



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

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**Project Document**  
**of the Asian Infrastructure Investment Bank**  
**Sovereign-backed Financing**  
**Hungary**  
**Hungary Emergency Assistance for Healthcare Expenditures Project**  
**(Under the COVID-19 Crisis Recovery Facility)**

## **Currency Equivalents**

(As of July 28, 2021)

Currency Unit – Hungarian Forint (HUF)

HUF1.00 = USD0.0033

USD1.00 = HUF301.07

EUR1.00 = HUF354.07

EUR1.00 = USD1.18

## **Borrower's Fiscal year**

January 1 – December 31

## **Abbreviations**

AIIB	Asian Infrastructure Investment Bank
COVID-19	Coronavirus Disease 2019
ECRI	Emergency Care Research Institute
ESMP	Environmental and Social Management Plan
ESMPF	Environmental and Social Management Planning Framework
ESP	Environmental and Social Policy
EU	European Union
EUR	Euro
GDP	Gross domestic product
GoH	Government of Hungary
HUF	Hungarian Forint
ICU	Intensive Care Unit
IFI	International Financial Institutions
KEF	Directorate for Public Procurement and Supply
MDB	Multilateral Development Bank
MoF	Ministry of Finance
OKFŐ	National Directorate General for Hospitals
PIA	Project Implementation Agency
PPE	Personal Protective Equipment
PPM	Project-affected People's Mechanism
USD	United States Dollar

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## 1. Summary Sheet

### Hungary Hungary Emergency Assistance for Healthcare Expenditures Project

Project No.	P000522
Borrower	Hungary
Project Implementation Agencies	National Directorate General for Hospitals (“OKFŐ”, under the supervision of the Ministry of Human Capacities – Components 1&2) Directorate for Public Procurement and Supply (“KEF”, under the supervision of the Ministry of Finance – Component 3)
Sector / Subsector	Public Health
Project Objective	To strengthen the public health emergency response infrastructure in Hungary and to improve pandemic preparedness.
Project Description	<b>Component 1: Building case management capacity:</b> procurement of oxygen therapy devices, vital sign monitors, personal protective equipment (PPE), and medications. <b>Component 2: Strengthening hospital laboratory system:</b> procurement of lab equipment, test kits, reagents, and other testing supplies. <b>Component 3: Refurbishment of hospital buildings:</b> refurbishment of 17 hospitals in Budapest, including hospitals designated for the case management of COVID-19 patients and essential hospitals required to remain open during the pandemic.
Implementation Period	Start Date: September, 2021 End Date: December, 2022
Expected Loan Closing Date	June 2023
Cost and Financing Plan	<u>Cost and Financing Plan (USD equivalent)</u> <sup>1</sup> : Project cost: USD267.2 million AIIB loan: USD216.1 million Government of Hungary: USD51.1 million
Size and Terms of AIIB Loan	EUR183.1 million (corresponding to USD216.1 million)

<sup>1</sup> Please refer to Annex 2 for Hungary's COVID-19 Emergency Response Program and its financing sources including the proposed AIIB loan.

	Eight-year final maturity with bullet repayment.
Environmental and Social Category	B
Risk (Low/Medium/High)	Medium
Conditions of Effectiveness	None
Key Covenants	<ul style="list-style-type: none"> <li>- Borrower to designate a focal point for the Project within 30 days from Effectiveness and maintain throughout the implementation period.</li> <li>- Borrower and Implementing Agencies to extend cooperation to third-party monitor to conduct post-review of retroactive financing and implementation monitoring for hospital refurbishment program.</li> <li>- Finalization of the Environmental and Social Management Planning Framework (ESMPF), satisfactory to the Bank, within 30 days from Effectiveness.</li> <li>- No activities that are screened as having significant impact will be initiated until the ESMPF is updated and all necessary assessments are carried out.</li> </ul>
Retroactive Financing (Loan % and dates)	Up to 30 percent of the loan amount, incurred and paid after September 1, 2020.
Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that AIIB is in compliance with the policies applicable to the Project.

President	Jin Liqun
Vice President	Konstantin Limitovskiy
Director General	Supee Teravaninthorn
Manager	Gregory Liu
Project Team Leader	Zacharias Ziegelhöfer, Infrastructure Sector Economist
Co-Project Team Leader	Natalia Sanz, Senior Operations Specialist Transport
Team Members	<ul style="list-style-type: none"> <li>Abigail Wright, Senior Health Specialist</li> <li>Bernardita Saez, Senior Counsel</li> <li>Benedetta Magnaghi, Procurement Associate</li> <li>Gerardo Pio Parco, Senior Environmental Specialist</li> <li>Georgi Georgiev Dzhartov, Social Development Specialist</li> <li>Giacomo Ottolini, Senior Procurement Consultant</li> <li>Sunhye Park, Young Professional</li> <li>Yogesh Malla, Financial Management Specialist</li> <li>Yuyou Guo, Project Assistant</li> </ul>

## 2. The Project Description

### A. Project fit under the COVID-19 Recovery Facility

1. **As of August 3, 2021, there are over 198 million confirmed COVID-19 cases and more than 4.2 million confirmed deaths worldwide<sup>1</sup>.** The confirmed number of deaths may be an underestimate, as according to the Economist<sup>2</sup>, the global estimated COVID-19 deaths far exceed the confirmed death toll, amounting to seven to 13 million excess deaths due to COVID-19. Earlier pandemics have similarly resulted in economic loss and high death tolls (the 1957 and 1968 influenza pandemics, for example, each resulted in over a million deaths), however, COVID-19 has arrived at a time when countries are more interconnected than ever before, therefore presenting challenges in anticipating and minimizing spread. The quick evolution of variants, the variable speed of vaccine deployment, due to both supply constraints and health system bottlenecks, as well as varying government policies and underlying cultural and domestic health contexts have meant that countries are currently experiencing different trajectories in their COVID-19 infection and death rates. While some countries have managed to reduce their infection rates over time (i.e., flatten the curves), others are experiencing a series of subsequent outbreaks. Efforts to control the pandemic within countries and across the world will continue to require a combination of non-pharmaceutical interventions (NPIs), vaccines, and continued support to health systems and communities.

