

HEALTHCARE SECTOR OVERVIEW



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Contents

Introduction 4

Key findings 5

Georgia’s Healthcare Sector 7

Importers and Distributors 8

Pharmaceutical Sector and Domestic Producers 8

Hospitals 8

Private Insurance 9

Macro Review of the Health Sector 10

Private Companies in the Pharmaceutical and Healthcare Sectors 13

Pharmaceutical Sector 13

Healthcare sector 15

Healthcare Challenges against the COVID-19 Pandemic 18

Government Expenditures in the Healthcare Sector 23

Beneficiaries of Healthcare Programs 26

Universal Healthcare Insurance 26

Private Insurance Sector 27

Identified Challenges in the Healthcare System 29

Introduction

The present review includes a macro analysis of the healthcare sector; key indicators of the sector and a comparison with other countries; financial indicators of the retail pharmaceutical sector, hospitals, and clinics; government spending on health services; and challenges in the sector.

The healthcare sector differs from other economic sectors in its characteristics. It should be noted that a proper healthcare system is important for the development of the country. The rapid spread of COVID-19 in Georgia has dramatically increased healthcare sector expenditures. Therefore, the government allocated additional financial resources to manage the pandemic. Despite these measures, the share of healthcare in GDP is still less than the recommended minimum, while the budget overspending is increasing every year. In addition, the prices for medical services and medicines increased in step with the spread of the pandemic. Notably, referrals to a doctor as well as the sector's revenues declined in line with rising prices and the pandemic.

Periodic reviews of the healthcare sector will allow us to identify current challenges and help increase access to information about state budget expenditures as well as ongoing changes in the sector.

Key findings

The turnover of Georgia's retail pharmaceutical and healthcare sector reached GEL 3.1 bln in 2020 and is expected to exceed GEL 3.4 bln¹ in 2021. The turnover of the pharmaceutical sector has increased by 16% on average over the last five years and reaches 65% share of the market (GEL 2.2 bln). The turnover of hospitals and clinics has increased moderately (+7%) over the last five years and is expected to reach GEL 1.2 bln as of 2021.

The COVID-19 pandemic has drastically reduced hospital referrals for other diseases. The total number of referrals decreased by -42% in 2020. The main reason for this is the caution of the population due to the pandemic. Therefore, revenues of the hospitals decreased (-7% YoY) and amounted to GEL 1,078 mln in 2020. Meanwhile, total revenue had been increasing 24% on average during 2016-2019.

Prices in the healthcare sector dramatically increased in the last five years. Prices of medicines increased by +64% in 2021, compared to 2016. Outpatient services became +35% and health insurance +31% more expensive in the same period. In-patient services are characterized by relatively less inflation, although their prices increased by +11%.

The average monthly expenditure of households in the retail pharmaceutical market and healthcare sector amounted to GEL 161 and GEL 96 in 2021, respectively. The monthly expenditure of a household in the retail pharmacy market has increased by 16% on average over the last five years and amounted to GEL 161 in 2021. Household expenditures on healthcare services are also increasing (+7% average per year), reaching GEL 96.1 in 2021.

Increased prices are partially due to the COVID-19 pandemic. In 11 months of 2021, prices of medicines rose by 14.6% on average, and inflation in outpatient services amounts to 8.7% as of 11 months of 2021.

The real wage in the healthcare and social services sector has not increased since 2016. Nominal wages were growing by 4.7%, on average, during 2016-2021 and amounted to GEL 1,108 in 2020. However, the purchasing power of the wages did not change due to high inflation, as compared to 2015.

The average monthly salary of employees in the private health sector is higher. The average monthly salary of employees in I&II category hospitals was GEL 1,423 in 2020. The average salary of people employed in the public health sector is -24% lower compared to that figure.

The medical profession is popular in Georgia, and the country occupies a leading position in the total number of physicians and nurses. Georgia holds one of the leading positions in the number of medical staff, 12.8 physicians and nurses per 1,000 persons, which is higher than the average of other countries (11.2). Despite the solid amount of medical staff, there are 0.9 nurses per doctor, which is much less when compared to other countries.

The government spending on healthcare is less than the World Health Organization's (WHO) recommended minimum (5%) of GDP. In 2020, spending on healthcare accounted for 3.6% of GDP, which is +1.1 p.p. more than in 2019.

Referrals to a physician have doubled with the launch of the universal healthcare program. In 2020, one person was referred to an outpatient and polyclinic physician on average 3.7 times, while the figure was

¹ IDFI

1.9 on average until 2013. Despite the increase in referrals, the average referral to a physician number in Georgia is low compared to the other countries' average rate (8.3).

UHC overspending is mainly balanced with reduced spending on other programs. Overspending on UHC is higher than 10% on average in the last five years.

The pandemic has also reduced referrals to universal healthcare programs. Total referrals were reduced across the country by 32,301 in 2021 compared to last year. Notably, emergency outpatient referrals decreased by 16%, along with planned outpatient referrals, in 2021. In-patient emergencies decreased by -33% compared to 2019.

The government spent more than GEL 600 mln on managing the pandemic in 2021. The annual budget of the Ministry of Health in 2016-2020 increased by 17% on average, which is largely due to programs for managing Covid-19.

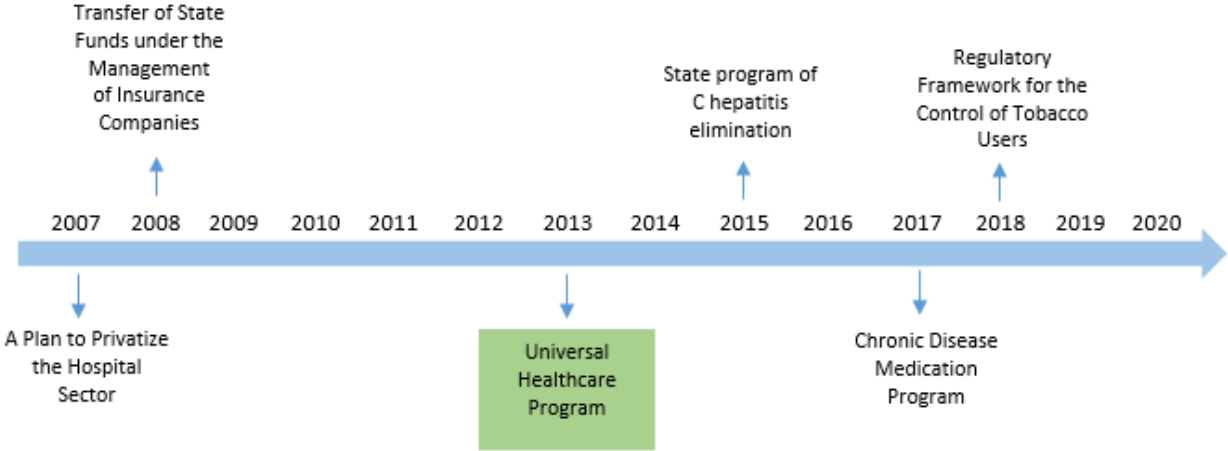
Only 17% of the population uses private insurance in the country. The exclusion of the people with the highest income from the universal healthcare program in 2017 did not affect the usage of private insurance. The average annual growth of the beneficiaries was 3% during 2016-2020 and reached 600,000 beneficiaries in 2020.

The pandemic has slowed the growth of international students in healthcare programs slightly, although the number of international students is at a record high at 12,692 students as of 2021. 69% of foreign students are enrolled in the master's program and 31% in the bachelor's program in 2021.

Georgia's Healthcare Sector

The universal healthcare reform was launched in 2013. It is one of the major reforms implemented by the Ministry of Health of Georgia (MoLHSA) in the last 20 years. In 2017, it was started to differentiate program beneficiaries by revenues, and suitable co-payment mechanisms were defined.

Diagram 1: Reforms implemented in the healthcare sector, 2007-2021

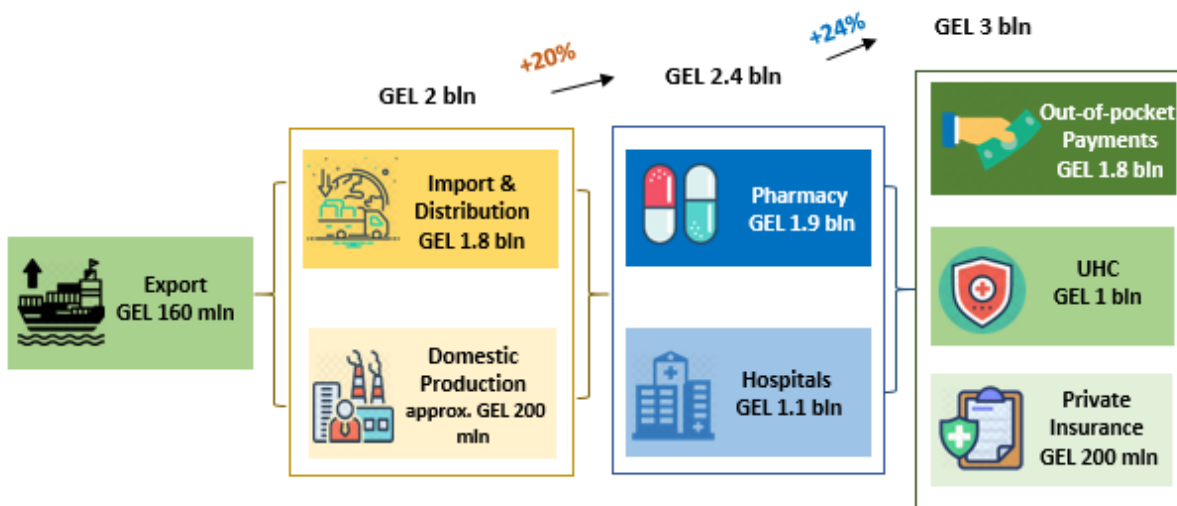


Source: MoLHSA

Georgia's healthcare sector turnover is GEL 3.1 bln, and the sector includes:

- Manufacturers and exporters of medical devices;
- Importers and distributors of medicines and medical devices;
- Pharmaceutical sector;
- The hospitals;
- Insurance sector.

