, shall be considered natural in the privatisation of the health care scheme, furthermore, these measures shall be transparent and acceptable for the society morally and also in any other respects.

I would like to support the truth of this by one notion. I think that the important elements of the reform of Hungarian health care listed above can be regarded as professionally acceptable, well supported by facts, therefore, they are necessary.

The level of their social acceptance, however, is very low. These concerns are fuelled by the fear that only burdens will grow in the long run with the amount and level of services remaining the same. It is especially true for three million poor people, mainly for those one million citizens living under the poverty threshold. It is a big challenge for us to convince these people by facts as soon as possible.

Thank you for your attention.



**Állami Számvevőszék**  
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# **Privatisation within the Hungarian Public Health System**

**Prof. Dr. Árpád Kovács**

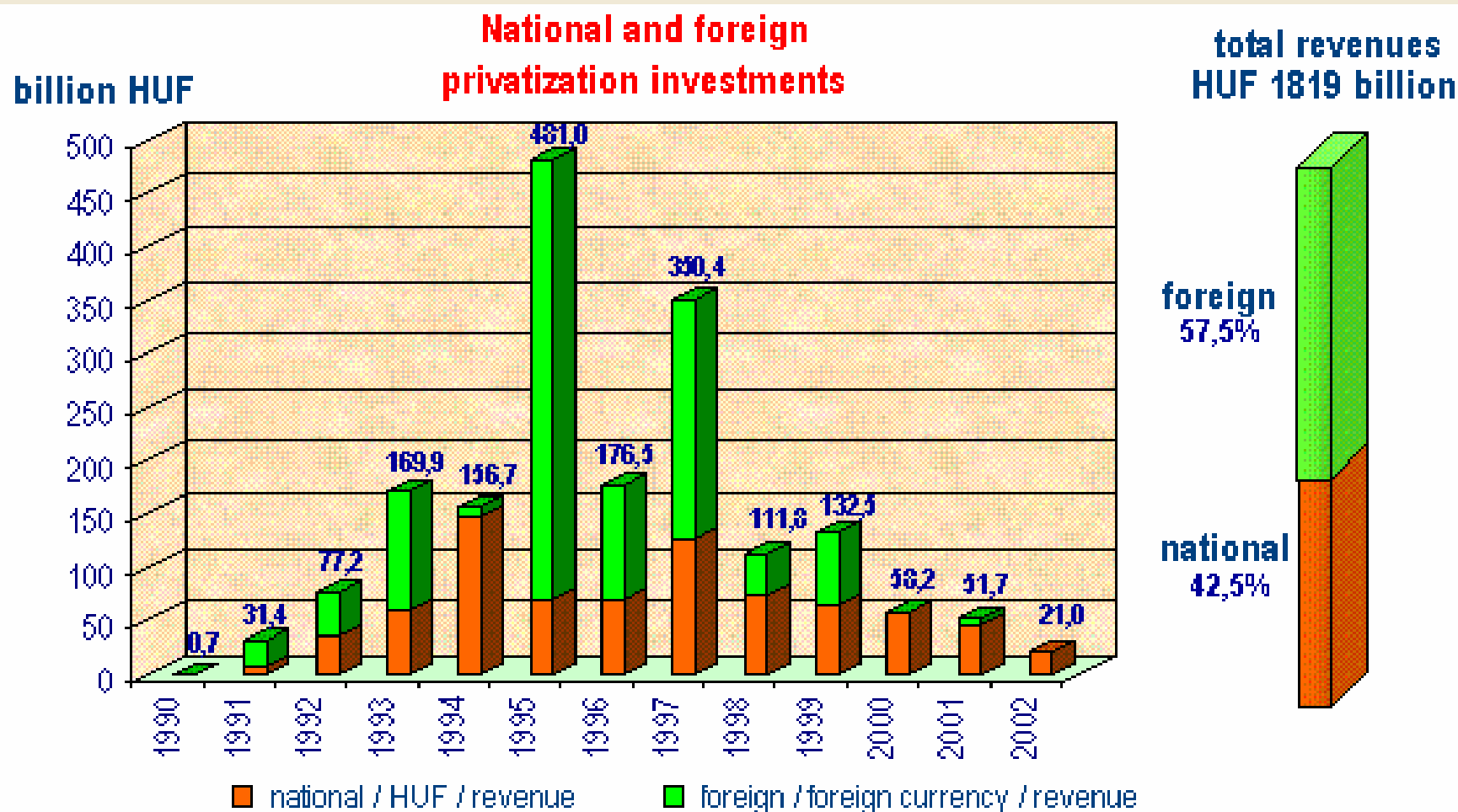
**President of the State Audit Office of Hungary and  
Chairman of the INTOSAI Governing Board**