2. **Hungary was able to contain the spread of the COVID-19 pandemic by putting in place a comprehensive set of response measures.** Since the first COVID-19 case was detected in March 2020, the Government of Hungary (GoH) implemented a system of testing, contact tracing, and isolating cases in line with World Health Organization (WHO)'s guidance. The GoH procured the required personal protective equipment (PPEs) for frontline workers and medical equipment and supplies to treat seriously ill COVID-19 patients, including pulmonary ventilators and oxygen cylinders, among other essential equipment, as part of its pandemic response. It also rolled out national response measures that include stringent non-pharmaceutical interventions (NPIs), including closing the borders, closing all schools and major commercial outlets, prohibiting major events/public gatherings, enacting hygiene guidance and physical distancing, and enforcing quarantine measures to curb transmission. Further, the National Operational Corps, responsible for the control of the COVID-19 pandemic<sup>3</sup>, takes responsibility for health care system monitoring, and orders the postponement of non-emergency healthcare interventions when needed to secure sufficient human and technical capacities for the treatment

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<sup>1</sup> <https://covid19.who.int/>

<sup>2</sup> [economist.com/briefing/2021/05/15/there-have-been-7m-13m-excess-deaths-worldwide-during-the-pandemic](https://economist.com/briefing/2021/05/15/there-have-been-7m-13m-excess-deaths-worldwide-during-the-pandemic)

<sup>3</sup> The National Operational Corps, responsible for the control of the COVID-19 pandemic, is led by the Minister of Human Capacities and the Minister of Interior, and its members are the Minister of State for Health, Chief Medical Officer, Director General of Public Security, National Chief Police Officer, Director General of the National Directorate General for Aliens Policing, Chief Doctor and the Head of Department of the Central Hospital of Southern Pest National Institute of Hematology and Infectious Diseases, Director General of the National Ambulance Service, Director General of the National Directorate General for Disaster Management, Director-General of the Counter-Terrorism Information and Criminal Analysis Center and Director General of the National Healthcare Service Center.

of COVID-19 cases. As the vaccine program rolled out and infection rates reduced, several NPIs were eased between April and July 2021.

**3. Rapid response measures including the roll out of vaccines contributed to curbing infection rates.** Hungary has had three waves of the epidemic to date. Each successive wave has been larger than the previous primarily due to the rapid spread of the Alpha variant (B.1.1.7). As of August 3, 2021, there were 809,672 confirmed cases and 30,029 deaths. Approximately 18 percent of cases have been recorded in Budapest. Hungary's latest peak took place between March and April 2021, corresponding to a record-high daily new cases (11,256) reported on March 26, 2021, and the highest number of reported daily deaths (289) on April 1, 2021. The third wave began to subside in April as the vaccine program rolled out across the country. The vaccination program started on December 26, 2020, and Hungary joined the Advanced Purchase Agreements concluded by the EU Commission with vaccine manufacturers. In Hungary, six vaccines have been introduced with European Medicines Agency license: (i) Pfizer/BioNTech, (ii) Moderna, (iii) AstraZeneca/Oxford, (iv) Jansen; the Hungarian pharmaceutical authority granted an emergency use permit for (v) Sinopharm, and (vi) Sputnik V. The vaccine campaign has been successful with over 5.6 million people (58 percent of the population) vaccinated as of July 28, 2021. Hungary will offer the option of taking a third dose of a COVID-19 vaccine from August 1, 2021, and vaccines will be offered to children 12-16 before the start of the school year.

**4. Despite the initial success, Hungary has experienced high COVID-19 related mortality rates<sup>4</sup> as a result of its underlying population structure, and remains vulnerable to another wave of COVID-19.** Hungary's demographic is tilted towards an older age population with a high prevalence of chronic diseases (cardiovascular diseases, chronic obstructive pulmonary disorder (COPD), hypertension, type 2 diabetes, and cancer) which has contributed to the high COVID-19 mortality rate. One-fifth of the population is aged 65 and above, similar to the EU average but significantly higher than the global average of nine percent. Two-thirds of Hungarians aged 65 and above report having at least one chronic disease, which is 12 percent higher than the EU average. Hungary also reported the highest cancer mortality rate in the EU as of 2016. These factors combined compound the challenges Hungary faces in handling the COVID-19 pandemic, as the vulnerable groups with pre-existing conditions and the elderly are at a higher risk of severe disease and mortality. Despite a high vaccination rate, the emergence of the Delta variant (B.1.617.2) which is estimated to be 50 percent more transmissible than the Alpha variant, is a concern.

**5. Hungary's healthcare system needs continued support to enhance preparedness for future pandemic shocks.** The health system provides comprehensive and universal coverage for COVID-19 related evaluation, testing, and case management, meaning that the necessary treatment is available for all residents and non-residents in the country. Tests for non-suspects are available for a fee from healthcare providers licensed to provide COVID-19 tests. While the nature of the COVID-19 epidemic requires enhanced capacity for testing and

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<sup>4</sup> As of June, 2021, Hungary has the second highest COVID-19 death rate in the world. Case fatality rate was 3.7 percent and 307.17/100,000 population (<https://coronavirus.jhu.edu/data/mortality>).

diagnosing cases, it also requires significantly strengthened intensive care unit (ICU) capacity, calling for substantial investments in testing and equipment. While the Hungarian health system retains 13.8 ICU beds per 100,000 population, this is far lower than Germany (29.2/100,000), but at par with France (11.6/100,000) and Italy (12.5/100,000).

6. Many of the public health care facilities in Hungary were constructed over 50 years ago and require upgrades to accommodate modern infection control including disinfection and air filtration, optimized patient flow, and upgraded modern medical equipment such as oxygen therapy devices, vital signs monitors, and ventilators. EU support to health care development has focused on the regions excluding Budapest, leaving the hospitals in the capital region in particular need of upgrades and modernization. As the number of patients as well as the concurring number of inpatient days surge with the pandemic, it has placed pressure on the hospital infrastructure and equipment to meet epidemiological requirements and optimal patient management standards. The upgrading of diagnostic, patient management, and overall hospital capacity of the country's public health system is necessary to address future waves of COVID-19 and provide support to an aging population with considerable comorbidities.

7. **Strengthening public health systems and delivery of critical health services during the COVID-19 pandemic requires additional financial resources.** COVID-19 mitigation measures have significantly slowed down Hungary's key economic activities such as supply chains, exports, and tourism activities thereby affecting employment and productivity. Hungary's GDP has contracted by 5.0 percent in 2020. GoH has implemented the Disease Control Fund (USD2.5 billion equivalent) aimed at financing health-related expenditures such as purchasing medical equipment, building temporary emergency hospitals, and epidemic prevention, among others. A complementary non-health fund, Economy Protection Fund, finances the restart of economic activities and supports the job market, amounting to USD4.6 billion equivalent. These packages, along with other direct fiscal stimulus, represent approximately 10 percent of the GDP injected into the economy. While these impacts are relatively moderate (when compared to past trends) and expected to be transitory, the current pandemic is nonetheless putting fiscal strains on GoH's capacity to adequately respond to the current pandemic and increase preparedness for future waves.

