



«Cyprus healthcare reform in a European perspective»

George Panteli
Economic Director
Ministry of Finance
May 18, 2017
E.U. House, Nicosia



Contents

- Introduction
- Financing of the Health Care Sector
- Health Care Financing in Cyprus
- Fiscal and Financial Risks for Cyprus
- Step by Step Approach
- Concluding Remarks

Introduction

- The health care market entails a separate behaviour compared with other markets :
- Patient's behavior ➡ **demand** and health care providers ➡ **supply**
- There exists **asymmetric information** between patients-providers leading to economic distortions.
- That implies that this market functions more as an **oligopoly**, with harsh competition at the industry level where R&D, technology and innovation enter.
- Moreover, health care providers may induce higher demand due to a comparative advantage they devour over patients (**supply induced demand**).
- In most developed countries the most usual financing option in health care is through **government spending** due to **market failure** in providing effectively quality health care.

Financing of the Health Care Sector

The financing options of the health care system are discussed below:

- **General taxation-tax financed by the state budget.**
- The state could use **tax deductions or direct credits to redistribute health care spending.**
- Raise Public revenue through a special tax on health care - **health tax.**
- Alternatively, the government could impose **sin taxes** on harmful products for human life e.g. (cigarettes) or environmental taxes to restrict air pollution.
- Citizens could purchase health care services directly from the private sector-**out of pocket spending.**
- **Private insurance schemes**-the payment of premiums is often **tax exempted.**
- **Copayments** (cost sharing between patients and health care providers).
- **Complementary financing** by non for profit organizations or **other volunteer grants.**

Financing of the Health Care Sector



Financing of health care expenditure in Cyprus consists of a combination between the options of **tax financed with co-payments** and **private expenditure-private insurance** schemes and at a lesser extent, by non for profit organizations (Bank of Cyprus Oncology Centre and Cyprus Institute of Neurology and Genetics) through a government grant.

- In recent years (2011-2014) private health care expenditure is growing at a faster pace than public health care expenditure, especially during and after the financial crisis. This is illustrated in **Figure 1** (source: Cyprus Statistical Service, 2017).
- The allocation of total health care expenditure in Cyprus is depicted in **Figure 2** (source: European Commission, 2016).

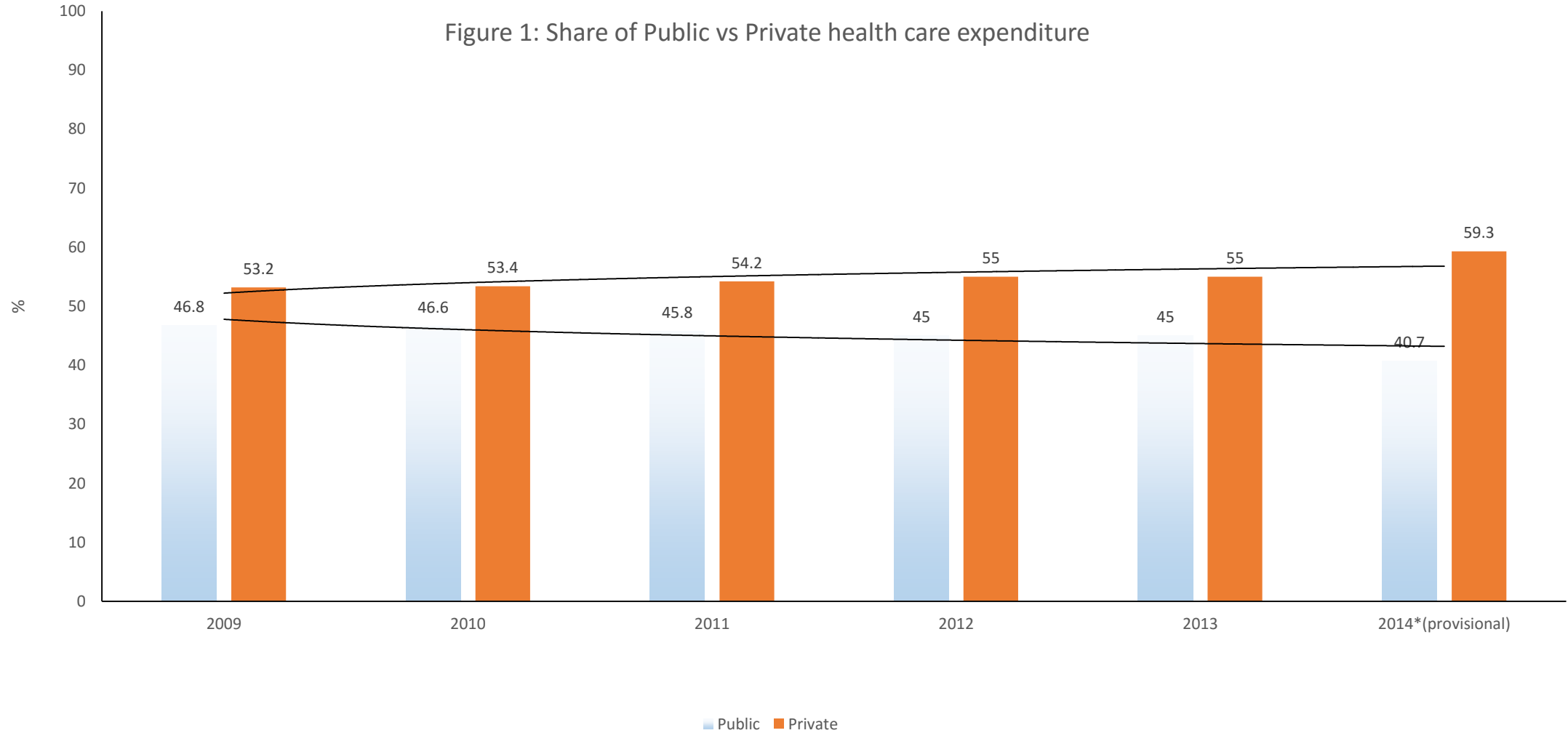
The distribution in financing is attributed mainly to:

- **High private health expenditure.**
- **Low public health care expenditure as a % to GDP**, which leads to ineffective coverage against universal coverage.
- **Cyprus has its own health care financing system** in relation to other E.U countries that spend more on public health care financing due to the existence of national health care schemes financed by the state.
- In **Figure 3** is shown that Cyprus maintains one of the lowest level of total health care expenditure as % of GDP compared with the E.U average and with countries such as the Nederland, Germany and Ireland (source: European Commission, 2016).

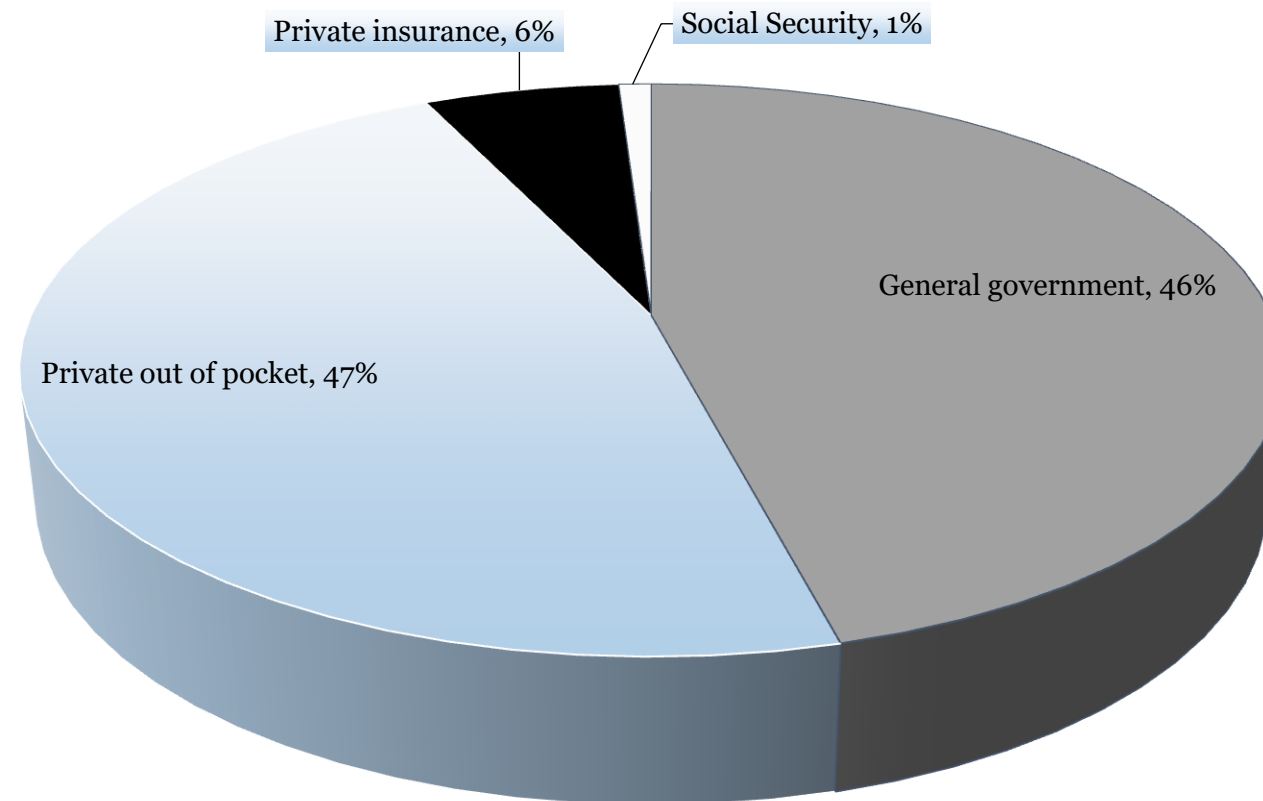
Health Care Financing in Cyprus



Figure 1: Share of Public vs Private health care expenditure

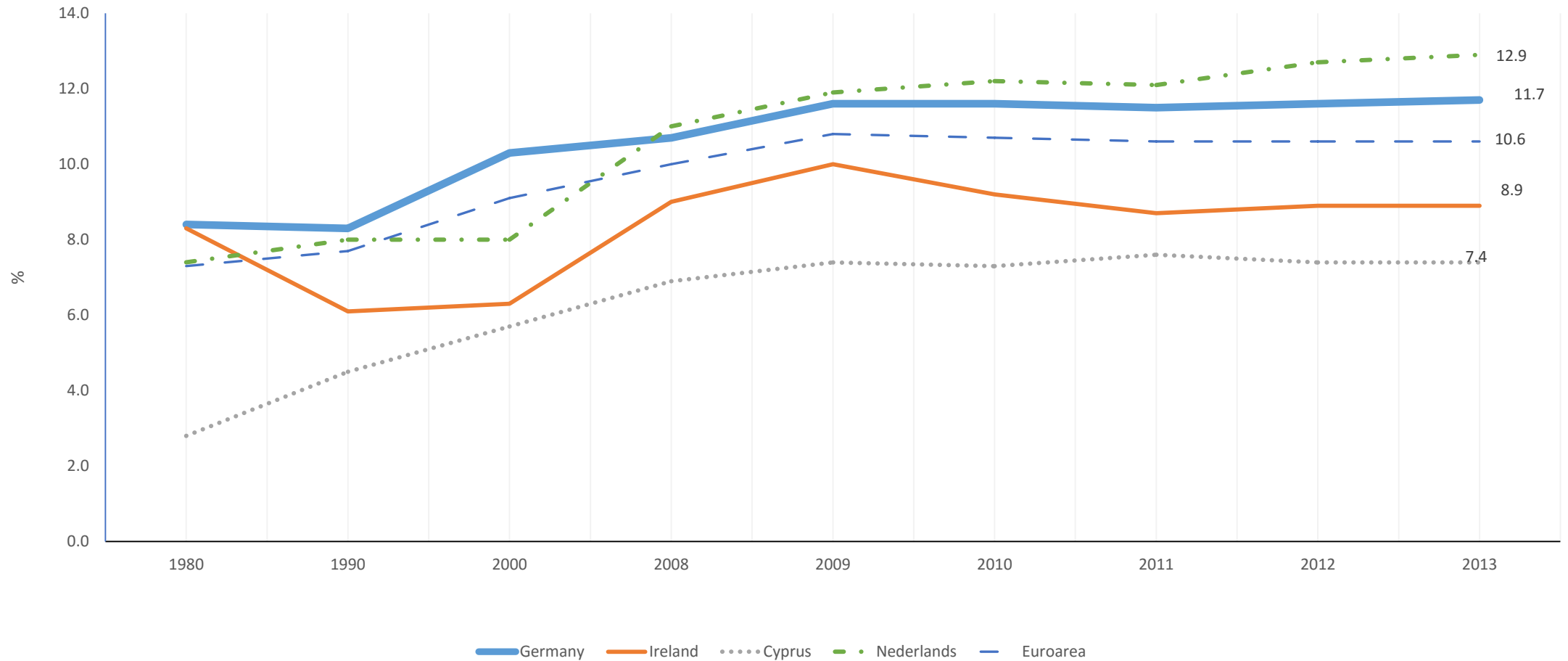


Health Care Financing in Cyprus



Health Care Financing in Cyprus

Figure 3: Total health expenditure as % to GDP



Fiscal and Financial Risks for Cyprus



- Risks for future higher health care expenditure stems from:
 - Gradual population ageing due to rise in life expectancy associated with higher technological advance in medical technology and lower birth rate.
 - Advance in medical and pharma industry technology leading to costly, better and more sophisticated medical devices and medicines in terms of accuracy and effectiveness.
 - The on going social dialogue on structural health care reforms on public hospitals autonomy and the introduction of NHS.
 - Environmental and dietary reasons.

Fiscal and Financial Risks for Cyprus

- Cyprus is necessary to pursue a sound fiscal policy to safeguard public finances sustainability.
- Currently, Cyprus is facing the following constraints to finance increasing public health care expenditure:
 - Terms and conditions of Stability & Growth Pact.
 - Exit in 2016 of the corrective pillar of the EDP procedure and entered the preventive pillar, which explicitly sets that Eurozone countries should be meeting specific benchmarks.
 - The successful implementation of the fiscal targets necessitated the government to establish a 3-year budgetary framework in the broader public sector to constrain expenditure by imposing annual spending ceilings.
 - Based on the last Ageing Report of the working group of the European Commission, Cyprus is a low risk country in the surge of health expenditure as a ratio to GDP.
 - Consequently, if Cyprus' fiscal policy is efficient enough to ensure an effective and sustainable fiscal policy, it could face the gradual increase of health expenditure risks up to 2060 (Ageing report, 2015).