Tunis, 2006



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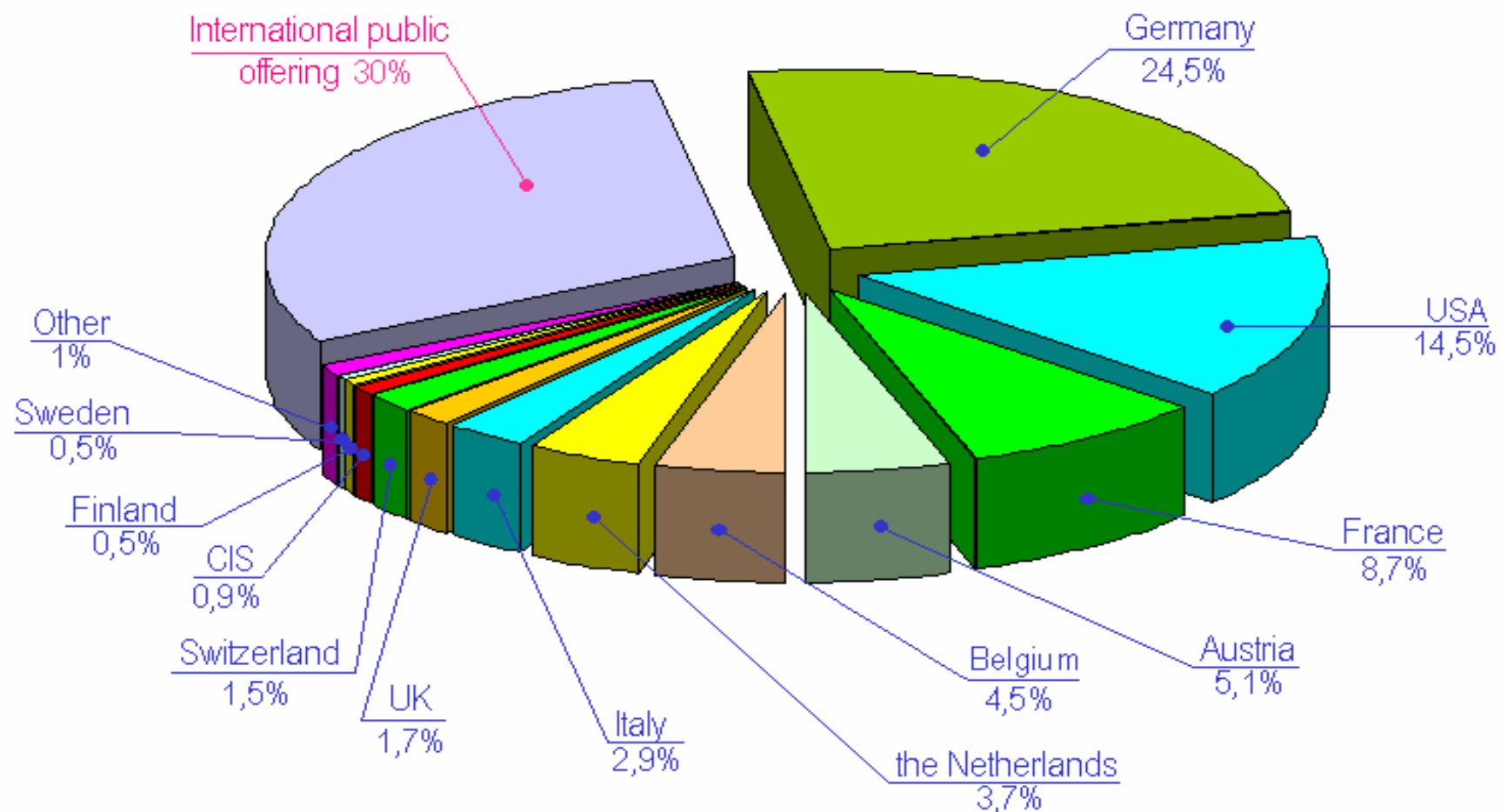