8. **Project's alignment with AIIB's COVID-19 Recovery Facility (the Facility).** The proposed emergency assistance loan seeks to (i) cover emergency expenditures related to essential medical supplies, respiratory devices and personal protective equipment (PPE) to combat the pandemic; and (ii) strengthen the capacity of Hungary's health system to increase its preparedness to respond to the next wave of the pandemic as well as other future public health related shocks. The Project supports the overall enhancement of the public healthcare system, which complements current initiatives by other development partners that are focused on emergency relief. Hence, this project is consistent with the objectives and core scope of the Facility, namely the financing of immediate health sector needs, including the development of health system capacity, and provision of essential medical equipment and supplies to combat COVID-19, as well as the long-term sustainable development of the health sector of the member. In its Decision on the Facility, the Board agreed that any member, regional or non-regional, would



be eligible to benefit from financing under the Facility, subject to the ceiling for non-regional investment as per the Strategy on Financing Operations in Non-Regional Members.<sup>5</sup> Considering the project loan amount, the total AIIB investment in non-regional Members as a three-year rolling share of approved Bank financing volume does not exceed the ceiling of 15 percent set in this Strategy. Furthermore, containment of the pandemic in any country, Hungary included, would provide benefits to neighboring countries and beyond, both in consideration of global public goods and trade, and therefore benefit Asia.

## **B. Project Objective and Expected Results**

9. **Project Objective.** To strengthen the public health emergency response infrastructure in Hungary and to improve pandemic preparedness.

10. **Expected Results.** The project is expected to increase the quantity of quality medical and pharmaceutical supplies and diagnostic testing equipment available for a robust COVID-19 response, and further enhance the capacity of the overall health system through hospital capacity enhancement to manage new waves of COVID-19 and future health shocks. The results will be monitored via the following key result indicators:

- I. Number of designated health facilities fully equipped with supplies for case management (e.g., PPE, oxygen therapy devices, vital signs monitors, and medications).
- II. Utilization rate of COVID-19 diagnostic equipment, test kits, and reagents financed by the project.
- III. Number of public hospitals that have completed the planned upgrading through the support of the Project.

11. **Expected Beneficiaries.** The expected project beneficiaries will be the population at large given the nature of the disease, but most importantly the infected people and at-risk populations such as the elderly and people with chronic conditions, medical and emergency personnel, medical and testing facilities, and public health agencies engaged in the emergency response. Containment of the pandemic in Hungary will also provide benefits to the neighboring countries and beyond.

12. The Results Monitoring Framework, including monitoring indicators, is presented in Annex 1.

## **C. Description and Components**

13. AIIB's support to Hungary is part of an internationally coordinated effort to support Hungary's COVID-19 Response Program (the "Program"), which is delivered in parallel financing with European International Financial Institutions (IFIs) and funds provided by the European

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<sup>5</sup> See Decisions to Support the AIIB COVID-19 Crisis Recovery Facility (April 16, 2020), point (iv) and Paper on the Decisions to Support the AIIB COVID-19 Crisis Recovery Facility (April 16, 2020), point 11.4.

Union.<sup>6</sup> While EIB and CEB are financing medical equipment and PPE, which were procured during the height of the first wave, the AIIB loan also includes an infrastructure development component to strengthen the future pandemic responsiveness of the Hungarian Public Health system in addition to emergency procurements of equipment and PPE.

14. **Overview.** The proposed AIIB-financed Project has three components as outlined below, designed to address the emergency healthcare needs and strengthen health care system services in Hungary.

15. **Component 1. Building Case Management Capacity (USD32.6 million).** This component involves procurement of oxygen therapy devices, vital sign monitors, personal protective equipment (PPE), and medication to increase the case management capacity of COVID-19 patients.

16. **Component 2. Strengthening Hospital Laboratory System (USD32.2 million).** This component supports procurement of laboratory equipment, test kits, reagents, and other testing supplies to increase testing capacity per the national COVID-19 guidelines and regular case reporting for surveillance purposes.

17. **Component 3. Refurbishment of Hospital Buildings (USD202.4 million).** This component will support the refurbishment of 17 hospitals in Budapest, including hospitals used for the case management of COVID-19 patients and essential hospitals required to remain open during the pandemic. The targeted hospitals are i) national/regional level designated COVID-19 care centers or ii) hospitals where patients face a significantly higher risk due to their chronic diseases, or iii) hospitals where capacity must be fully maintained during the pandemic. The investments will provide the hospitals with modern technology through the installation of efficient ventilation systems to operating rooms, development of unified hospital access control systems and patient referral areas, renovation of hospital wards, waiting areas and the connecting social areas. Other upgrades include replacement of surfaces (e.g., floors and walls) to allow for better disinfection, replacement of water pipes and reorganization of patient flow to improve infection control measures. These are crucial features that will help the hospitals prepare for potential future waves of COVID-19 and improve the overall capacity of the patient care system in general and the ability of the system to respond to future pandemics.

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<sup>6</sup> Specifically, the Components 1 and 2 are in parallel financing with the European Investment Bank (EIB), Council of Europe Development Bank (CEB) and funds from the European Union (EU).

## D. Cost and Financing Plan

18. The Government of Hungary has requested AIIB to support its COVID-19 response with a Sovereign-Backed Financing in the amount of EUR183.1 million (corresponding to USD 216.1 million). The total cost of the Program is estimated at USD1.2 billion equivalent including the parallel financing. Further details are provided in Annex 2: Detailed Project Description<sup>7</sup>. The detailed indicative Project Cost and Financing Plan for the proposed loan is shown below. This excludes the parallel financing from other European IFIs for the Program.

**Table 1. Project Cost and Financing Plan<sup>8</sup>**

	Project Cost		Financing (EUR m)	
	EUR m	USD m	AIIB	GoH
<b>Component 1.</b> Building Case Management Capacity	27.6	32.6	27.6	
<b>Component 2.</b> Strengthening Hospital Laboratory System	27.3	32.2	27.3	
<b>Component 3.</b> Hospital Refurbishment	171.5	202.4	128.2	43.3
<b>Grand Total</b>	<b>226.4</b>	<b>267.2</b>	<b>183.1</b>	<b>43.3</b>

19. **Loan Size and Financing Terms.** The loan size is EUR183.1 million. The loan has a final maturity of eight years with bullet repayment. The pricing will follow the standard terms for variable spread Sovereign-backed Loans.

20. **Retroactive Financing.** The Bank has approved the client's request to allow retroactive financing for up to 30 percent of the loan amount, for expenditures incurred and paid after September 1, 2020, given the emergency nature of the COVID-19 response.