Diagram 1: Value chain of the healthcare sector, 2020



Source: IDFI

Importers and Distributors

The first component of the healthcare sector value chain is import, which supplies companies with medicines and raw materials for local production. Georgia also re-exports imported goods. Locally produced and imported products are distributed to pharmacies and clinics, the users of which are the representatives of the final component in the chain: individuals, state, and private insurance organizations.

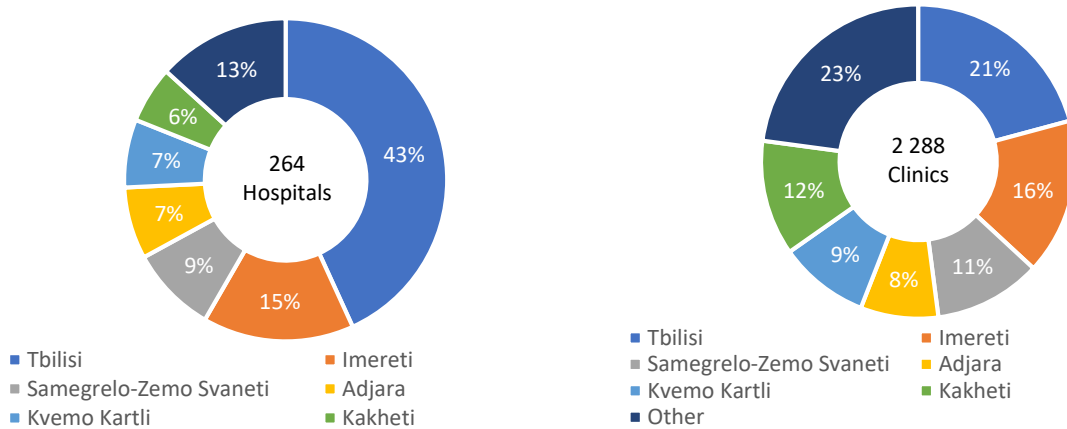
Pharmaceutical Sector and Domestic Producers

Georgia’s pharmaceutical market turnover is expected to reach GEL 2.2² bln by 2022 and is mainly dependent on imported goods. However, the introduction of the GMP standard (since 2012) supports an increase in exports and exceeds GEL 160 mln as of 2021.

Hospitals

As of 2020, there are 264 hospitals and 2,288 outpatient-medical centers in Georgia. By regions, the largest number of medical units are in the capital: 114 hospitals and 460 clinics.

Graph 1: Distribution of hospitals and outpatient-polyclinics by regions, 2020

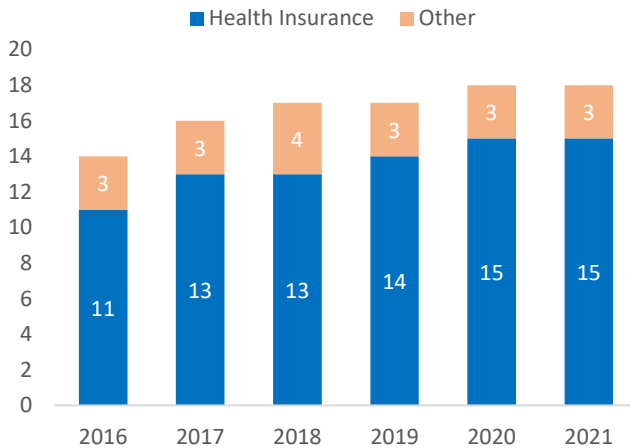


Source: Geostat, IDFI

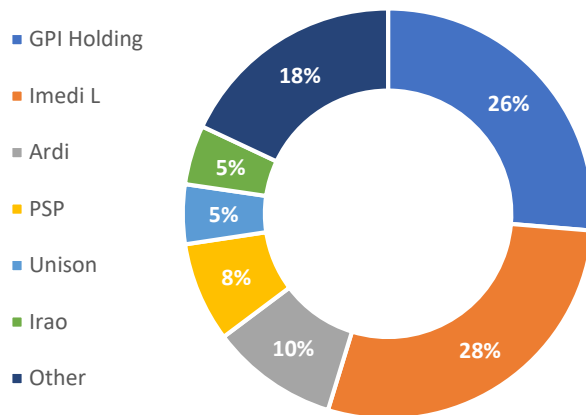
Private Insurance

According to 2021 data, the number of licensed insurance companies in Georgia has increased to 18 (+5) in 2021 compared to 2016. In total 785,052 health policies were issued, and the major market players are Imedi L (28%), GPI Holding (26%), and Ardi (10%).

Graph 2: Dynamics of private insurance companies according to insurance policies in health and other categories, 2016-2021



Graph 3: Market share of private insurance companies according to health insurance policies, 2021

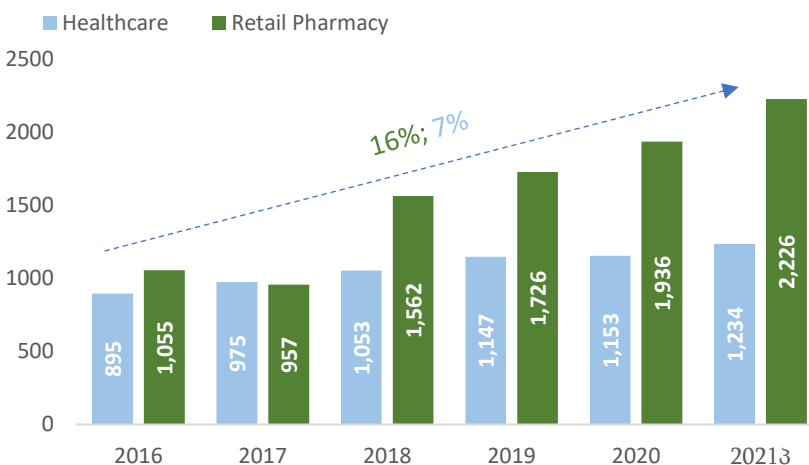


Source: Insurance State Supervision Service of Georgia, IDFI

Macro Review of the Health Sector

The growth of retail pharmaceutical sector revenues exceeds the growth of healthcare sector revenues. The turnover of the pharmaceutical sector has increased by 16% on average over the last five years and is expected to reach GEL 2.2 bln by the end of 2021. The turnover of the healthcare sector is also increasing (+ 7%) and is expected to reach GEL 1.2 bln in the same period.

Graph 4: The turnover of healthcare, social services, and retail pharmacy (mln GEL), 2016-2020

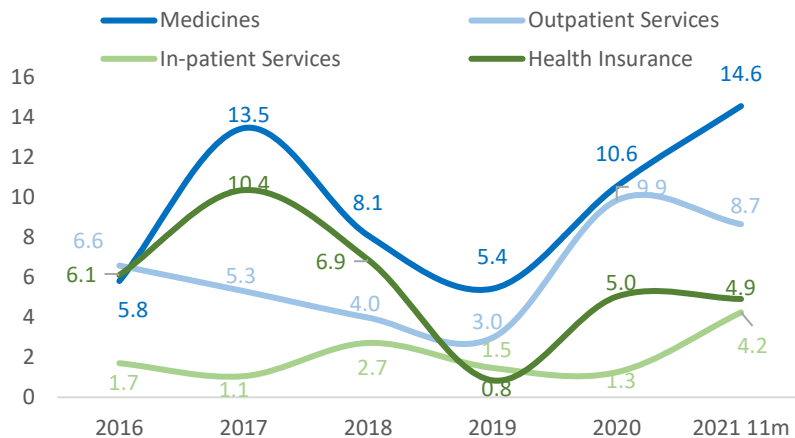


Source: Geostat, IDFI

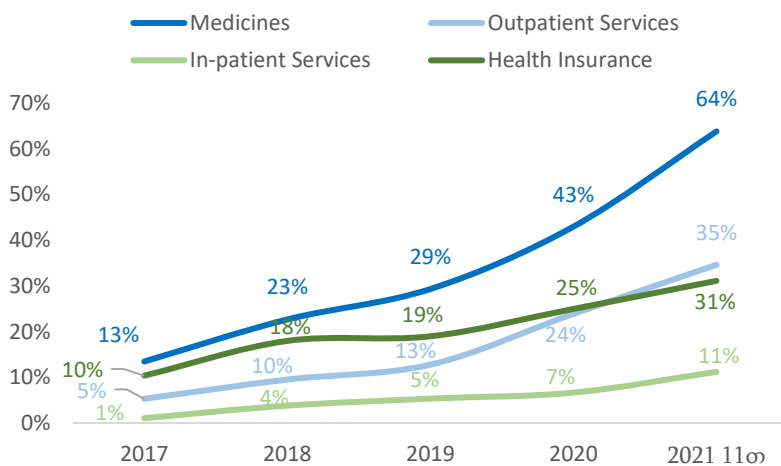
The COVID-19 pandemic has significantly increased the price of medicines and medical services. In 11 months of 2021, prices of medicines rose, on average, by 14.6%. In addition, there is high inflation in outpatient services, which is 8.7% as of 11 months of 2021. Prices of in-patient services are characterized by fewer fluctuations, although prices increased by 4.2% on average in 2021. The price of health insurance increased by 4.9% in the same period.

Prices of medicines increased by +64% in 2021 when compared to 2016. Outpatient services became +35% and health insurance +31% more expensive in the same period. In-patient services are characterized by relatively less inflation, although their prices increased by +11%.