# Állami Számvevőszék

State Audit Office of Hungary

## Foreign privatization investments

as of 31 December 2002





## Privatisation of the pharmaceutical industry

Name	Date of transformation into business association, beginning of privatisation	Date of privatisation
Alkaloida	1 October 1991	30 August 1996
Biogal	1 January 1990	5 November 1995
Chinoin	1 January 1990	24 February 1991
Egis	1 January 1992	December 1993
Human	1 July 1992	December 1993
Richter	1 November 1990	October 1995





## **Privatisation of the health sector**

### **Areas privatised nearly in 100%**



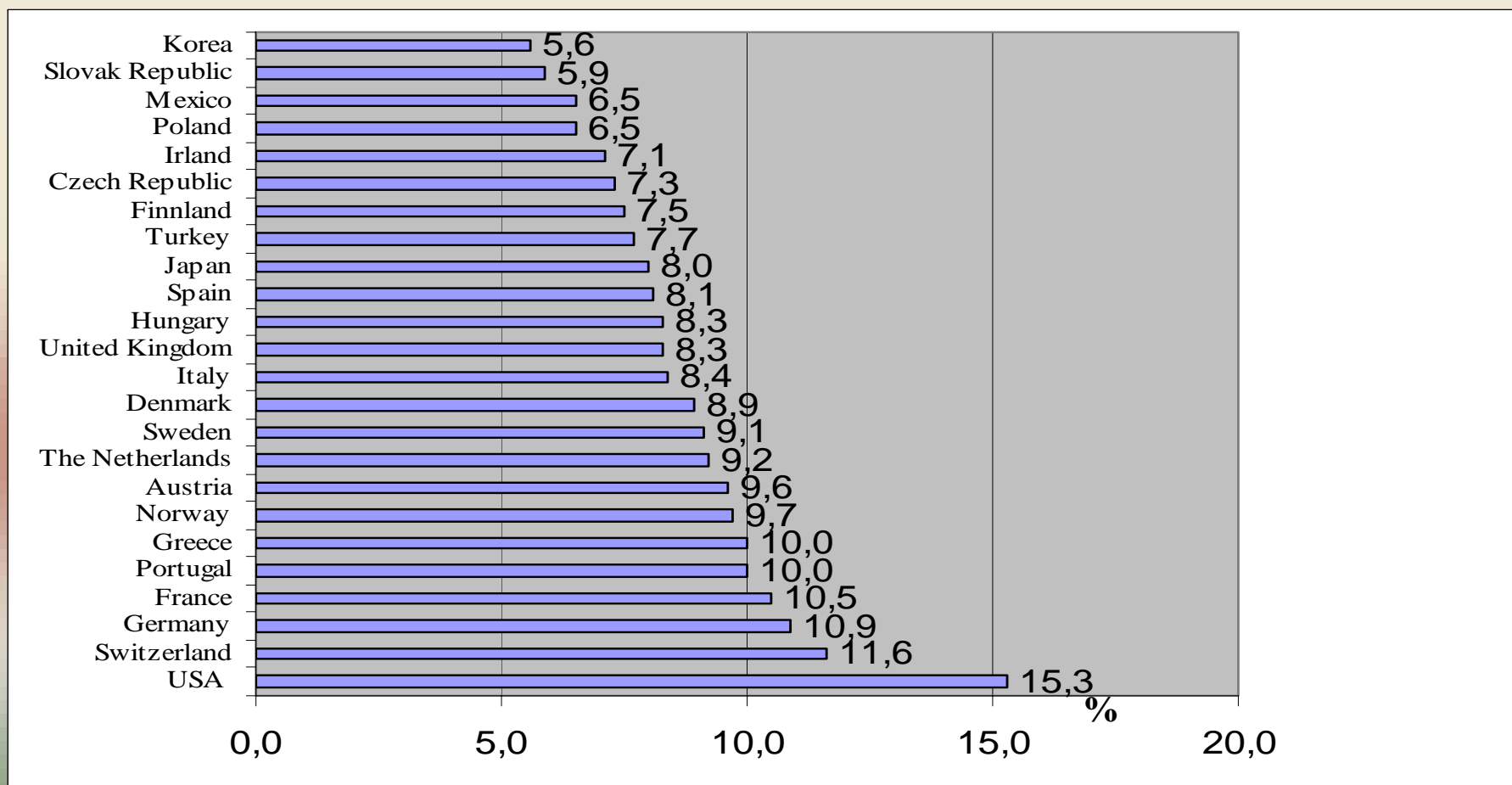
- **general practitioner system**
- **basic dental care**
- **pharmaceutical retail services**
- **transport of patients**
- **home patient care**