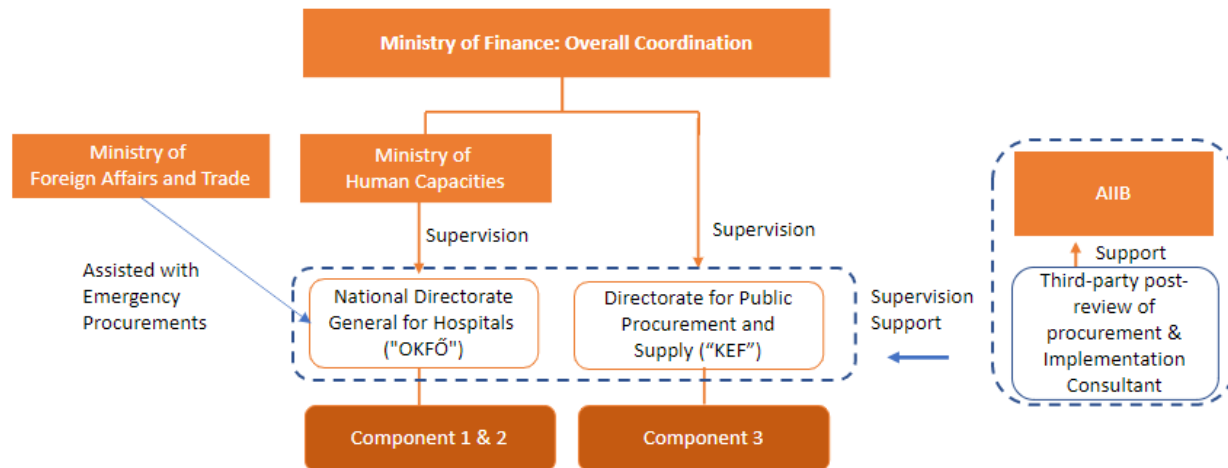
## E. Implementation Arrangements

21. The Ministry of Finance (MoF), representing the Borrower, has the overall responsibility of overseeing IFI-financed projects in Hungary. Within the MoF, the Department for International Finance is tasked to lead on the project preparation and implementation of IFI-financed projects and coordinate with other Government entities. The implementation and monitoring arrangements are illustrated in Figure 1 below.

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<sup>7</sup> Through the 'Supporting Hungary in fighting the COVID-19 pandemic project' (EUR175 million), CEB is partially financing medical and pharmaceutical supplies, medical equipment, repatriation costs of medical staff stranded abroad, as well as expenses towards strengthening health sector services in Hungary. EIB is financing the 'CSEE Public Sector COVID-19 Response project' to support public sector counterparties to contain the COVID-19 pandemic with health emergency response and preparedness interventions. The total loan is EUR1 billion, aimed at supporting Bulgaria, Cyprus, Czech Republic, Hungary, Romania and Slovakia. The loan portion designated to Hungary is EUR 162.4 million. In addition, EIB (EUR146 million) and CEB (EUR152 million) have approved second phase loans, which are expected to be disbursed in 2021.

<sup>8</sup> Please refer to Annex 2: Detailed Project Description for full Program costs and financing sources, which includes other sources of financing from CEB, EIB, EU and the government contributions.

**Figure 1. Implementation and Monitoring Arrangements**

22. **Project Implementing Agencies (PIAs).** The National Directorate General for Hospitals (OKFŐ), under the supervision of the Ministry of Human Capacities, is responsible for the implementation of Components 1 and 2, and the Directorate for Public Procurement and Supply (“KEF”), under the supervision of the Ministry of Finance, is responsible for Component 3. During the most severe epidemic crisis period in Hungary, the Ministry of Foreign Affairs and Trade assisted OKFŐ in the emergency procurement of essential equipment and supplies under Components 1 and 2, after which the procured items and implementation responsibility have been fully transferred to OKFŐ. The PIAs, OKFŐ and KEF, are fully responsible for the implementation of the project activities under the respective components as described, including contract management, monitoring and supervision, ensuring quality controls, approval of payment certificates for supply contracts, authorizations for payment, and safeguards implementation. The emergency procurements under Components 1 and 2 have been completed. The implementation of Component 3 is currently ongoing.<sup>9</sup> The PIAs will report to the Department for International Finance for seamless project implementation.

23. For the supervision of Component 3, KEF has designated 10 project managers to conduct construction supervision for the works in the 17 hospitals. The project managers hold weekly meetings in the hospitals, where the progress and coordination of tasks is reviewed. The schedule of additional work areas to be handed over are also agreed at the meetings considering the hospitals occupancy and case load during the pandemic. During the construction period, the project managers conduct technical inspection of the construction work carried out by the contractor on the work areas on a regular basis to monitor progress against the planned timeline and conduct quality control. In addition, a quantitative and qualitative review of the work is carried out before payments, as this review is the basis for the certificate of completion. The project

<sup>9</sup> The envisaged refurbishment covers a total floor area of 263,000 m<sup>2</sup> in the 17 hospitals combined. The refurbishment of 91,000 m<sup>2</sup> have already been completed, corresponding to 34.6 percent of the overall planned activities under Component 3. It is not envisaged that retroactive expenses activities under Component 3 would be financed under the loan.

managers report back to KEF management on a weekly basis on the progress of the construction works, the technical and quality problems encountered and remedial actions, if required.

24. **Implementation period.** The Project is expected to be implemented from September 2021 to December 2022.

25. **Monitoring and Reporting.** Project progress and performance will be monitored based on the project results indicators, which are defined in the Results Monitoring Framework (Annex 1). The project-level monitoring and reporting will be conducted by the PIAs. The Department for International Finance, MoF, assumes the overall responsibility for Project monitoring and reporting and will liaise with the PIAs to consolidate the required information for semi-annual progress reports, which will be shared with the Bank.

26. **AIIB's Implementation Support and Supervision.** The Bank team will conduct regular supervision missions when the travel restriction is lifted. As long as travel is not possible, implementation support and supervision missions will be carried out virtually. The frequency of the missions will depend on implementation progress and complexity. The Bank's monitoring will be supported by a lender's monitor as described in the subsequent paragraph.

27. **Third-party post-review and monitoring support.** Emergency Care Research Institute (ECRI), an independent not-for-profit healthcare technology management and patient safety organization, will be contracted by the Bank as a lender's monitor. ECRI will conduct a post-review of completed procurements in terms of technical adequacy, deployment of supplies, and prices achieved against the available information at the time. Post-delivery monitoring assistance will be conducted on a sample basis on behalf of the Bank with testing and verification of medical equipment to ensure the equipment is appropriate, safe, and functional through an on-site visit to the selected health and laboratory facilities that have received equipment. ECRI will also assist the Bank in its implementation monitoring of the hospital refurbishment activities, conducting a sample-based review, to make recommendations for the optimization of the measures where appropriate. As an organization which also performs independent testing and evaluation of medical devices worldwide, ECRI has been engaged by the World Bank for the COVID-19 Bank Facilitated Procurement initiative offered to emergency projects and has also been involved with other international agencies in market analysis, supply chain analysis, and providing expert advice on the supply of critical medical products required to respond to the pandemic.

28. **Procurement.** The PIAs OKFŐ and KEF have conducted the procurement under the respective Components. Ministry of Foreign Affairs and Trade assisted OKFŐ in the initial phase when the urgency was at the peak to conduct the identification and selection of suppliers in the international market. The PIAs are public entities and procurements have been conducted in accordance with the law on public procurement of Hungary, which is fully harmonized with the EU Directives. The EU Directives are a comprehensive, robust, modern, and well tested set of procurement regulations and are substantially aligned with the procurement principles applicable to MDBs. Hence, the public procurement system of Hungary is deemed acceptable and consistent with the AIIB Core Procurement Principles and Standards.