Graph 5: Prices of medicines and healthcare services (%), 2016-11m 2021



Graph 6: Cumulative prices of medicines and healthcare services compared to 2016



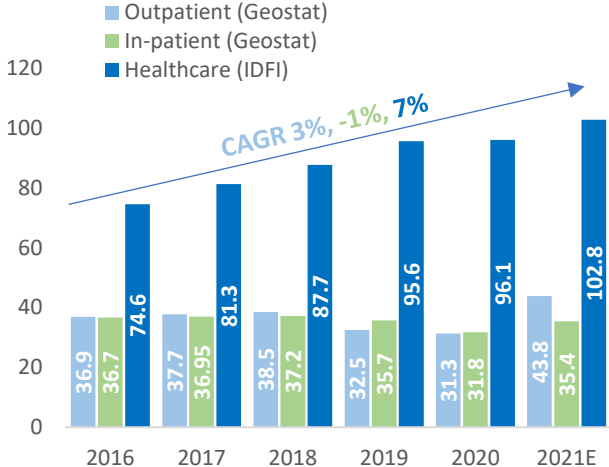
Source: Geostat, IDFI

According to IDFI's calculations³, the monthly expenditure of a household in the retail pharmacy market has increased by 16% on average over the last five years and amounted to GEL 161 in 2021. While according to the Personal Inflation Calculator of Geostat, the monthly expenditure of a household amounted to GEL 68 in 2021. This large difference is partly because retailers in the retail market trade in pharmaceutical products as well as other types of goods.

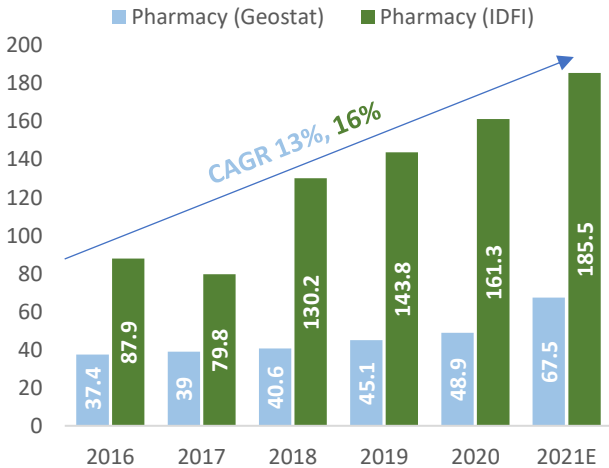
³ Based on the size of retail pharmacy and the healthcare sector and number of households.

Household expenditures on healthcare services are also increasing (+7% average per year), reaching GEL 96.1 in 2021. According to Geostat, a household was spending GEL 31 per month on average on outpatient services and GEL 32 on in-patient services within the same period.

Graph 7: Household expenditures on healthcare services, 2016-2021E



Graph 8: Household expenditures on pharmaceutical products, 2016-2021E

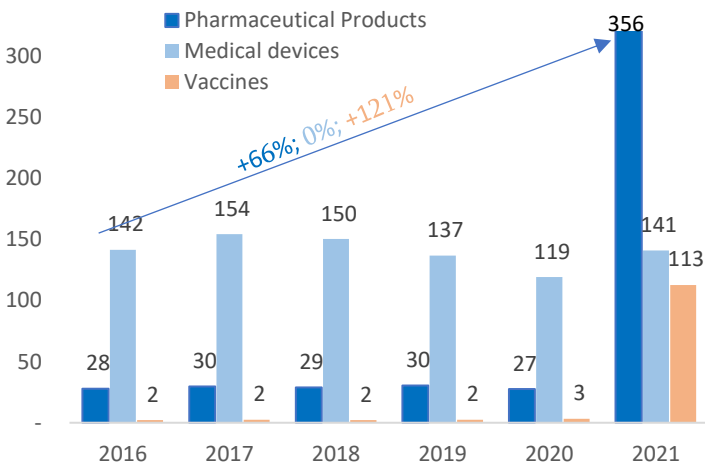


Source: Geostat, IDFI

The COVID-19 pandemic has significantly increased the demand for pharmaceutical products (medicines) and vaccines. Imports of medicines and vaccines amounted to USD 356 mln and USD 113 mln, respectively, in 11 months of 2021. In addition, imports of medical devices increased (+18%) in the same period.

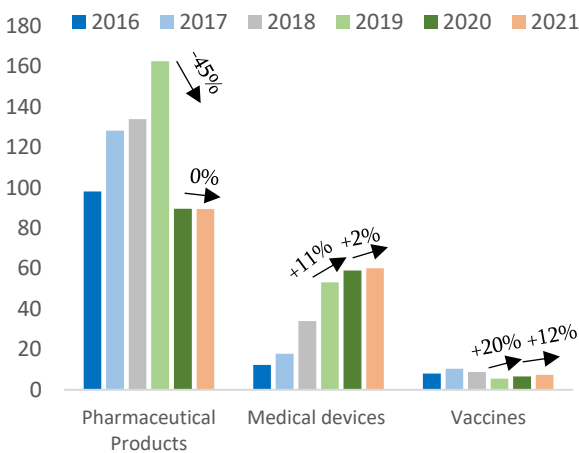
90% of exports in the healthcare sector are re-exports. Exports of pharmaceutical products decreased by -45% at the expense of a reduction in re-exports in 2020 compared to the corresponding period of 2019. In 11 months of 2021, there was almost no change in the exports of pharmaceutical products, while exports of vaccines and medical devices increased by +12% and +2%, respectively, compared to the corresponding period of the previous year.

Graph 9: Imports of medical products (mln USD), 2016-2021 (11 months)



Source: Geostat, IDFI

Graph 10: Exports of medical products (mln USD), 2016-2021 (11 months)



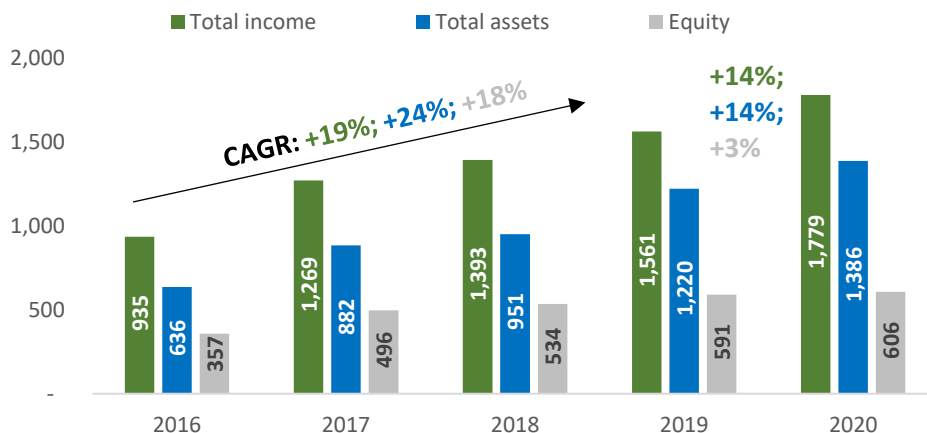
Source: Geostat, IDFI

Private Companies in the Pharmaceutical and Healthcare Sectors

Pharmaceutical Sector

The revenues of pharmaceutical companies increased by GEL 218 mln during the COVID-19 pandemic, as compared to 2019. This is mainly due to the rise in prices for pharmaceutical goods. In 2020, there was a growth in both total assets (+ 14%) and equity (+ 3%) of the sector.

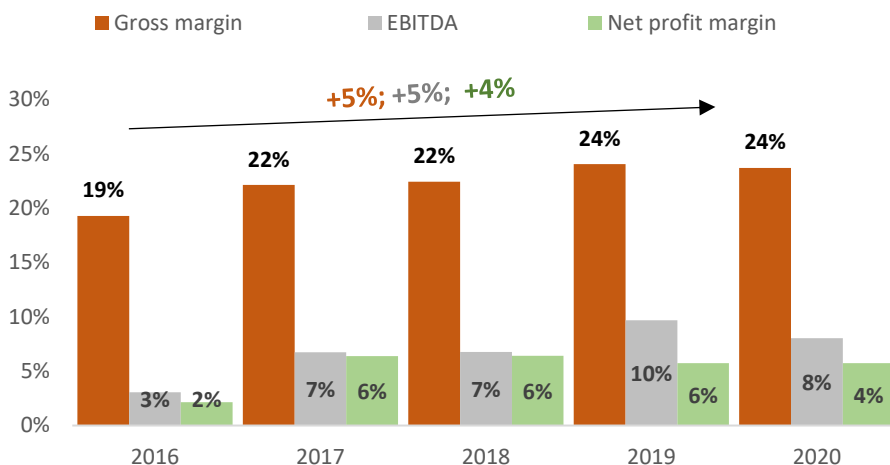
Graph 11: Assets of pharmaceutical companies (mln GEL), 2016-2020



Source: Geostat, IDFI

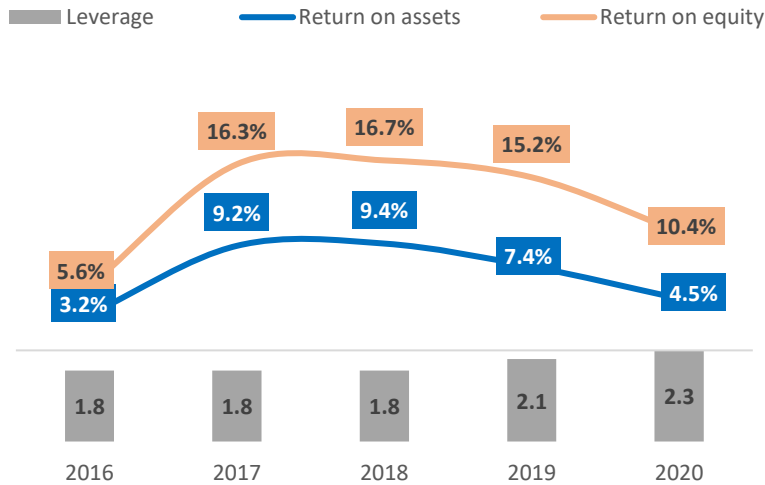
The profitability of the pharmaceutical sector was reduced due to the COVID-19 pandemic. The gross margin (24%) and profit margin (6%) of the sector were unchanged in 2020 compared to the previous year. However, due to rising operating costs, the EBITDA margin decreased by 2% and reached 8% in the same period. In 2020, the return on equity (10%) and assets (5%) decreased due to the reduction in the net profit margin to 4%.