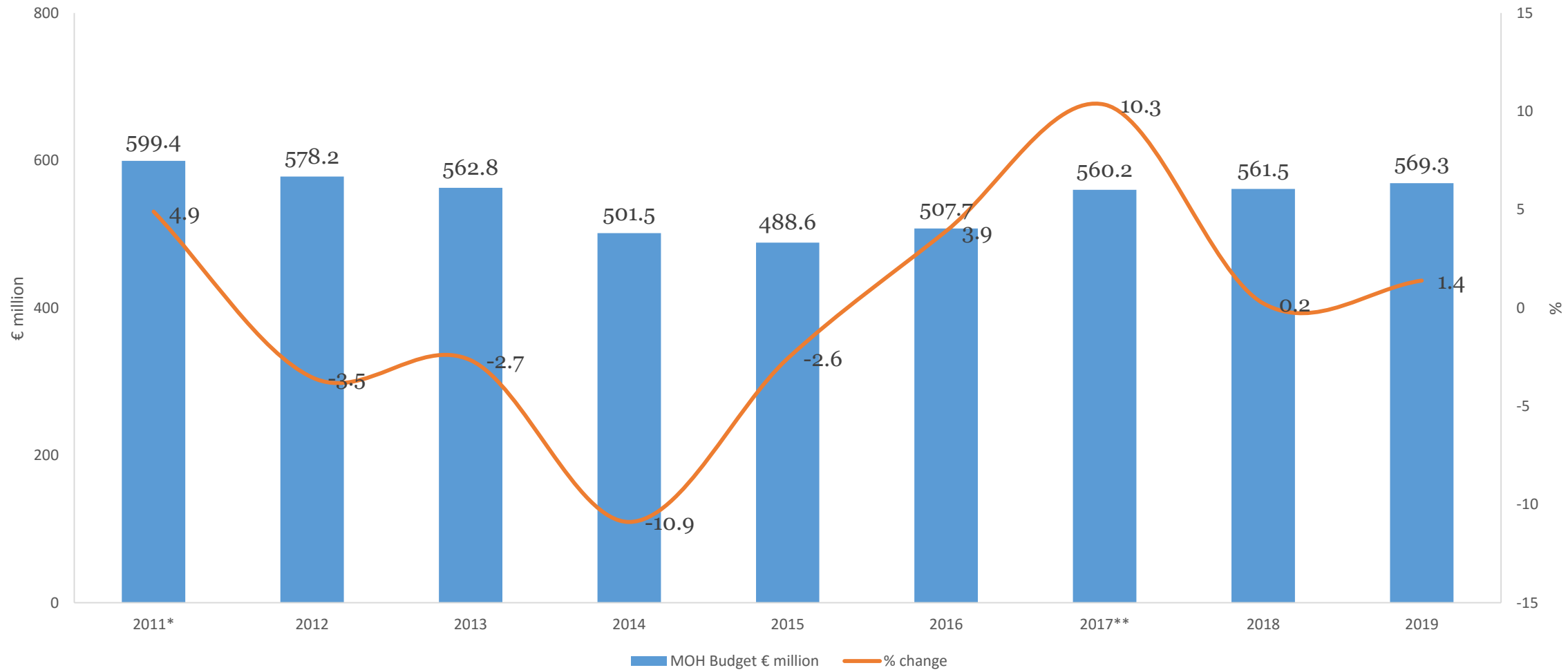


- The Ministry of Health's budget is based upon the 3-year budgetary framework 2017-2019 and indicates the following tendencies as presented in **Figure 4**.
- Fiscal consolidation has adjusted the MoH budget for the years 2011-2015 but for the years 2017-2019 a moderated increase is envisaged.
- Public health care expenditure sustainability could be achieved by:
- **Better coordination and cooperation of public-private health care providers to avoid duplications and health care resources' misuse.**
- More **efficient utilization** of health care technology to a more effective monitoring of health care expenditure.
- **Health care reform** through promoting and implementing the two bills on public health care services and the NHS.

Fiscal and Financial Risks for Cyprus



Figure 4: Ministry of Health Budget, 2011-2019



Step by Step Approach



Structural reforms on health are difficult to implement due to time consuming social dialogue and political economy risks including in the process collective institutions such as the parliament, political parties and occupational and citizens' affiliations.

Promoting the health care reform the government is pursuing the following strategy:

- Advancement of the public hospitals autonomy, which contains a large number of public health care services and public funds provided involving a significant share of the public health expenditure.
- This reform is concerned with the administrative and financial autonomy thru the reorganization of medical and paramedical staff, valid pricing of public health care services to become more efficient under NHS environment and opening of regular balance sheets.
- The effective autonomy of public hospitals should be a prior action to the NHS implementation.
- After the completeness of the hospitals' reform the introduction of NHS is envisaged to ensure public health expenditure sustainability by activating:
 - Global budgeting
 - Family doctor concept
 - Restriction of inefficient use of health care resources
 - More reliable and advanced IT systems to detect fraud and tax evasion practices.

Step by Step Approach



- Due to the fact that health care reforms are fundamental, the government needs to minimize risks on public finances.
- Technically, the expected risks on public finances depend, inter alia, on the relative prices of elasticity of demand and supply of health care goods/services.
- In the literature, the values of these elasticities are low and thus, a financially sound reform could imply net savings on public health care spending and probably that would enhance the public health care expenditure sustainability.
- For the attainment of the aforementioned policy objectives, the MoF is carrying out an impact assessment to identify quantitative results on essential economic variables, such as the potential growth, employment, labour cost and labour demand.

Concluding Remarks

The European Commission in its 2016 Report on health care systems sustainability for Cyprus pinpoints the following challenges:

- ✓ Continue the increase of efficiency on health care expenses to restore public finances sustainability and avoid any potential risks.
- ✓ Ensure universal coverage for the population and cost sharing on the health sector to achieve solidarity and cohesive conditions.
- ✓ Combat inefficiencies of the fragmented health care sector by separate structures of private and public sector causing deficient coordination on health care provision.
- ✓ Implement a coherent and integrated health care reform of public health services by the public hospitals autonomy reform.
- ✓ The implementation of NHS is expected to ensure equal access, financial viability and quality in health care provision whereby other challenges of the sector could be reached more efficiently.



Thank you for your attention!