29. **Financial Management.** The Department for International Finance, MoF, provides overall coordination and oversight for Financial Management and reporting. The PIAs OKFŐ and KEF are responsible for the project financial management of their respective components. The PIAs prepare separate annual budgets for the respective components as per procurement plan and financing agreement following the approval process as per Hungary's regulations.

30. For their respective components, the PIAs will prepare project accounts and Government treasury system shall be used as default for project related payments. The existing internal control processes and procedures of the PIAs shall be used for the project. The internal audit units of PIAs will carry out periodic internal audit of the project based on agreed Terms of Reference and share the reports with AIIB. PIAs shall prepare and submit Interim Unaudited Financial Reports (IUFs) to AIIB within 45 days of end of each semester. PIAs shall submit annual audited project financial statements for respective components to AIIB within six months after the end of each fiscal year.

31. The loan will be disbursed through AIIB's standard disbursement methods, which include: (i) advances to a Designated Account (DA) using Statement of Expenditure (SOE); (ii) payments against Special Commitments; (iii) reimbursement of eligible expenditures; and (iv) direct payments. The Disbursement and Financial Information Letter (DFIL) shall detail out the authorized signatories, ceiling of designated advance, process of submitting claims and other terms and conditions of disbursements related to the Project.

### 3. Project Assessment

#### A. Technical

32. **Project Design.** The Project is considered under the COVID-19 Crisis Recovery Facility financing due to the urgent need for a nationwide emergency response to the outbreak, and longer-term public health system strengthening. The project design proposes a set of investments that are flexible enough to accommodate changing needs in the face of a rapidly changing epidemic situation. The project design recognizes the need to accommodate retroactive expenditures incurred during the emergency pandemic situation which has been unprecedented for all countries. Moreover, it includes an investment component in the healthcare infrastructure (i.e., hospital rehabilitation), which addresses deficiencies in Hungary's healthcare system, to increase preparedness for future pandemics and/or infectious disease outbreaks.

33. The hospital rehabilitation program is designed to enhance the country's public healthcare infrastructure to manage larger caseloads while maintaining the required level of care. Most of the hospitals involved in the program are highly specialized, national-level facilities in Budapest, treating patients from all over the country. Historically, hospitals outside of the capital have received EU funds for refurbishment, with the GoH responsible for capital hospital upgrades. Due to the underfunding of the public health system, this has left many of the hospitals in Budapest in need of rehabilitation. The outbreak of COVID-19 pandemic significantly increased the utilization

rate of available hospitals due to a large influx of patients with severe symptoms. The hospital rehabilitation program will help increase the hospital area available for the diagnosis and management of patients with COVID-19 infection and other diseases. The refurbishments include measures to expand capacity and enhance infection control such as air filtration, patient flow, rehabilitation of surface areas to ensure effective sterilization of hospital surfaces (including patient areas and common areas), thereby minimalizing the chance of disease transmission.

34. **Operational sustainability.** The emergency procurements under Components 1 and 2 are designed to cover immediate response needs during the pandemic. Most of the procured supplies are considered consumables. GoH is committed to maintaining an adequate stock of required supplies to meet the needs during the pandemic. The refurbishments under Component 3 will enable the hospitals to deal with a higher caseload of infectious diseases. The third-party monitor ECRI will review the measures and provide recommendations to optimize the Project activities to strengthen the operational sustainability, if needed. For the long-term operational sustainability, the GoH's commitment to provide sustained financial support towards enhancing the public health system in the country will be important. Since this is the country's first loan from AIIB, the AIIB team will continue to support the Borrower on fulfilling various AIIB requirements to ensure successful implementation of the Project.

## **B. Economic and Financial Analysis**

35. **Economic Benefits.** There is strong economic justification for investing in Hungary's COVID-19 public health response and preparedness. The proposed investment under the Project provides economic and social benefits through two channels: first, investments in PPEs ensure the safety of frontline workers and investments in medical equipment and supplies reduce the mortality of vulnerable groups in the immediate term. Second, strengthening the healthcare system increases preparedness for subsequent waves to protect Hungary's population at risk in the long run. Overall, these investments minimize the spread of infectious diseases, thereby decreasing any pandemic related economic costs on society incurred due to (i) increased mortality, (ii) prolonged illnesses and loss of productivity, and (iii) costs related to lockdown measures and (iv) healthcare treatment.

36. Hungary's demographic characteristics (i.e., large proportion of 65+) and population with co-morbidities make Hungary especially vulnerable to COVID-19 outbreaks. In fact, age-specific mortality was highest in the 65 years and above age group (89 percent) during the height of the pandemic.<sup>10</sup> Given a large population at risk, Hungary has experienced a high mortality rate and is likely to experience severe long-term consequences. Those who suffer from prolonged sicknesses associated with COVID-19 (considered to be the mild/moderate infection cases) are also more likely to be less productive at work. Therefore, the economic benefits from the Project due to averted mortality, mild infections and subsequent loss of productivity are significant.

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<sup>10</sup> Rost, G. et al. (2020), Early phase of the COVID-19 outbreak in Hungary and post-lockdown scenarios.

37. The Project also accrues economic benefits by reducing the lockdown-induced costs on society. Stringent lockdown measures during the pandemic impacts the productive capacities of firms and workers while reducing the domestic and international demand in service sectors such as tourism, retail sales and transportation. While the aggregate losses due to COVID-19 remain immeasurable, the latest IMF estimates provide some indication of its toll on the economy. The economic growth in Hungary has contracted by 5 percent in 2020 as opposed to the pre-crisis projection of 3.5 percent growth. With the successful roll-out of its vaccination campaign (see paragraph 3), an economic recovery is expected. As of June 2021, the number of registered jobseekers decreased by almost 30 percent compared to June 2020 as the economic recovery takes shape.

### **C. Fiduciary and Governance**

38. **Procurement.** The Bank's Procurement Policy and its associated Procurement Instructions for Recipients (Section II - public sector) apply to the project. A draft Project Delivery Strategy and a Procurement Plan have been prepared by the PIAs and are considered acceptable, both documents will be refined and finalized during the due diligence to be conducted by ECRI. All contracts under Components 1 and 2 were procured following a streamlined and accelerated method adequate to respond to the circumstances Hungary was facing. The use of such methods has been duly authorized by the initial declaration of state of emergency by the GoH in March 2020 that allowed OKFŐ to conduct the award of contracts for Components 1 and 2 with a limited competitive process. The contracts have been awarded to a mix of international vendors and some national service providers with an existing relationship or track record. The framework contract for Component 3 has been awarded following a competitive process to a single contractor for the activities in all hospitals. Based on the information provided, the Bank team has determined the strategy as acceptable as it is well justified, and fit-for-purpose, considering the market situation for Components 1 and 2 and the efficiency and economy for Component 3 of amalgamating under one contract the full package of works (17 hospitals).