Graph 12: EBITDA, gross margin, and net profit margin of pharmaceutical companies, 2016-2020



Source: SARAS, IDFI

Graph 13: Leverage, and return on equity and assets of pharmaceutical companies, 2016-2020

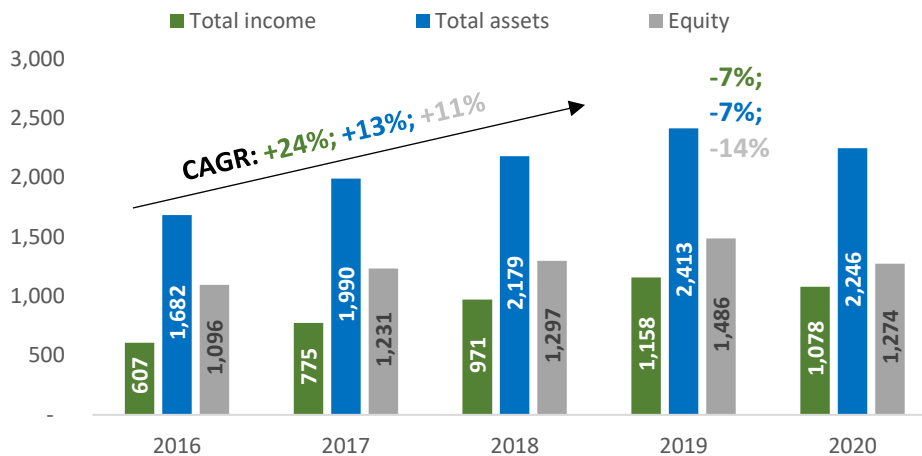


Source: SARAS, IDFI

Healthcare sector

Due to the COVID-19 pandemic, revenues in the healthcare sector declined sharply (-7% YoY) and reached GEL 1,078 mln in 2020. While, total revenue has grown by 24% on average in the last three years and amounted to GEL 1,158 mln at the end of 2019.

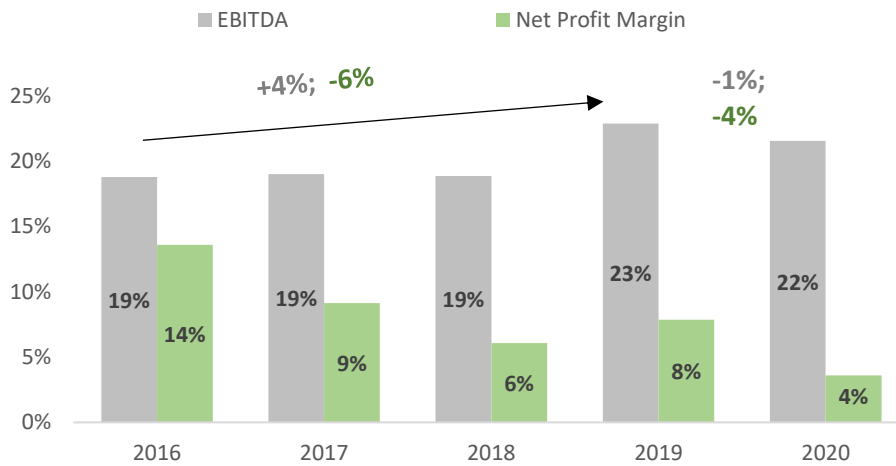
Graph 14: Assets of hospital and polyclinic companies (mln USD), 2016-2020



Source: Geostat, IDFI

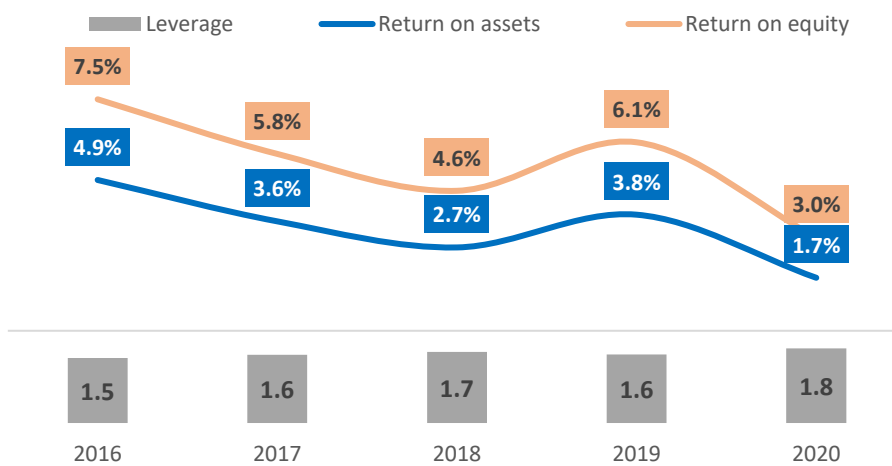
It is noteworthy that in 2020, the EBITDA margin decreased to 22%, -1 p.p. compared to 2019, due to the rising operating costs of the sector. The net profit margin also decreased to 4% (-4 p.p.) in the same period. As of 2020, returns on assets and equity declined in the hospital sector, similar to the pharmaceutical sector, and reached 3% and 1.7%, respectively.

Graph 15: EBITDA and Net Profit Margin of Hospital and Polyclinic Companies, 2016-2020



Source: Geostat, IDFI

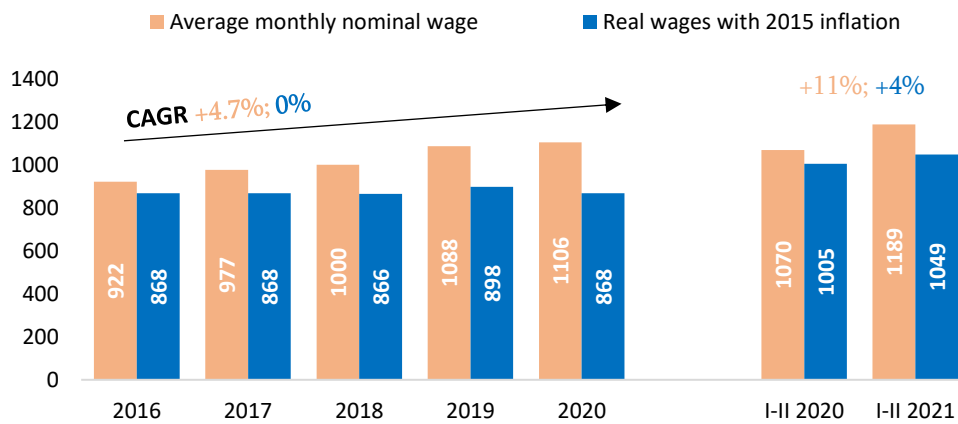
Graph 16: Leverage and return on equity and assets of hospitals and polyclinic companies, 2016-2020



Source: Geostat, IDFI

The real wage in the healthcare and social services sector has not changed since 2016, while nominal wages are growing by 4.7%, on average, annually. As of the first two quarters of 2021, nominal wages have increased by +11%, while real wages have increased by +4% compared to the corresponding period of 2020.

Graph 17: Average monthly nominal and real wages in the healthcare and social services sectors, 2016 – 2021 (6 months)

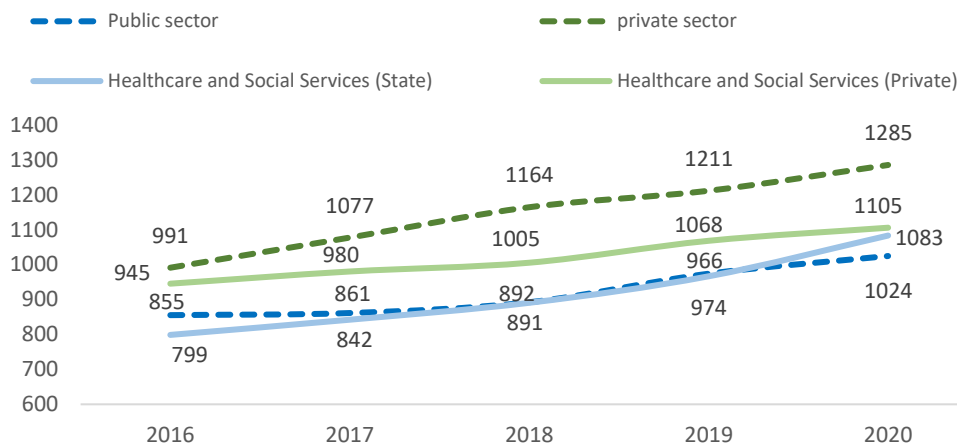


Source: Geostat, IDFI

According to Geostat, the average monthly salary of employees in the private health sector is slightly higher than the salary of employees in the public health sector, which amounted to GEL 1,105 and GEL 1,083, in 2020, respectively.

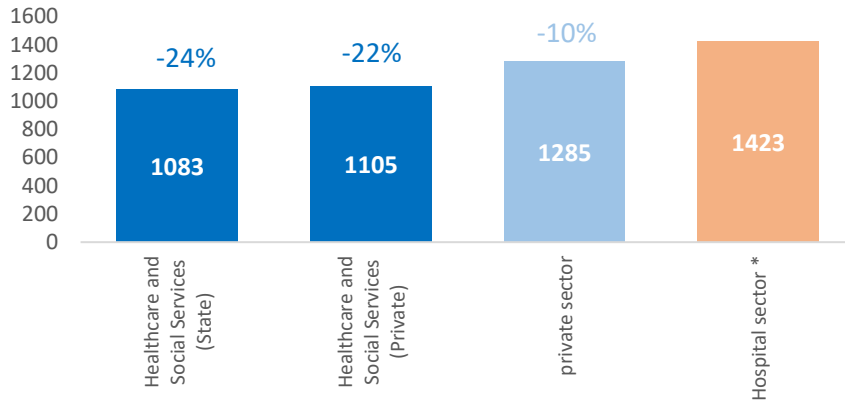
However, the analysis of I&I category enterprises showed that the average monthly salary of employees in private hospitals was GEL 1,423 in 2020, which is much higher than the average salary of people employed in the public health sector (-24%).

