

**Statement of the Fiscal Council on the 2019 Draft
Budget of the National Health Insurance Fund**



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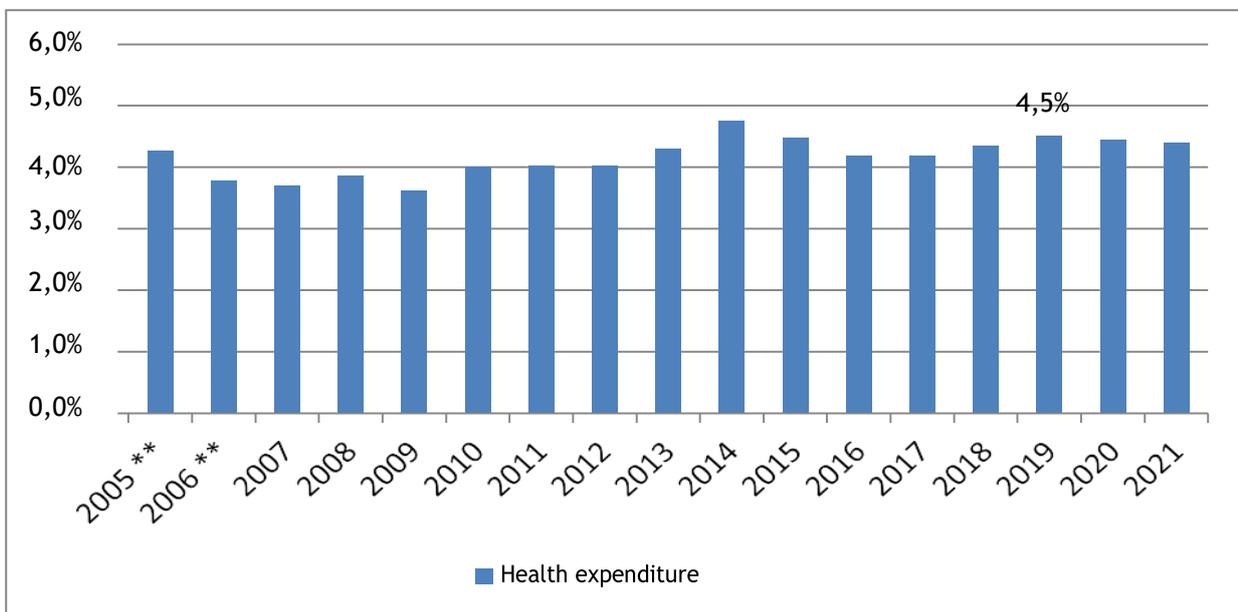
Introduction

The Draft Budget of the National Health Insurance Fund is part of the consolidated fiscal program of the Republic of Bulgaria, which is why the Fiscal Council should issue an opinion on it. Under the Law of Fiscal Council and Automatic Corrective Mechanisms, the Fiscal Council of Bulgaria monitors the compliance with the numerical fiscal rules and prepares reasoned opinions and recommendations on the draft laws and other strategic documents relevant to the compliance of the numerical fiscal rules.

Health costs

The cost of the health care function in 2019 will continue to increase reaching 4.5% of GDP (4.4% in 2018). The dynamics of healthcare spending over the past decade is shown in the following chart:

Chart. 1. Health expenditure in GDP for the period 2005-2021



Source: FC calculations

The increase in the relative share of the health expenditure highlights the priority of this stand in public spending. Higher costs, however, do not necessarily mean better quality of public services. The sufficiently high proportion of GDP shows that, in terms of

financial security, the sector has resources, but optimization of spending is a must for better results.