### **In the field of diagnostics :**

- **X-ray**
- **computer tomography (CT)**
- **magnetic resonance examination (MR)**
- **medical laboratories**
- **haemodialysis stations**
- **infertility centres**
- **assisted reproduction treatment**



## Health expenditure in relation to GDP (2004)

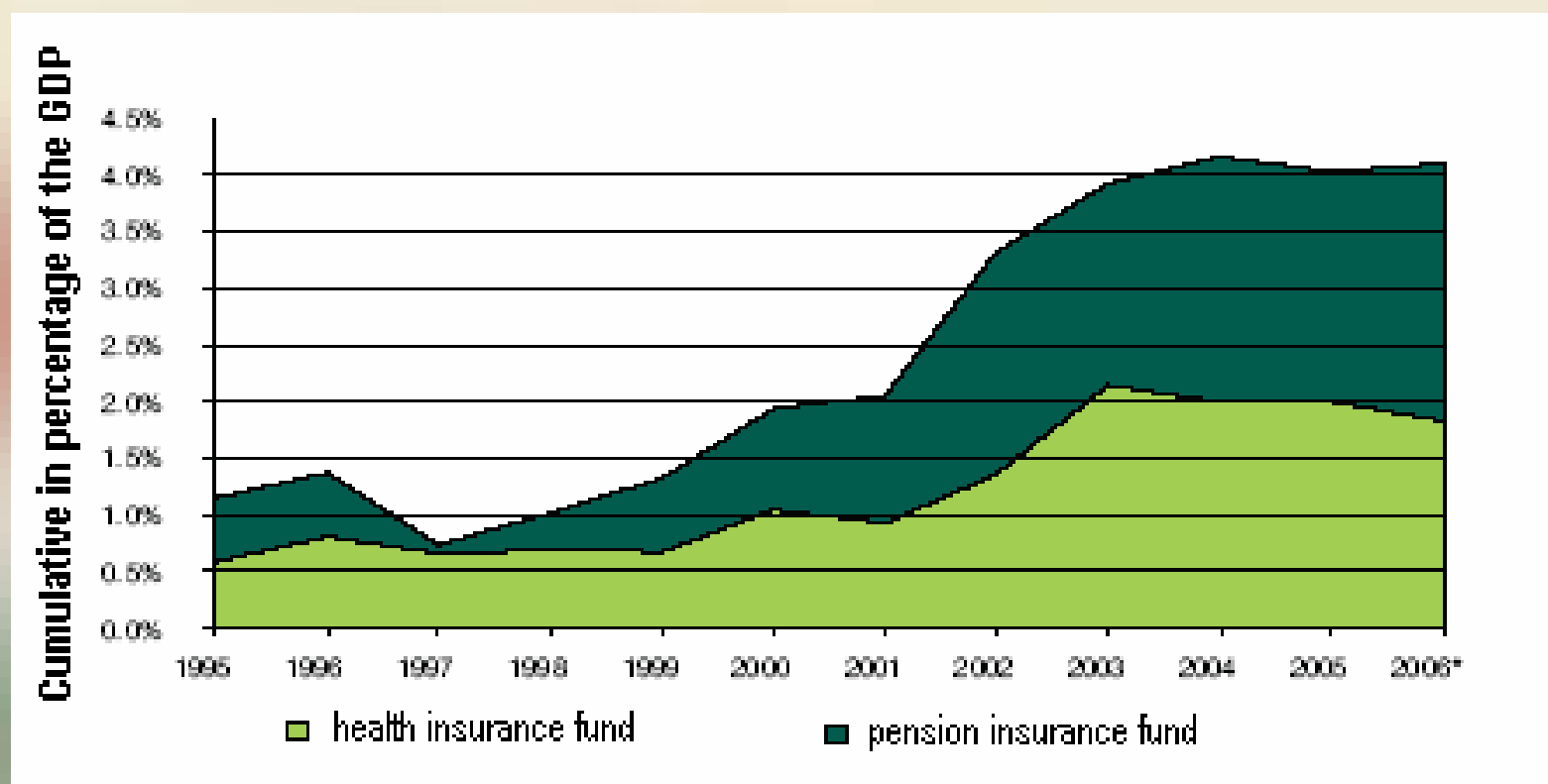


Source: OECD



## Public health situation in Hungary I.

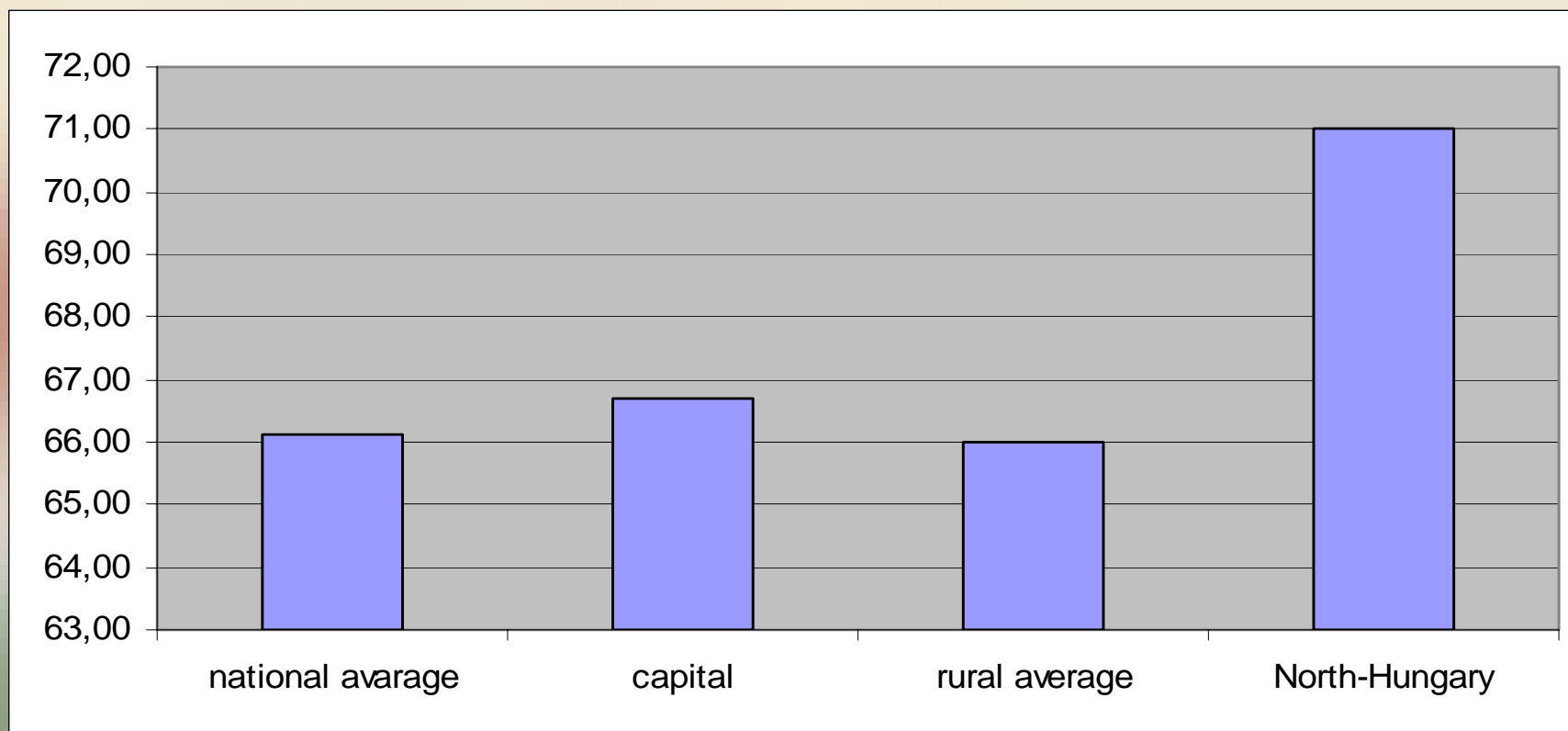
Contribution of the central budget to the social security funds