Graph 18: Average monthly nominal salary, 2016-2020 (Geostat)



Source: Geostat, IDFI

Graph 19: Average monthly nominal wage, 2020 (I&II Category Enterprises)



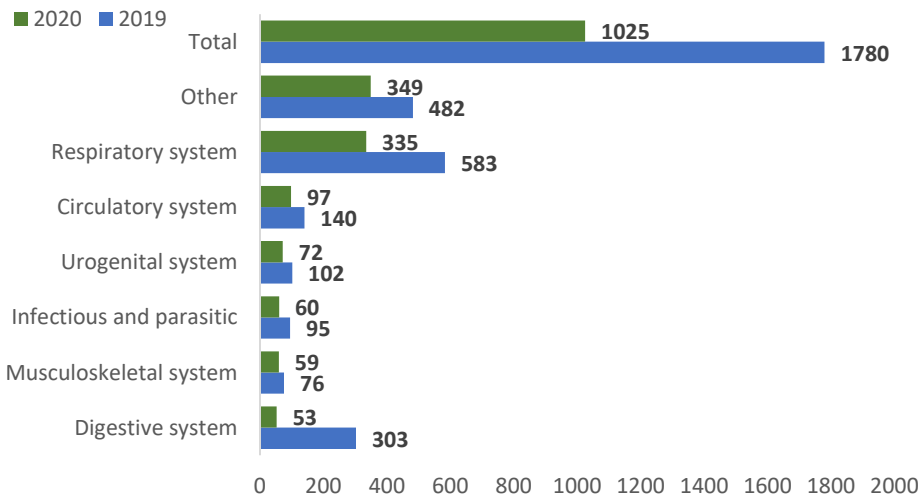
Source: Geostat, IDFI

* The average rate of I and II category hospitals

Healthcare Challenges against the COVID-19 Pandemic

The COVID-19 pandemic has drastically reduced hospital referrals for other diseases. The total number of referrals decreased by -42% (for other diseases) in 2020. The main reason for this is the caution of the population due to the pandemic. Most of the population in Georgia suffers from diseases in the respiratory system (33%), circulatory system (10%), and urogenital system (7%).

Graph 20: Sickness of the population by major groups in 2016-2020, (thousand).



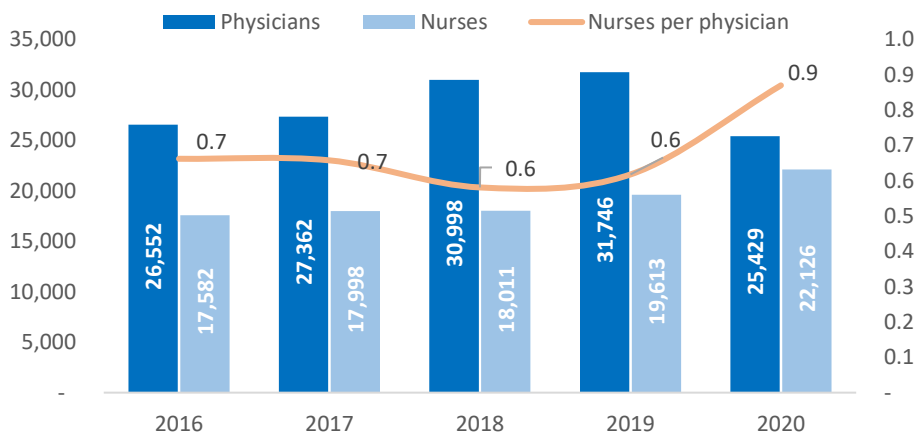
Source: Geostat, IDFI

The medical profession is popular in Georgia, and the country occupies a leading position in the total number of physicians and nurses. This, however, is due to the high number of physicians per capita. Georgia holds one of the leading positions in the number of medical staff, 12.8 physicians and nurses per 1,000 persons, which is higher than the average of other countries (11.2). There are 6.8 doctors per 1,000

persons in Georgia, which is higher than the average in other countries (3.9). The same rate is 2.0 in Turkey, 2.6 in the USA, 3.3 in Israel, 4.4 in Germany, and 4.6 in Lithuania, according to 2019-2020 data.

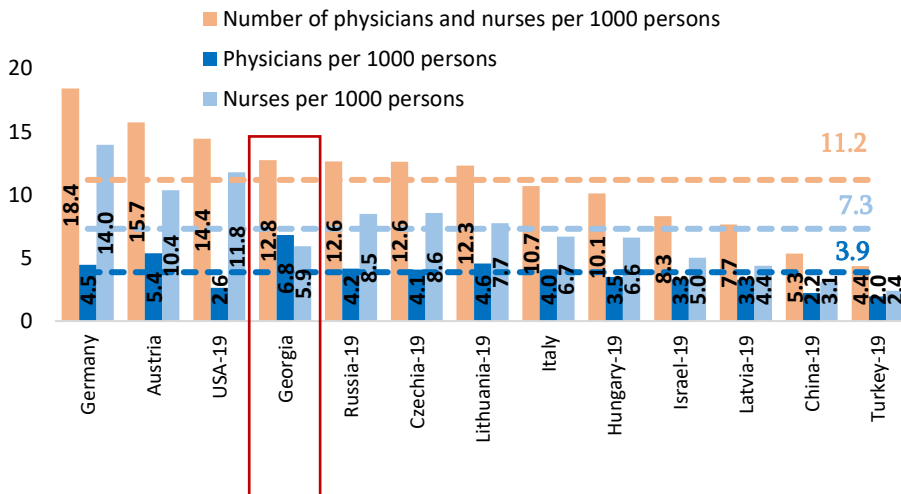
In Georgia, being a physician is more prestigious compared to nursing, therefore there is a shortage of nurses. In 2020, there were 0.9 nurses per doctor, which is a slightly higher rate than in previous years. In other countries, the average is 7.3 nurses per 1,000 persons, while in Georgia it is 5.9. According to the 2019-2020 data, the number of nurses per 1,000 persons in Georgia is lower than in Germany (14.0), the USA (11.8), and Austria (10.4); however, it exceeds the figures of Israel (5.0) and Turkey (2.4).

Graph 21: The number of physicians and nurses (2016-2020 *)



Source: Geostat, IDFI

Graph 22: The number of physicians and nurses per 1000 persons (2016-2020 *)

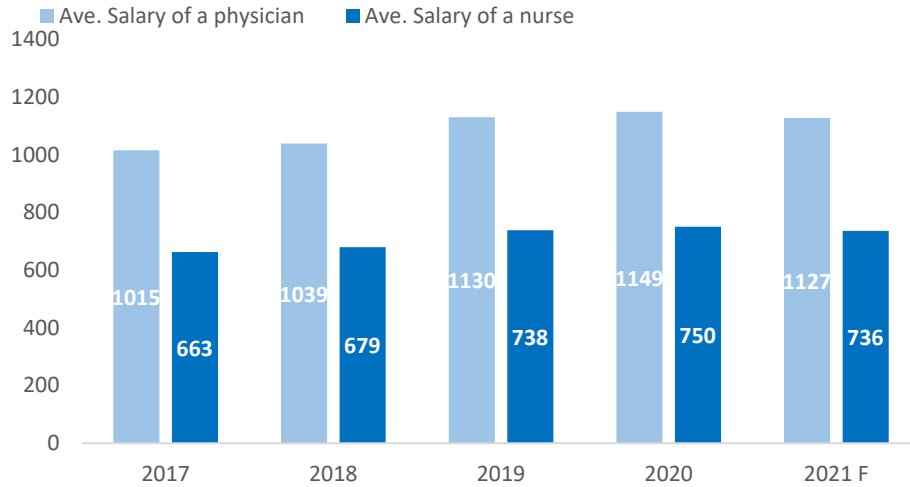


Source: Geostat, OECD, IDFI

Note: * The total figure from 2020 is based on a new system of personalized accounting for healthcare workers.

In 2021, the average salary of physicians is on average 53% higher than nurses' salaries. The average monthly salary of nurses is 65% of the physicians' salary. In 2021, the average salary of doctors will be GEL 1,127, and that of nurses - GEL 736. Moreover, the difference between the salaries of physicians and nurses has increased by 2.7% on average since 2017.

Graph 23: Average monthly nominal salary of physicians and nurses 2017-2021F

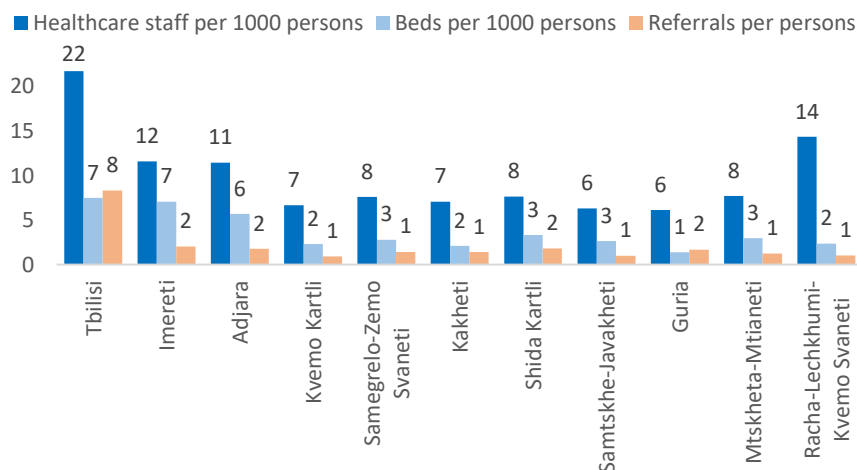


Source: Geostat, IDFI

Tbilisi has twice the concentration of healthcare staff compared to other regions. In Tbilisi, there were 22 medical workers and 7 beds per 1,000 persons in 2020. In Imereti and Adjara, there are 14 and 12 healthcare staff per 1,000 people, respectively, and the number of beds is close to Tbilisi's figure. However, the situation is more difficult in other regions, although there is a high number of medical staff in Racha-Lechkhumi-Kvemo Svaneti, due to the small number of population.