39. The role of ECRI is critical to complement the initial due diligence on the retroactive financing carried out during project preparation and appraisal. ECRI will initially review the master list of items purchased with types of medical devices, quantity and prices paid. In deciding on the sample data to be selected, ECRI will aim to select a sample of approximately 20% of the device-types purchased, which are expected to account for 80% of the expenditure. This sampling strategy is designed to maximize the impact of ECRI's review in terms of the eligibility of expenditures. The selection of the sample data will be agreed during the inception phase of the assignment.

40. The Bank's team has verified that all suppliers and the contractor are eligible to receive Bank financing. For Component 3, the Bank's Prohibited Practices and rights of audit will be incorporated through an amendment to the existing contract, whereas for Component 1 and 2 would be impractical as all contracts have been fully implemented. No procurement complaints were lodged against the procurement procedures, nor has any evidence of corruption been reported on the concerned contracts.



41. **Financial Management (FM)** assessment focused on institutional capacity, staffing, planning/budgeting, funds flow, accounting, internal controls, reporting and audit arrangements. The FM assessment was carried out based on desk review of reports shared by the Borrower and discussions with the stakeholders. The PIAs have limited recent experience in implementing projects financed by MDBs, other than European IFIs. They have adequate finance/accounts staff, and the FM system is adequate to account and report on the project related activities. Based on the FM assessment, FM capacity is considered adequate and FM risk as “Medium” due to the emergency nature of the project, the proposed proportion of retroactive financing, field supervision constraints in light of travel restrictions and limited experiences of the PIAs in managing MDB-funded projects.

42. The proposed project FM arrangement is considered adequate given the mitigation measures. These FM arrangements are: (i) internal audit Terms of Reference shall be prepared by the PIAs in consultation with AIIB detailing out the specific areas of internal audit engagement, periodicity and reporting mechanism; (ii) external audit Terms of Reference shall be prepared by the PIAs in consultation with AIIB detailing the scope of audit and (iii) for designated advance, either a special account shall be opened in the Hungarian Central Bank or sub-ledger account shall be created in the Single Treasury Account to ensure reporting and monitoring of the advance fund. The Bank will contract a third-party firm for fiduciary due diligence of select retroactive procurement and to provide fiduciary monitoring support during project implementation.

43. FM arrangements for the Project shall be aligned with the Government’s systems, including planning, budgeting, funds flow, accounting, reporting, internal control procedures and audit arrangements.

44. **Planning and Budgeting.** Based on the ceiling provided by MoF and their respective line ministries, PIAs prepare their budgets with detailed subcategories, which contain cost of staff, estimates of capital expenditures, operating and IT services, utility fees, maintenance services, professional support services, and VAT payment. There are dedicated teams in PIAs such as project managers, Director Budget, Chief Finance Officer etc. involved in preparation of budgets. PIAs have the flexibility to manage some appropriations within the budget allocated and budget execution is monitored on a periodic basis.

45. **Funds Flow and Disbursement.** The State Treasury of Hungary oversees the liquidity management of the PIAs. All the payments under the budget activities are made from a Single Treasury Account (STA). The money circulation is ensured through the STA, kept by the central bank of Hungary, which is the National Bank of Hungary. The disbursement of loan proceeds will be made using the reimbursement, direct payment, and advance methods. For the retroactive financing component, the default disbursement option is reimbursement. In case of advance, either a special account shall be opened in the Hungarian Central Bank or sub-ledger account shall be created in the STA to ensure reporting and monitoring of the advance fund. The eligible project expenditures such as civil works, goods and consulting services will be subject to documentation and using Statement of Expenditures format. The loan is expected to include

retroactive financing of up to 30 percent of the loan amount for expenditures incurred and paid after September 1, 2020. Retroactive expenditures shall be allowed for reimbursement if eligible expenditures are incurred/items are procured in accordance with applicable AIIB's Procurement Regulations.

46. **Accounting, Financial Reporting and Internal Controls.** The cash basis accounting system will be maintained. PIAs will be responsible for maintaining project accounts and custody of the supporting documents for their respective components. PIAs shall prepare their respective project financial reports and submit to AIIB. The financial progress of the respective PIAs will be reported on a semi-annual basis through IUFRRs. The format and the content of IUFRRs shall be shared and agreed before implementation. The existing internal control system of the recipient is capable of providing reliable and adequate controls over funds/transaction flow.

47. **External Audits.** The project financial statements will be audited by an independent auditor based on terms of reference acceptable to AIIB in accordance with applicable standards. The external audit reports, which will include an audit opinion on the project financial statements and management letter will be submitted to Bank within six months of the end of each fiscal year.

48. **Financial Crime and Integrity and Counterparty Due Diligence / Know Your Counterparty.** Screening has been conducted by an external KYC service provider. Overall Financial Crime and Integrity Risk is rated as Medium based on the following findings: i) no sanctions are reported on the country, heads of state (elected and administrative), PIAs and its head and authorized signatory; ii) no adverse news have been reported on elected officials in connection to the Project.

49. **AIIB's Policy on Prohibited Practices.** AIIB is committed to preventing fraud and corruption in its financing. It places the highest priority on ensuring that the projects it finances are implemented in strict compliance with the AIIB's Policy on Prohibited Practices (2016). Detailed requirements and reference to AIIB's Policy on Prohibited Practices have been specified in the Loan Agreement and will be included in relevant contractual documents. AIIB will monitor the activities under Bank financing.

50. **Institutional Capacity.** Hungary is an EU member country and has a high institutional capacity, and its legislation is harmonized with European Union's "Acquis Communautaire"<sup>11</sup>. The Project's implementation arrangements are appropriate to achieve the Project objectives. Hungary has extensive experience in implementing projects financed by European financial institutions such as the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). Throughout project preparation, the GoH has demonstrated its strong commitment to understand the Bank's applicable policies and requirements for the Project, to ensure its successful implementation.

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<sup>11</sup> The European Union's Acquis Communautaire is the accumulated legislation, legal acts and court decisions that constitute the body of European Union law.

## D. Environmental and Social

51. **Applicable Environmental and Social Policy.** AIIB's Environmental and Social Policy (ESP) including the Environmental and Social Exclusion List (ESEL) and ESS 1 will apply to this Project. Given the emergency nature of this Project, a phased approach for addressing environmental and social (ES) risks and impacts has been adopted, as permitted under the ESP for Situations of Urgent Need of Assistance.