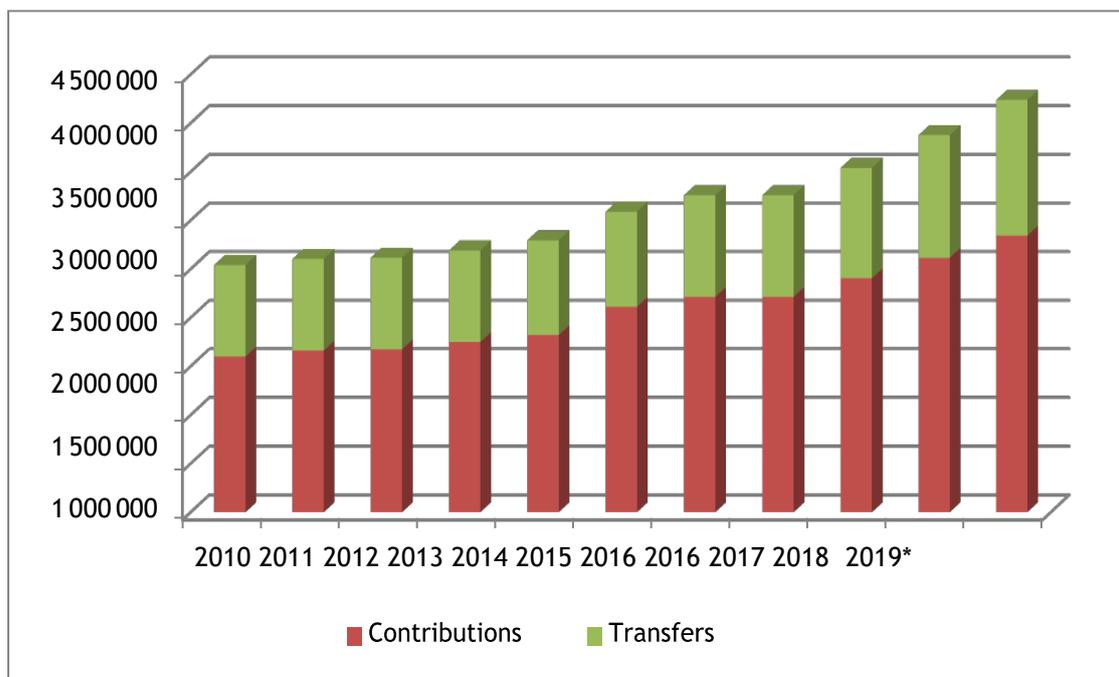
The NHIF budget law for 2019 does not create conditions for reforming the system and for improving the quality of the population's healthcare services. This budget repeats the setup from 2018. The increased revenue is allocated in a manner that creates conditions for enhancing deformations in the system.

For the first time in 2019 the NHIF Budget will exceed BGN 4 billion. The budget is planned with a deficit of BGN 50.4 million.

Revenue analysis

The total amount of the intended revenue at nominal value is BGN 4 299 603 thousand. It includes an increase of BGN 439 625 thousand compared to the NHIF budget law for 2018, which is a nominal growth by 11.4% annually. There is a steady trend of an increase of NHIF budget for 2010-2019 (Chart 2).