Physician referral rates are significantly higher in Tbilisi compared to the regions of Georgia. As of 2020, one person visited a physician on average 8 times in Tbilisi and 1 or 2 times in the regions. However, people who live in the regions often consult a physician in Tbilisi.

Graph 24: Healthcare staff, beds, and referrals by region, 2020

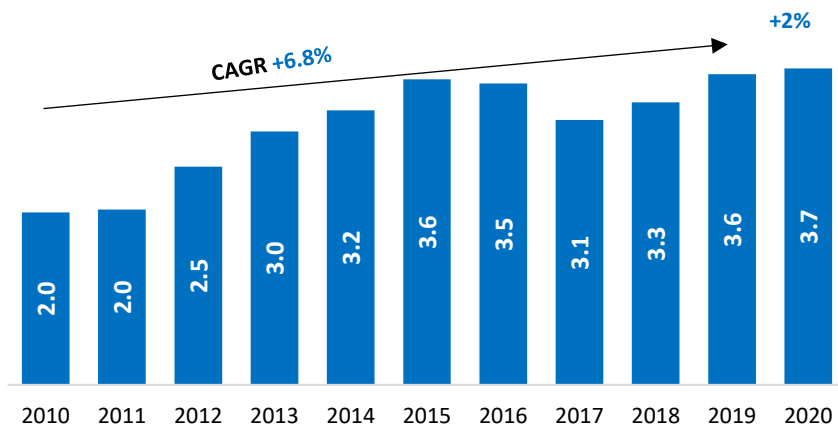


Source: Geostat, IDFI

Referrals to a physician have doubled with the launch of the universal healthcare program. In 2020, one person referred to an outpatient and polyclinic physician on average 3.7 times, while the figure was 1.9 on average until 2013. During the pandemic, referrals to physicians increased by only 2% due to Covid-19 regulations.

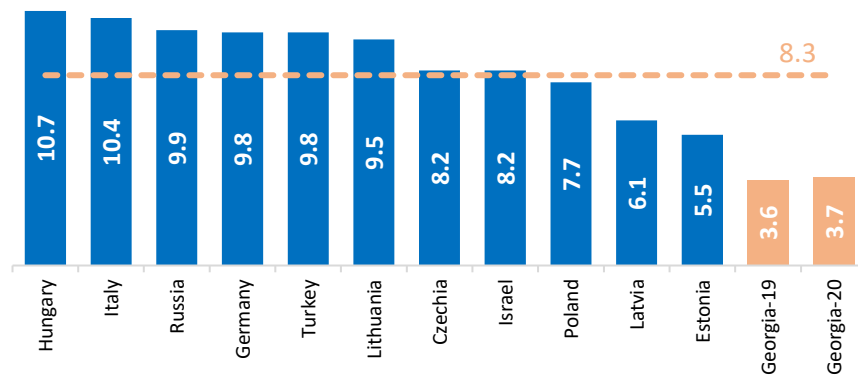
The average referral to a physician in Georgia is low compared to other countries (8.3). This number is significantly lower than the average of European countries (8.4), Russia (9.9), Turkey (9.8), and Israel (8.2), according to the 2019 data.

Graph 25: Outpatient-polclinic referrals to a physician per person, 2013-2020



Source: Geostat, IDFI

Graph 26: Outpatient-polclinic referrals to a physician per person by country, 2019

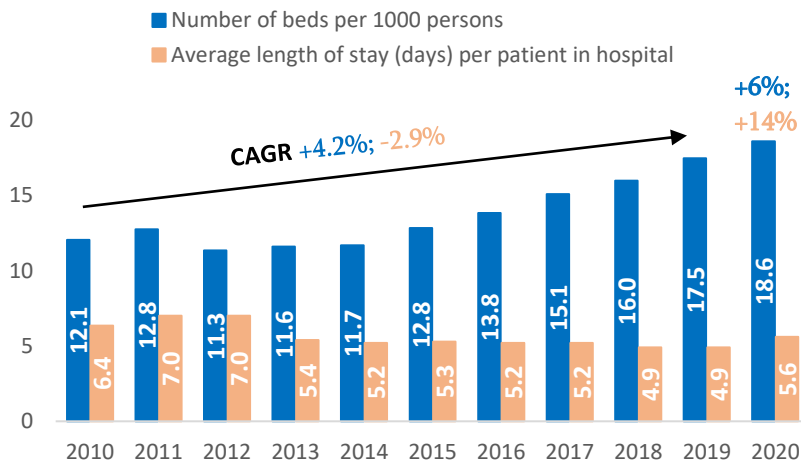


Source: Geostat, IDFI

In 2020, the COVID-19 pandemic increased the length of a single patient hospital stay by 14% to 5.6 days. Before the pandemic, the length of one patient stay in hospital has been declining over the last ten years,

with one patient spending an average of 4.9 days in hospital in 2019. The number of beds in hospitals is increasing by 4% per year on average, and there were 18.6 beds per 1,000 people in 2020.

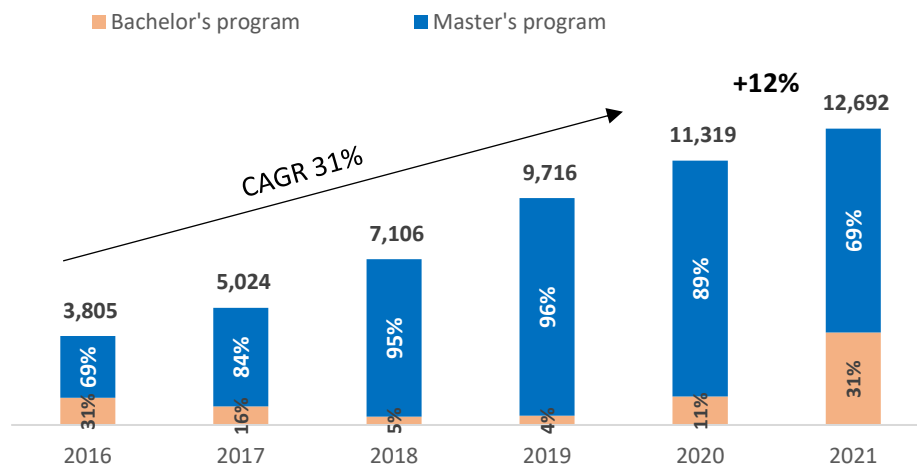
Graph 27: The length of hospital stays and number of beds 2010-2020



Source: Geostat, IDFI

It should be noted that the pandemic has slowed the growth of international students in healthcare programs slightly, although the number of international students is at a record high and is 12,692 students as of 2021. 69% of foreign students are enrolled in a master's program and 31% in a bachelor's program in 2021.

Graph 28: The number of foreign students (thousand) at the Faculty of Health and Social Security 2016-2021



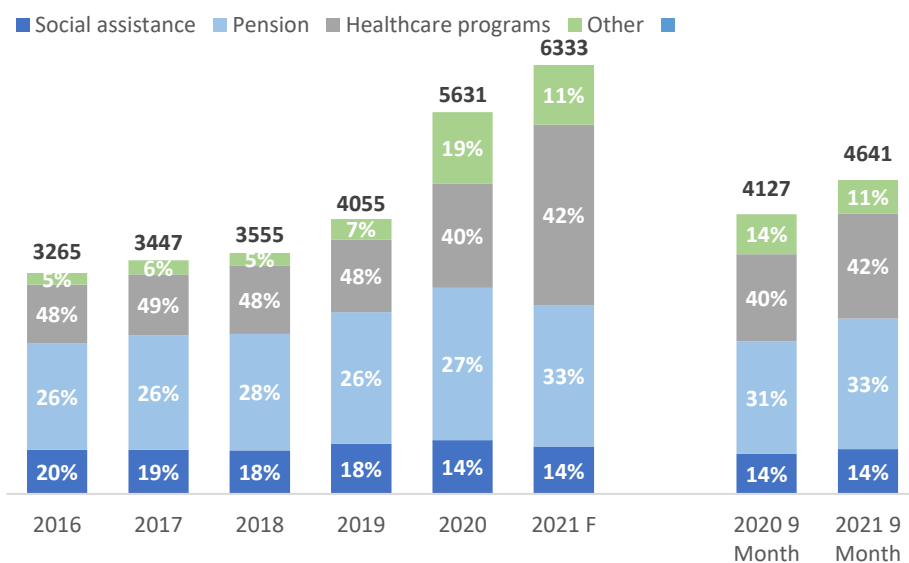
Source: Geostat, IDFI

Government Expenditures in the Healthcare Sector

In 2021, the government spent more than GEL 600 mln on managing the pandemic. The annual budget of the Ministry of Health in 2016-2020 increased by 17% on average, which is largely due to programs for managing the Covid-19.