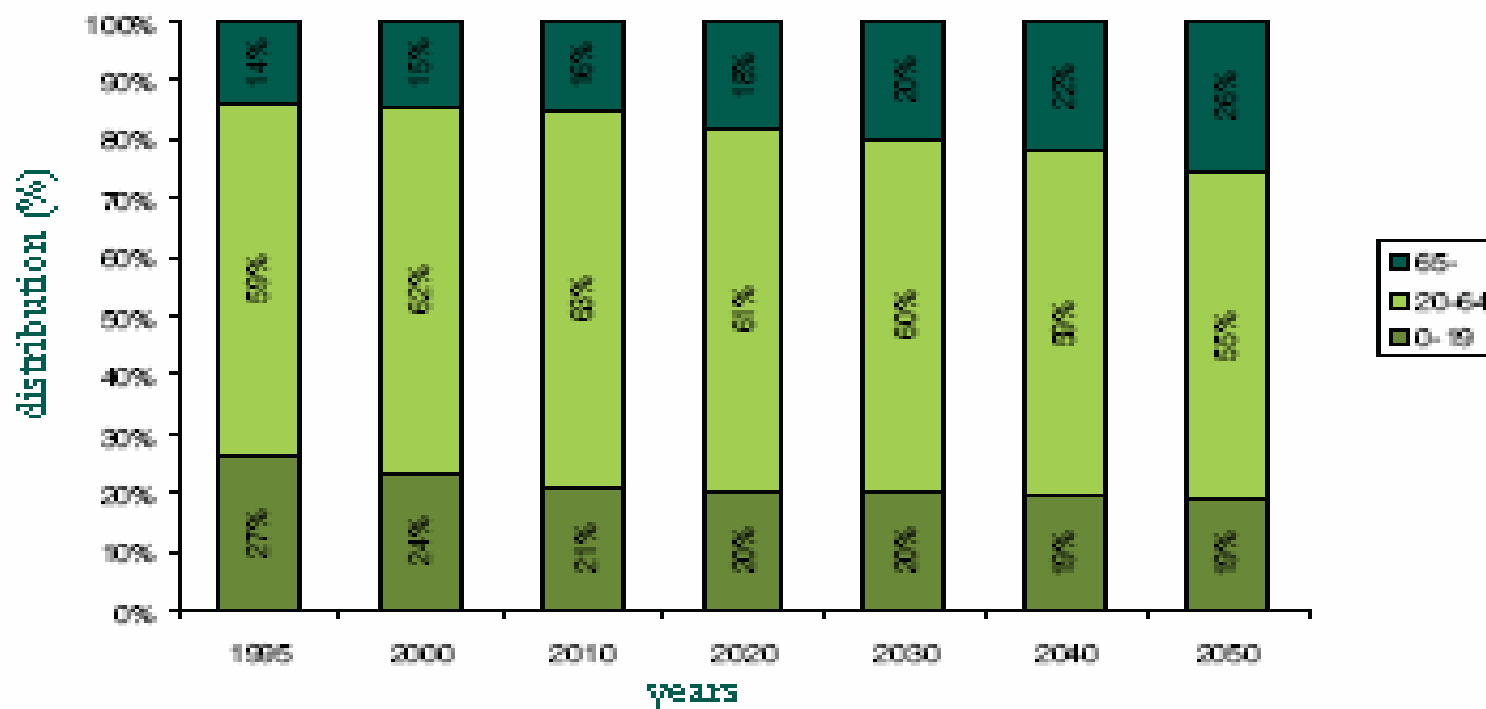
## Public health situation in Hungary II.

Number of death because of cardiovascular diseases per 10 000 capita (2004)