Chart. 2 Nominal expenditure growth of NHIF for 2010-2019



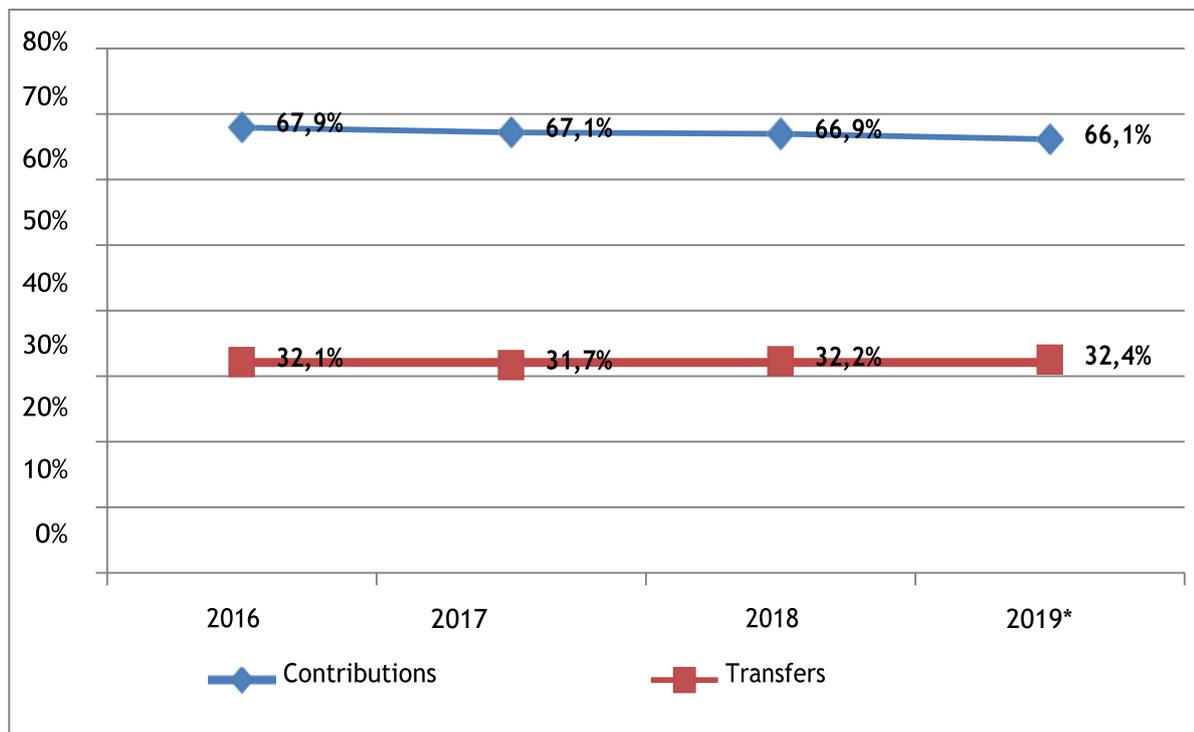
Source: FC calculations

The main components of the NHIF's budget revenues are health insurance contributions and health insurance transfers from the central budget. The amount of health insurance contributions for 2019 is BGN 2 842 254.2 thousand marking an increase by BGN 285 962.2 thousand, which is equal to 11.2% annual growth compared to the Budget Law of NHIF for 2018. The transfers from the central budget increase by BGN 132 403 thousand up to BGN 1 394 589 thousand which marks an increase of 10,5%.

In the proposed income structure for 2019, the ratio between health and transfer income is retained without significant change. Comparing the parameters set in the Law of NHIF budget for 2018 and 2019, there is a positive tendency for an upward growth of health insurance contributions over the transfers from the central budget. However, in 2018 there was a minimal over-performance of health insurance contributions (BGN 2 622.5 million compared to BGN 2 556.3 million of previous year).

As a result of this over-performance in the comparison of the NHIF budget law for 2019 with the expected performance in 2018 there is a negative (negative) trend - the growth of contribution income (8.4%) is lower than that of transfers (10.5%), i.e. the share of health contributions from total revenues is approximately 66.1%, those of transfers - 32.4%. Thus, the trend of 2016 is reinforced (Chart 3). The total share of non-tax revenues is insignificant, but the non-tax revenues register a nominal increase of BGN 2 259.8 thousand or 12.9%

Chart 3 Change in NHIF revenue structure for the period 2016-2019



Source: MS calculations

The increase in revenue from healthcare insurance contributions is mostly attributed to the increase in the minimum wage, insurance thresholds, maximum insurable income and insurance income for farmers. However, some of these measures have a negative effect on tax revenues, as the cost of social security contributions reduces the tax base. It is unrealistic to expect a significant increase in tax collection, as it has increased significantly in recent years. There are no proposals for a package of measures (legislative, economic, socio-psychological, information) to change the approach to people who are not insured. From this point of view it can be considered that the projected increase in contribution income is optimistic.