52. **Categorization.** The Project has been assigned Category B, due to moderate ES risks which are localized and can be mitigated using standard procedures and precautionary measures. Components 1 and 2 will finance medical supplies and goods which will improve infection management. The activities that these components support have inherent health and safety risks for patients, medical and laboratory staff related to the handling of diagnostic tests and medical waste. Activities under Component 3 are expected to cause health and safety risks to health workers and communities mainly associated with localized construction works and hospital refurbishment.

53. **Environmental and Social Instruments.** An Environmental and Social Management Planning Framework (ESMPF) will be used to mitigate Project's ES risks and impacts. The ESMPF will include a template for site-specific Environmental and Social Management Plans (ESMP) for each hospital. The ESMPF will review Hungarian and applicable EU regulations on the environmental management of medical facilities, medical waste management and disposal. Under the phased approach, the ESMPF will be prepared within 30 days following loan effectiveness and updated regularly as the COVID-19 situation evolves. Any activities in Component 3 screened to have significant impacts according to the ESMPF will not be initiated before an updated ESMPF, and any additional ES assessment documents (if required), are in place. Activities and civil works started before the ESMPF is approved will be subject to an Environmental and Social Due Diligence assessment which will be described in the ESMPF.

54. **Environmental and Social Aspects.** The project is expected to have mostly positive ES impacts, insofar as it should improve COVID-19 surveillance, diagnosis and treatment, monitoring, case management and containment, and medical waste management contributing to preventing a wider spread of the disease.

55. The main environmental risks associated with the Project are occupational health and safety issues related to the testing and handling of supplies and inadequate use of PPEs by laboratory technicians and medical professionals. Handling, transportation and disposal of healthcare and medical waste and minor/moderate scale construction works may contribute to localized environmental pollution and community health and safety issues. Occupational Health and Safety risks will be screened as part of ESMPF procedures. Hungary has adequate regulations covering International Labor Organization (ILO) standards relating to workers which will be enforced through the contractual obligations of the civil works contractors. Such risks and impacts are typical and will be managed through measures provided in the site-specific ESMP(s)

following Project ESMPF's principles and any Environmental Code of Practice (ECOP) which may be prescribed.

56. The rehabilitation of hospital facilities under Component 3 will be carried out taking into consideration the risk of earthquakes in the area concerned. Flooding due to excessive rain is also a climate change risk which needs to be considered. The ESMPF will include screening for climate change and disaster risks.

57. The limited civil works under Component 3 are not expected to have any adverse impacts on livelihoods and cultural heritage. Adequate measures to mitigate typical risks associated with localized construction works will be developed in the site-specific ESMP(s). The ESMPF will provide measures to support equitable access to COVID-19 related services and supplies to all patients (both women and men), vulnerable and people with disabilities.

58. **Stakeholder engagement, consultation, and information disclosure.** The ESMPF in English and a summary in Hungarian, will be disclosed on the Client and AIIB's websites and hard copies will be made available in Project areas.

59. **Monitoring and Supervision.** The AIIB team will conduct regular monitoring and supervision of the project implementation. This supervision will be done remotely while travel restrictions are in effect. The AIIB ES specialists will closely collaborate with counterparts from OKFŐ and KEF, relying on frequent remote discussions. AIIB will be able to provide inputs on corrective measures, should that be necessary.

60. **Project Grievance Redress Mechanism (GRM).** The ESMPF will explore existing functional complaint mechanisms which may be used for workers and/or Project-affected people to avoid duplication. If none are appropriate, a standalone system will be prepared, and its details will be disseminated.

61. **Project-Affected People's Mechanism.** AIIB's Policy on the Project-affected People's Mechanism (PPM) applies to this Project. The PPM has been established by the Bank to provide an opportunity for the independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by the Bank's failure to implement its ESP in case when their concerns cannot be addressed satisfactorily through the Project-level GRM or the processes of the Bank's Management. Information on the PPM is available at <https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>

62. **Proposed follow-up.** Preparation of the ESMPF will start as soon as possible. Finalization and approval of the ESMPF should be completed 30 days after loan effectiveness.

## E. Risks and Mitigation Measures

63. Based on the assessment, discussions with the MoF, OKFŐ and KEF, other key stakeholders, and review of available documents, the AIIB team has assigned an overall “Medium” risk rating to the project.

**Table 2: Summary of Risks and Mitigating Measures**

<b>Risk Description</b>	<b>Assessment Ratings (High, Medium, Low)</b>	<b>Mitigation Measures</b>
<b>Macroeconomic Risk.</b> Risk of a severe macroeconomic downturn induced by COVID-19 pandemic and its impact on the debt sustainability.	<b>Low</b>	Hungary is expected to recover from the pandemic and sustain strong macroeconomic performance, owing to the government’s commitment to fiscal prudence and the country’s strong fiscal framework including the EU’s Stability and Growth Pact caps on debt and deficit. Under IMF’s baseline scenario, as the economy recovers from the temporary shock of COVID, external debt is expected to start declining and fall below 70 percent of GDP by 2026.
<b>Technical.</b> Low quality of procured supplies and/or inadequate design of hospital refurbishment given the urgency for rapid implementation.	<b>Medium</b>	Post-delivery monitoring assistance will be conducted on a sample basis on behalf of the Bank by a reputable third-party firm with testing and verification of medical equipment to ensure the equipment is appropriate, safe, and functional through an on-site visit to the selected health and laboratory facilities that have received equipment. The third-party firm will also monitor the ongoing hospital refurbishment activities and propose recommendations for optimization of the activities and corrective actions, if needed.
<b>Implementation.</b> The Project will be implemented by two Project Implementing Agencies with limited recent experience in managing projects in accordance with the Bank’s policies or similar policy requirements of other MDBs.	<b>Low</b>	As an EU member country, the institutional capacity of the Borrower and the Project Implementation Agencies are high. The Ministry of Finance is strongly committed to ensuring adequate coordination between the Project Implementing Agencies as a single point of contact for AIIB.

<p><b>Environment and social.</b> Client's capacity to prepare and operationalize ES instruments as per the ESP may be limited.</p>	<p><b>Low</b></p>	<p>Hungary and EU ES regulations are sound, and a competent consultant will be retained to support the preparation of the ESMPF.</p>
<p><b>Financial Management.</b> Possible non-compliance with AIB FM requirements for activities carried out under retroactive financing.</p>	<p><b>Medium</b></p>	<p>AIB will hire ECRI as a third-party firm to carry out fiduciary due diligence of selected retroactive procurement and will provide fiduciary monitoring support during project implementation.</p>
<p><b>Procurement Risk.</b> Inadequate technical specifications of emergency procurements, leading to low-quality supplies.</p>	<p><b>Medium</b></p>	<p>AIB is hiring ECRI as a third-party firm to act as lender's monitor and review technical specifications and achieved prices against available benchmarks on a sample basis.</p>