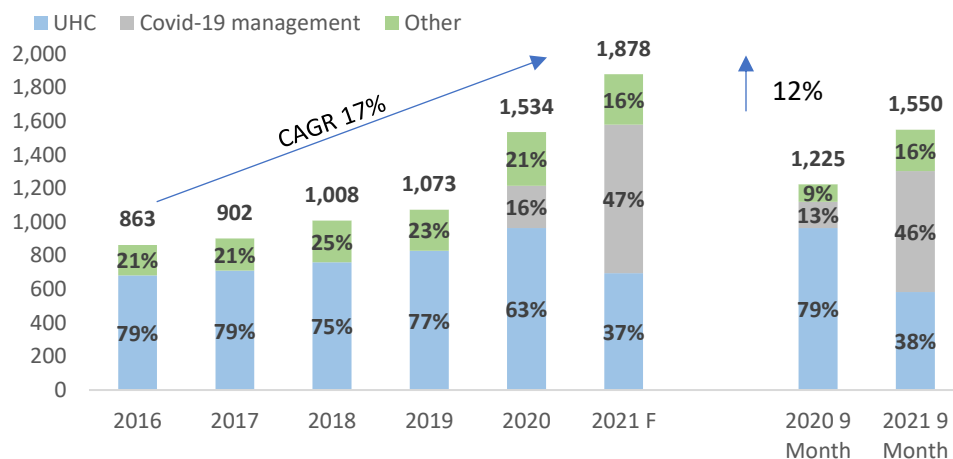
The universal healthcare budget has not increased significantly due to declining referrals to physicians. It should be noted that an additional GEL 251,000 was spent on managing the pandemic in 2020 and GEL 719,000 in the 9 months of 2021.

Graph 29: Budget of the MoHLSA (million GEL), 2016-2021



Source: Geostat, IDFI

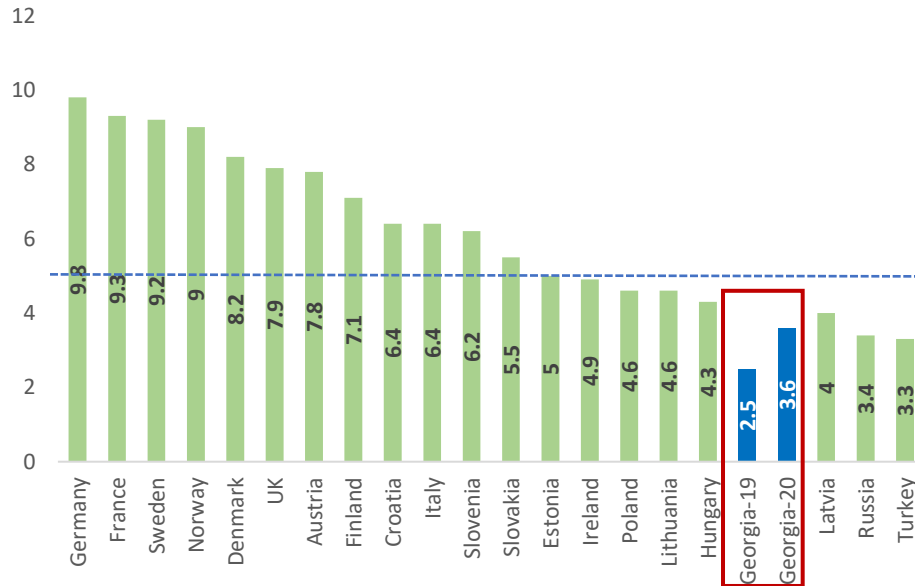
Graph 30: The share of healthcare programs in the health budget (million GEL), 2016-2021



Source: Geostat, IDFI

The government spending on healthcare is less than the World Health Organization’s (WHO) recommended minimum (5%) of GDP. In 2020, the spending on healthcare accounted for 3.6% of GDP, which is +1.1 p.p. more than in 2019. This figure is lower than in countries like Estonia (6.3), Poland (5.2), and Lithuania (5).

Graph 31: Public healthcare expenditure as a % of GDP 2020

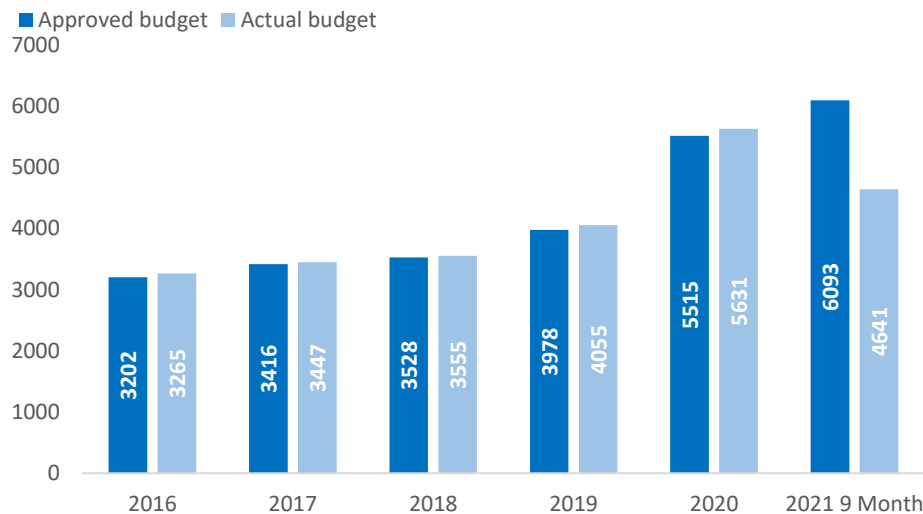


Source: Geostat, WHO, OECD, IDFI

Note: Georgia’s indicators are calculated as the ratio of public health program costs to GDP.

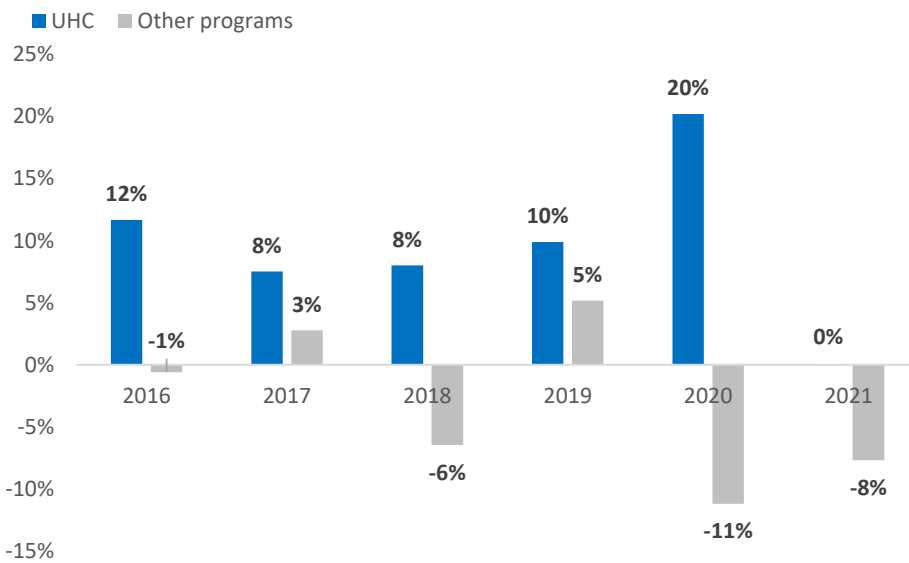
UHC overspending is mainly balanced with reduced spending on other programs. The approved budget of the MoLHSA in 2020 increased by 39% compared to the previous year and amounted to GEL 5.5 bln. Public spending on healthcare is constantly rising, although budget overspending is also increasing.

Graph 32: Approved plan and actual budget of the Ministry of Health 2016-2021 9-month data



Source: Geostat, IDFI

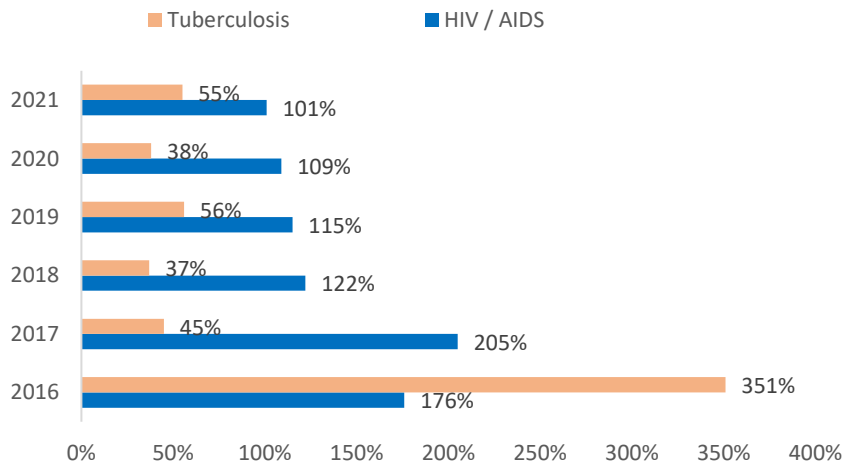
Graph 33: Actual performance (%) of UHC and other programs concerning the approved plan



Source: Geostat, IDFI

HIV and tuberculosis are leading programs by overspending in the annual budget, aside from UHC. In 2020, GEL 122,808 was allocated for the TB program and GEL 110,469 for HIV; more than 30% was overspent on these programs, despite the experience of previous years.

Graph 34: Overspending of the budget for tuberculosis and HIV programs in 2016-2020



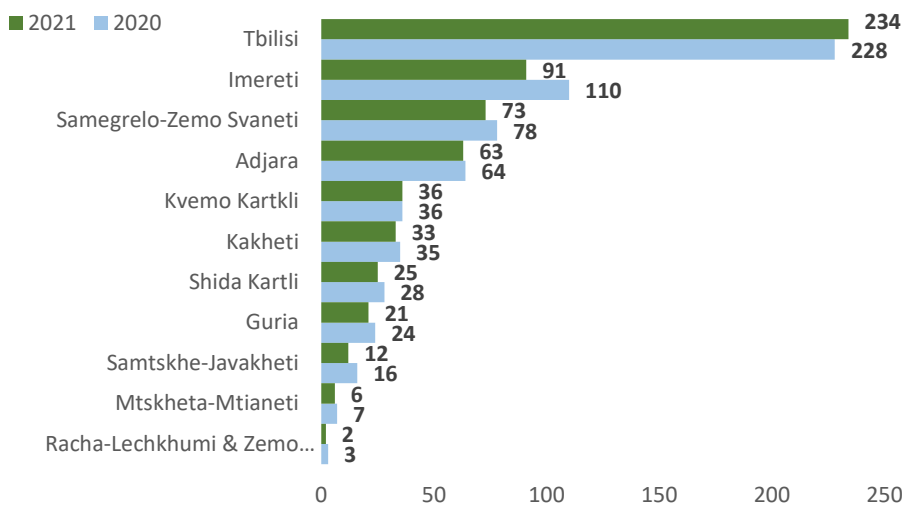
Source: Geostat, IDFI

Beneficiaries of Healthcare Programs

Universal Healthcare Insurance

The pandemic has also reduced referrals to universal healthcare programs. Total referrals were reduced across the country by 32,301 in 2021 compared to last year. With universal insurance, Imereti (15%), Samegrelo-Upper Svaneti (12%), and the Autonomous Republic of Adjara (10%) are leading after Tbilisi by referrals by region.