A serious problem in the health insurance system is the imbalance between the contributions the state makes for the persons it provides and the cost of their health insurance. For 2019 the state contribution for one person is approximately BGN 24, with an average of employers and workers - BGN 77.8.

In the budget of the National Social Security Institute and the Ministry of Labor and Social Policy there are no funds for the medical care provided to those who do not make healthcare contributions. This forces the treatment of this large contingent to be at the expense of health insured persons and leads to accumulation of deficits.

It is not realistic to rely on additional revenue at the expense of the population because the cost of healthcare at the expense of individuals is increasing. According to the World Bank, 50% of healthcare services are paid by patients, with an EU average of 18-20%

Despite the public debates in terms of changing the health insurance model for 2019, this is not foreseen. The contribution is maintained at 8% in the same ratio of the burden between the insurer (60%) and the insured (40%).

Cost Analysis

Total expenses and transfers – in the budget of the NHIF for 2019 amount to BGN 4 350 003 thousand, which is an increase by BGN 490 million (13%) compared to the NHIF for 2018.

Almost half of the planned increase will be utilized for pharmaceuticals (45%) - BGN 221.8 million.

The bulk of the costs (97%) are running costs, which is common. The increase in staff expenses is motivated by changes in the minimum wage and insurance thresholds.

From the increase, BGN 454 million is intended for health insurance payments.

National Health Insurance Fund proposes the following distribution of funds for health insurance payments:

1. For medical activities, according to Article 1, paragraph 2 of the Law for the National Health Insurance Fund for 2019 - BGN 2 567 164,4 thousand, including:

1.1 Primary Outpatient Medical Assistance (POMA) - BGN 225 000 thousand;

1.2 Specialized non-hospital medical aid (SNHMA) - BGN 250 700 thousand;

1.3 Medical-diagnostic activity - BGN 90 000 thousand;

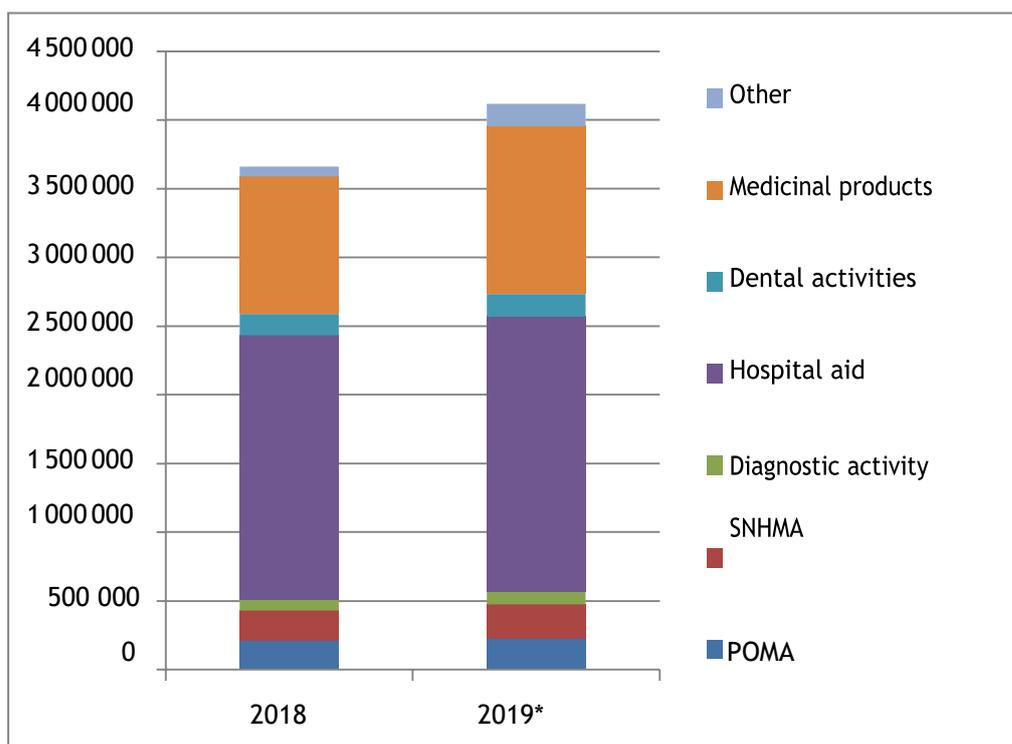
1.4 Hospital medical aid - BGN 2 001 464,4 thousand

