



## Healthcare Sector's Expectation from Budget 2023

As we enter 2023, the world is recovering from the pandemic and is well on its way to reaching pre-pandemic level normalcy. India is no different and has recovered swiftly in 2022 and hopes to maintain healthy growth in 2023. The Union Budget for 2023 will set the tone for building on the foundations and learnings from the past couple of years. This will be the fifth budget of Finance Minister (FM) Ms. Nirmala Sitharaman and the last full-year budget before the general elections in 2024. The pandemic placed the healthcare sector in the spotlight highlighting the sector's strengths, deficiencies, and development areas. It has also brought back the focus and importance of building the sector from a long-term perspective. It is the expectation of the industry that the government will follow through on its stated intent to significantly strengthen the nation's healthcare sector.

Over the last couple of years, the government has announced several new policies and reforms to help the sector continue its growth trajectory. These include PLI schemes, funding for creating new healthcare infrastructure in Tier-II or III cities, and upgrading 150,000 Primary Healthcare Centers (PHCs). The industry seeks some operational enhancements as well, which will help propel growth further. Here, we look at the budget wish lists of the four major industry segments - Hospitals, Pharmaceuticals, Medical Devices, and Diagnostics:

# Hospitals

## 1 Infrastructure Enhancement

Committing more funds to develop hospitals in Tier-II, Tier-III cities, and rural India. India needs to create 150,000 beds for patients coming through the Ayushman Bharat scheme and another 100,000 beds to provide care to higher-income patients. Providing funds through PPP schemes or suitable incentives will help create additional capacity.

## 2 Shortage of Healthcare Professionals

We have a shortage of both doctors and allied health professionals to service the additional capacity being built up. The government needs to invest and work actively to create quality capacity-enhancing educational institutions and programs for medicine, nursing, paramedical, and allied healthcare professional staff. In particular, growth is required for allied healthcare, where shortages are more severe. Programs are also needed to ensure better distribution and availability of such professionals in underserved geographies.

## 3 Zero Rating of Healthcare Services

Barring a few services, most healthcare services are exempt from GST, which leads to all taxes on procurement as operational costs. A zero-rating policy will help reduce the cost of services for patients and will also keep the input credit chain intact.

## 4 Increasing Deduction for Health Insurance

Post-pandemic, all countries are facing inflationary pressures and India is no different. Medical inflation is reaching double digits and with an increased focus on healthcare, insurance premiums have increased significantly. Hence, a larger deduction for both individuals and senior citizens will spur growth in health insurance and help patients access adequate and quality care.

# Pharmaceuticals

## 1 Incentives/Grants to Build Manufacturing and Research Capabilities

As a pharmacy to the world, India severely lags in R&D efforts and outcomes. There is a need to provide incentives/grants for expensive/high-cost research and development in this sector. Exemption from both GST and Customs Duty on raw materials procured for R&D purposes will be a welcome initiative. Innovation is what will make Indian pharmaceuticals a USD 100 billion industry in the next five years and sustain our leadership position.

## 2 Tax Credit on Expired Goods

Expiry dates of a drug generally range between 1-3 years from the date of manufacture, and good distribution practices require that expired drugs are returned to the manufacturer via trade channels. The deadline of September of the following financial year to settle the tax liability of credit notes is not sufficient to account for expiry returns. If the government can extend timelines, it will help reduce costs which will ultimately benefit patients.

## 3 Manufacturing Plants and Quality Systems

Manufacturing standards in the pharmaceutical industry are constantly being upgraded globally. To ensure India keeps pace with global standards, the government needs to support investments that upgrade the manufacturing infrastructure and quality systems. This is especially needed for the MSME sector and will greatly benefit global competitiveness.

## 4 Lower Tax Incidence on Life-Saving Drugs

To further increase the affordability of drugs, it would be prudent to reduce the GST and Customs Duty on life-saving drugs to the lowest bracket possible.

# Medical Devices

## 1 Separate Regulator for Medical Devices

Medical devices are fundamentally different than drugs and require different testing, approval, and monitoring system. Hence, it has been a long-standing demand of the industry to have a separate regulator for Medical Devices/MedTech, which will allow the industry to grow faster and bring new innovative products and technologies to the market.

## 2 Reduction in Customs Duty

Given the sector imports more than 70% of medical devices, it is crucial to reduce Customs Duty to increase affordability. This could be a temporary reprieve to the industry till the domestic industry can build or increase capacity to reduce imports.

## 3 Removal of Health Cess

The 5% health cess ad valorem imposed on importing medical devices adds to the cost of healthcare services in India. With the government looking to bring more than 60% of the country's population under the health insurance net, it is crucial to remove this cess till the domestic industry matches the volume of products required to fulfill the demand.

# Imaging and Diagnostics

## 1 Screening Programs

For a country like India, which is short on resources, capital, etc., it is crucial to have a robust preventive healthcare ecosystem. For this, screening programs are essential for a number of infectious diseases and Non-Communicable Diseases (NCDs). These programs can be run under the Ayushman Bharat schemes and can provide much-needed data for disease management and future-proofing of health systems.

## 2 GST Exemptions on Diagnostic Equipment

Diagnostic equipment, consumables, kits, and reagents are primary input products for healthcare service establishments. All of these products attract GST, whereas healthcare services are GST-exempt, which means that this cost is transferred to the patient. The government should consider removing GST on such items.

## 3 Standardizing Lab Tests

The time has come for India to standardize its lab tests across the country. The budget should provide funding to a designated body that will study and provide a pathway to homogenize tests with global standards. For e.g., using CLIA standards from the US for lab-developed tests, the CDSCO can develop a regulatory framework to help laboratories build customized indigenous tests.

These are some of the important requests from the industry for consideration in this year's budget. Accelerating healthcare infrastructure development, improving access and adoption of healthcare technology, and significantly improving training and availability of healthcare manpower are critical priorities for the government. All these require a significant increase in government spending on healthcare as a ratio of its GDP. This has been a stated commitment of the government and the industry will be looking to see how this is translated into outlays, funding, and programs in the upcoming budget.

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