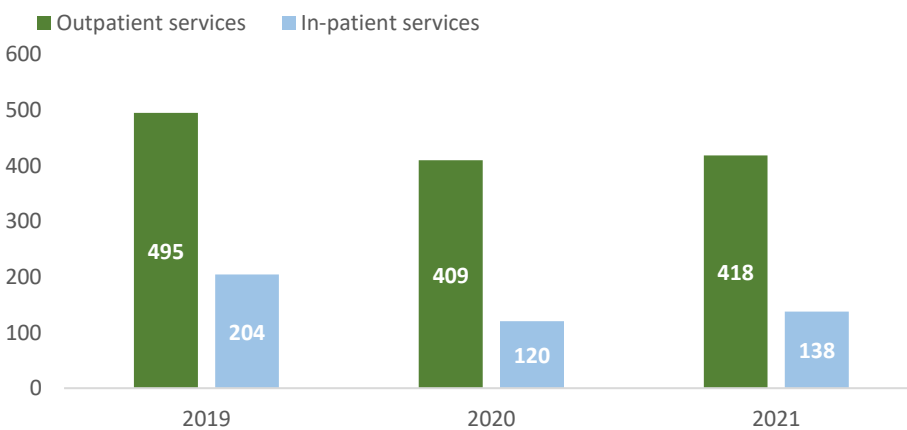
Graph 35: Referrals (thousand) by region 2020-2021 (7 months)



Source: Geostat, IDFI

Notably, emergency outpatient referrals decreased by 16% along with planned outpatient referrals in 2021. In-patient emergencies decreased by -33% compared to 2019. This can be explained by the Covid-19 pandemic regulations.

Graph 36: Emergency outpatient and in-patient cases of the universal healthcare program beneficiaries 2019-2021 (7 months).

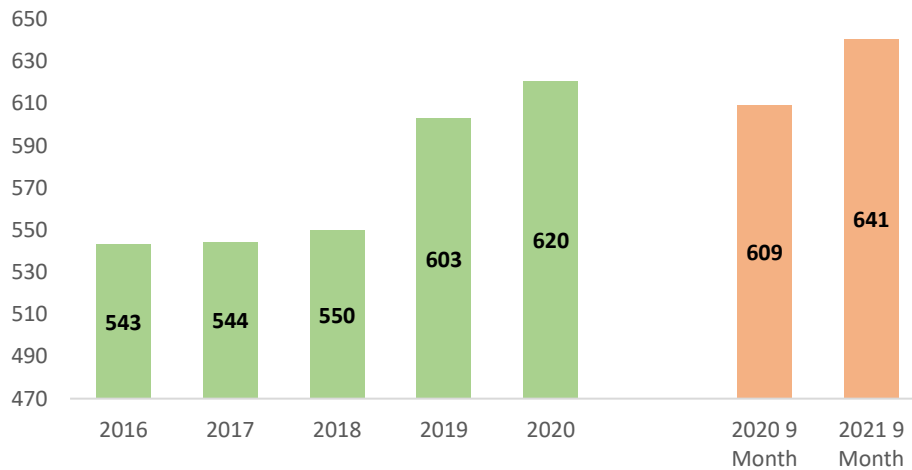


Source: LEPL Insurance State Supervision Service of Georgia, IDFI

Private Insurance Sector

The exclusion of the people with the highest income from the universal healthcare program in 2017 did not affect the usage of private insurance. The average annual growth of the sector is 3% according to the 2016-2020 data. According to 2020 data, the sector’s largest representative is JSC Insurance Company ‘Imedi L’, which occupies 26% of the market.

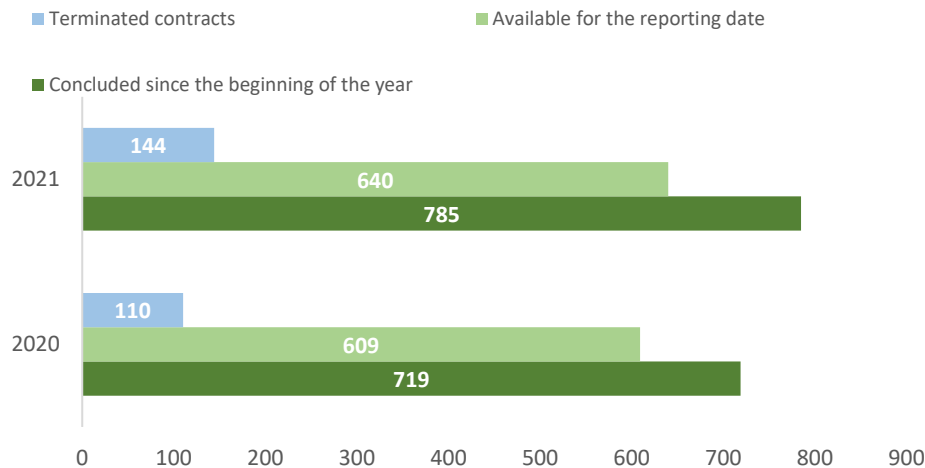
Graph 37: The number of healthcare insurance beneficiaries in the private insurance sector (thousand) 2016-2020.



Source: LEPL Insurance State Supervision Service of Georgia, IDFI

The number of terminated contracts increased by 31% in the 9 months of 2021 compared to 2020; this might have a negative effect on both the private insurance sector and the universal healthcare program.

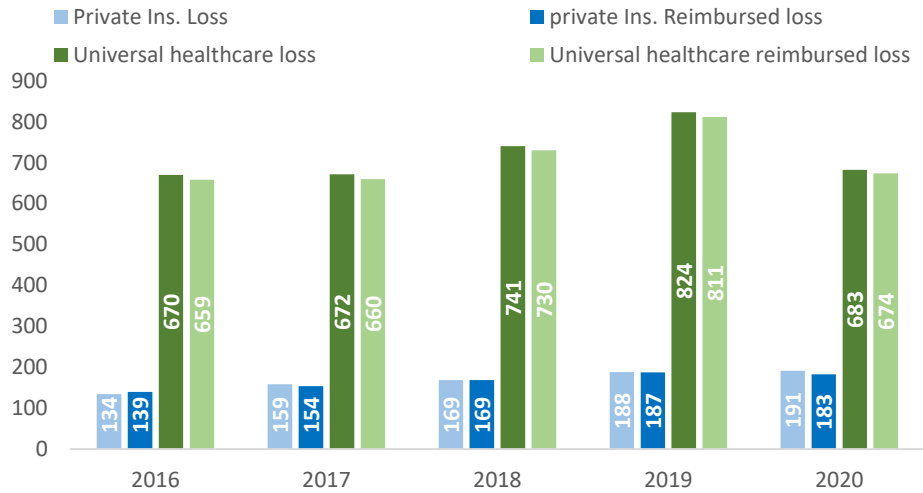
Graph 38: The number of contracts concluded and terminated by the private insurance companies 2020-2021 9 months.



Source: LEPL Insurance State Supervision Service of Georgia, Social Service Agency, IDFI

Reimbursed losses increased by 20% during the 9 months of 2021, while the sum of generated premium increased by 10% compared to 2020. This is in contrast to the universal healthcare program, where the amount of reimbursed losses decreased by 18% compared to the previous year.

Graph 39: Losses and reimbursements incurred by private insurance companies and universal healthcare in 2016-2020.



Source: LEPL Insurance State Supervision Service of Georgia, Social Service Agency, IDFI

Identified Challenges in the Healthcare System

It is important to increase healthcare sector expenditures and provide target spending for the universal health program.

Public spending on healthcare in Georgia is lower than the World Health Organization's (WHO) recommended minimum (5%). In 2020, Georgia's healthcare spending was 3.6% of GDP and is not expected to change significantly in 2021. Nowadays, referrals to a physician are, on average, 3.7 per year in Georgia, which is lower than the average rate in other countries (8.3).

The population must be able to visit a physician and increase targeted funding for the low-income group of the population. This considers supporting the socially vulnerable population with medicines.

Higher flexibility for the government to register new drugs will increase market competition and reduce the prices of medicines.

Prices in the healthcare sector have risen sharply over the past five years. Prices of medicines increased by +64% in 2021 compared to 2016. To reduce prices, it is important to quickly register imported medicines, which will increase market competition and help reduce prices.

Encouraging private insurance and creating a unified database will reduce the costs of the universal healthcare program, and the budget will not be balanced by reducing spending on other programs.

Only 17% of the population uses private insurance in the country. More than one million people are employed, while private insurance has only 600,000 beneficiaries. It is also important that private insurance companies provide the state with the information about their beneficiaries in order to lead to the development of a unified database. Proper budget planning will reduce overspending and increase funding for other programs.

Under the conditions of low salaries of physicians, the stimulation of the medical sector by the state, which implies encouraging the development of training and medical tourism, will help increase salaries in the sector and retain qualified staff.

The number of international students in the healthcare sector is at a record high of 12,692 in 2021. The increasing number of international students is a new opportunity for the sector to increase the wages of existing medical staff while having scarce funding and provide new financing sources. It is also important for the government to promote the development of medical tourism.