2. For dental activities, according to Article 1, paragraph 2 of the Law for the National Health Insurance Fund for 2019 - BGN 167 000 thousand.

3. For medicinal products, medical devices and dietetic foods for special medical purposes, according to Article 1, paragraph 2 of the Law for the National Health Insurance Fund for the year 2019 - totaling BGN 1 221 800.0 thousand.

4. For health insurance payments for medical care provided in accordance with the rules for the coordination of social security systems for the 2019 project - BGN 160 431,8 thousand.

Chart 3 Change in NHIF Cost Structure



Source: FC calculations

The increase in pharmaceutical spending is highest - 22%, with a total cost increase of 12%.

No significant increase in the share of non-hospital care costs is foreseen at the expense of the transfer of hospital care activities. The share of prevention activities continues to be very low - about 12%, while the average at EU level is 20-25%.

Chart 4 Costs for Hospital aid, SNHMA and Medicinal products in EU

	Hospital aid	SNHMA	Medicinal products
Belgium	29%	20%	13%
Denmark	31%	28%	4%
Czech Republic	33%	28%	16%
France	37%	14%	14%
Estonia	34%	25%	16%
Bulgaria*	50%	13%	28%

Source: Eurostat

The share of hospital aid remains around 49.8%, with the EU average at about 30%. Measures are envisaged to limit opening of new hospitals and expansion of their activities.

There are no radical decisions to cut spending on medicines, which reach 30% of the budget, with an average of 15-18% for EU countries. Again a growth of medicines for malignancies is foreseen being estimated to reach BGN 385 million, which is about 8% of the fund's budget. The budget foresees a consecutive increase in medication by 5%. The cost of medicines reaches BGN 1 117 million.

It is envisaged the payments from the accumulated obligations for the treatment of insured persons abroad to be gradually settled. More than BGN 260 million are due.

The order and the source of repayment of hospital liabilities at about BGN 500 million are not clear. The liabilities come mostly from state and municipal hospitals. There is a

real risk that the repayment of the debts be at the expense of the funds for hospital care provided for 2019, which will further unbalance the budget of the system.

The state of municipal hospitals, most of which are facing bankruptcy, is alarming. There are no measures to preserve them as a system that directly serves more than 2 million people, predominantly of low incomes and opportunities.

Analysis of the transitional and final provisions

In the motives of the budget of NHIF suggestions have been made for legal changes in more than 20 laws, incl. Health Law, Law on Healthcare Institutions, Law on the Integration of People with Disabilities, Law on Medicinal Products in Human Medicine, etc. Major changes concern legislation related to health insurance, medical institutions and medical devices.

It is proposed "Children's Fund" to be closed. It is proposed to create a new body - Agency for Medical Control under the Minister of Health. However, the proposals do not provide detailed motives and justification for the resulting effects. An amendment to the Public Procurement Act is proposed, namely that the law should not apply when concluding a certain type of contracts.

The proposed legislative changes are a prerequisite for creating conditions for reform in the health sector. They have been made in the transitional and final provisions and have not been addressed individually according to their impact on the organization, management and financing of healthcare.

Conclusion

On the grounds of the analysis above the Fiscal Council expresses its positive opinion on the 2019 Draft Budget of the NHIF along with expectations for acceleration of the reforms in the health sector.

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