## Expected age structure of the population\* (1995-2050)

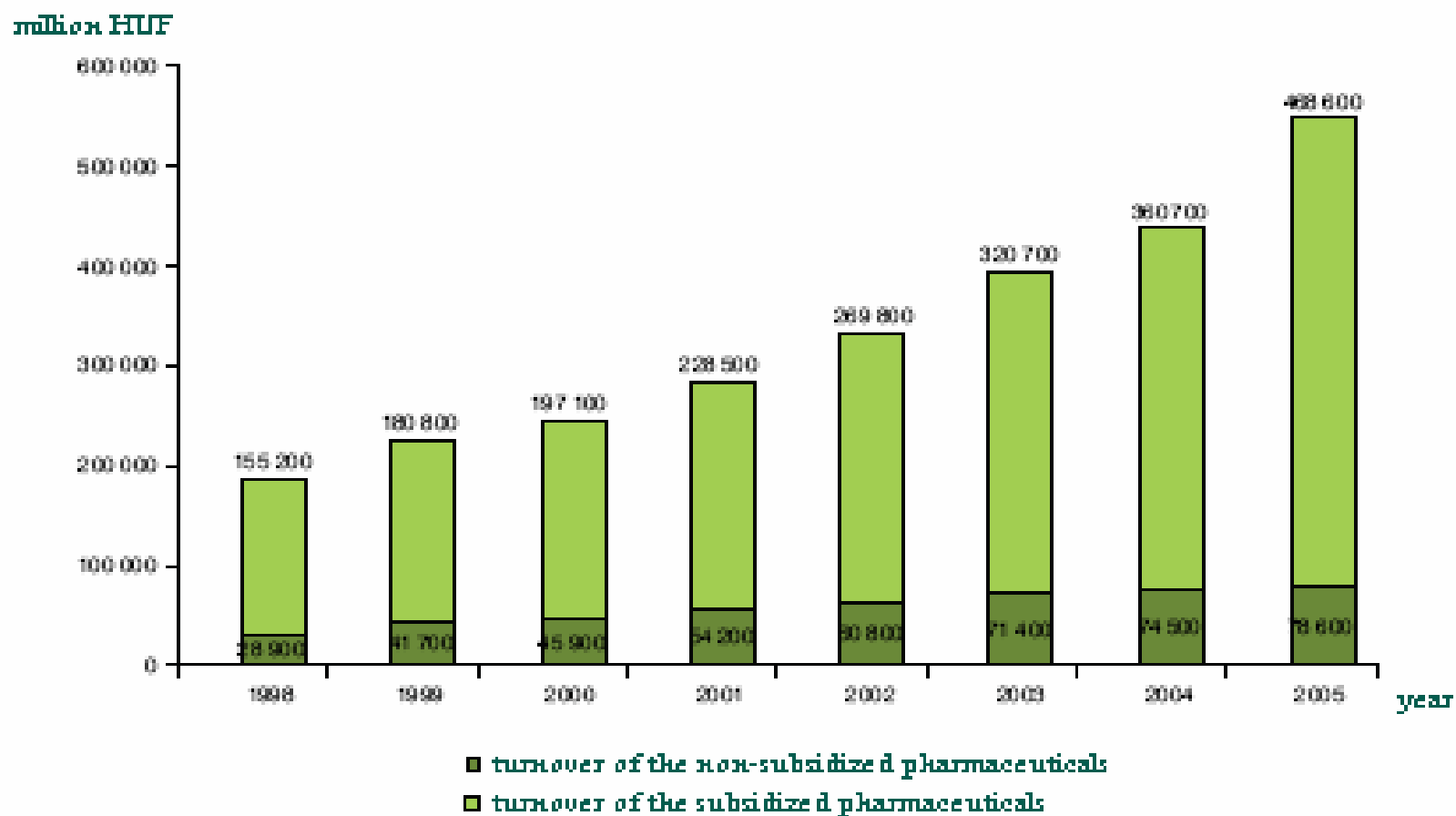


\*basic version

Source: Demography and Population policy - studies -  
Háblíček László - Tóth Pál Péter: The role of international migration in maintaining  
Hungary's population size between 1995-2050



### Changes in the turnover of the subsidized and non-subsidized pharmaceuticals (1998-2005)





## The health care system

- *public health service*: general social insurance system organised and managed by the state

**advantage:** fair, cheap and provides good health conditions

**disadvantage:** owing to the „gradual flow” of services provided, waiting lists, inappropriate accommodation etc. the population is not satisfied

- *health service system*: „market-supervised” by the state

**advantage:** the population is usually satisfied with the services provided, state health care covers everybody, more flexible services

**disadvantage:** less „patient-friendly”, generally more expensive

- *market-based health care*: health services are provided by private enterprises under market conditions

**advantage:** very flexible, high quality services

**disadvantage:** requires developed market economy, usually expensive



## Reform of the Hungarian health care

**1. Develop a more-pillar health insurance system, widening the circle of those paying health care insurance contribution**

**2. Determine service packages**

***Basic package:* services provided as part of the rights of citizenship (ambulance services, emergency services, life saving, mother and child protection)**

***Insurance package:* services to be provided on a social insurance basis (already available at present)**

***Supplementary package:* extra services provided on the basis of voluntary insurance (private room, doctor of choice, plastic surgery)**

**3. Restructure the system of health care, improving the efficient utilisation of the existing capacities**





## **Reform of the Hungarian health care (cont.)**

- 4. Diminish and terminating gradually regional differences and disproportionate burdens**
- 5. Increase the income of players of the health sector, terminating the cause for giving or requesting unsolicited extra money**
- 6. Introduce the payment of personal contribution (self-help), expanding the resources available for the purpose of health services**
- 7. Integrate the old-age patient care and the existing social services into an organic system**
- 8. Stop the continuous increase of the prices of medicines**



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**Thank you for your attention!**