## Annex 1: Results Monitoring Framework

<b>Project Objective:</b>	To strengthen the public health emergency response infrastructure in Hungary and to improve pandemic preparedness.					
Indicator Name	Unit of measure	Baseline Data Year	Cumulative Target Values	End Target	Frequency	Responsibility
			YR1			
<b>Component 1: Building Case Management Capacity:</b> procurement of oxygen therapy devices, vital sign monitors, personal protective equipment (PPE), and medications.						
Number of designated hospitals/quarantine centers fully equipped with supplies for case management (e.g. oxygen devices, vital signs monitors, PPE and medications).	Number	0	95	95	By end of Project	Dept. of International Finance, Ministry of Finance
<b>Component 2: Strengthening hospital laboratory system:</b> procurement of lab equipment, test kits, reagents, and other testing supplies.						
Utilization rate of COVID-19 diagnostic equipment, test kits, and reagents financed by the project.	Percentage	0	100	100	By end of Project	Dept. of International Finance, Ministry of Finance
<b>Component 3: Refurbishments of hospital buildings:</b> refurbishment of designated hospitals used for the case management of COVID-19 patients and essential hospitals during the pandemic.						
Number of public hospitals that complete the planned upgrading through the support of the Project.	Number	0	17	17	By end of Project	Dept. of International Finance, Ministry of Finance

## Annex 2: Institutional Context and Detailed Project Description

### *Institutional Context*

1. Hungary's public health system is highly centralized. The national government is responsible for setting strategic direction, financing, issuing and enforcing regulations, as well as delivering most outpatient specialist and inpatient care. Specifically, the Ministry of Human Capacities administers the health system through the National Directorate General for Hospitals (OKFŐ). OKFŐ is the umbrella organization for other formerly independent authorities and local and regional health system agencies and is now the primary organization for health service provision. The responsibilities of OKFŐ include care coordination, public hospital planning and management, and medical licensing.

2. Against the backdrop of a highly centralized health system, Hungary's healthcare system faces several challenges:<sup>1</sup>

- **The health system is underfunded.** Hungary's health care expenditure per capita is EUR 1,468, which is one of the lowest in the EU. As a share of GDP, health spending amounts to close to 7 percent of GDP, also below EU average. While the public share of health spending constitutes over two-thirds of aggregate health spending, the out-of-pocket share is 27 percent (higher than EU's average of 16 percent).
- **Healthcare spending is cyclical.** Growth in healthcare expenditure performed below GDP growth since the 2008-2009 financial crisis until 2012, although it has since been at par or higher than GDP growth between 2013 and 2017. This pandemic (both a health and economic crisis) may lead to a reversal of this recent trend and further contribute to the persistence of underfunding in healthcare.
- **Hospital beds are plenty, but facilities and equipment are out of date and capacity is lacking.** Hungary has the fourth highest number of hospital beds per capita in the EU but has a lower physician to population ratio than the EU average. Many facilities, including hospitals are more than 50 years old and in need of structural upgrade. Also, availability of key high-technology medical equipment (e.g., computed tomography scanners) are the lowest in the EU. The health system is highly oriented towards hospital care but lacks attention on primary and infectious/epidemiological care and prevention (important features to prevent COVID-19 spread).
- **There are significant disparities in healthcare delivery capacities and health outcomes.** For example, poorer regions and rural areas in the country report higher rates of permanently vacant general physician (GP) positions. In terms of outcomes, the life expectancy gap at age 30 for a person with a higher education and a person without higher education is 12.6 years for men and 6.4 years for women, respectively. These disparities can also be seen at the income and geographical levels.

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<sup>1</sup> European Commission (2019) State of Health in the EU – Hungary Country Health Profile 2019.



### **Project Description**

3. The Project is considered under the COVID-19 Crisis Recovery Facility (the Facility) of the Bank. The Project will support the GoH to respond to immediate health needs of the pandemic by providing emergency equipment and supplies for testing and case management, and by strengthening the health system for pandemic preparedness through upgrading of hospital infrastructure. The Project is consistent with the country priorities as laid out in Hungary's national COVID-19 response strategy set out in the March 2021 response of the National Public Health Center. The strategy comprises non-pharmaceutical interventions (NPIs), vaccination and mobilizing healthcare capacity to face a potential surge of cases. The comprehensive COVID-19 response program by GoH is illustrated in Table 1 below. The proposed Project contributes towards the GoH's COVID-19 Emergency Response Program detailed below, in coordination with other parallel financiers including EIB, CEB, and EU.

**Table 1.** Hungary's COVID-19 Emergency Response Program and Costs

	Project Cost		Financing (USD million equivalent)				
	EUR m	USD m	AIIB	EIB*	CEB*	EU	GoH
<b>Component 1.</b> Building Case Management Capacity	643.6	759.6	32.6	328.8	292.0	0.0	106.2
<b>Component 2.</b> Strengthening Hospital Laboratory System	222.4	262.5	32.2	35.3	93.9	35.3	65.7
<b>Component 3.</b> Hospital Refurbishment	171.5	202.4	151.3	-	-	-	51.1
<b>Grand Total</b>	<b>1037.5</b>	<b>1224.5</b>	<b>216.1</b>	<b>364.1</b>	<b>385.9</b>	<b>35.3</b>	<b>223.1</b>

\*The first EIB and CEB loans, EUR162.4 million and EUR175 million respectively, have been fully disbursed. The second EIB (EUR146 million) and CEB (EUR152 million) loans are expected to be disbursed in 2021.

4. The Project includes the following components:

5. **Component 1. Building Case Management Capacity**<sup>2</sup> (USD32.6 million). This component will retroactively finance the procurement of oxygen therapy devices, vital sign monitors, PPE, masks, medication and other hospital equipment. This component supports the immediate expenditures incurred for management of COVID-19 patients and helps protect high-risk groups as well as healthcare professionals through enhanced provision of masks and protective gear. The procurement includes personal protective equipment (masks, special protective clothing), medical devices enabling to handle an increased number of patients requiring intensive care (i.e. vital sign monitors, and oxygen therapy devices) and ancillary medical products (mostly disposable items for healthcare).

6. **Component 2. Strengthening Hospital Laboratory System**<sup>2</sup> (USD32.2 million): This component will retroactively finance the procurement of laboratory equipment, test kits, reagents,

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<sup>2</sup> EIB and CEB have provided parallel financing for Component 1 and 2, and their loans contain a wider list of activities such as facility management and IT services for hospitals, which are excluded from AIIB Project scope.

and other supplies to increase testing capacity per the national COVID-19 guidelines and regular case reporting for surveillance purposes. As the pandemic is prolonged globally, this component helps Hungary increase and maintain a higher level of its laboratory and testing capacities for detection purposes, to ensure resilience of its healthcare system to handle a larger case load based on the lessons learned from current COVID-19 pandemic.

7. **Component 3. Refurbishment of Hospital Buildings** (USD202.4 million). This component will support the refurbishment of targeted hospitals for COVID-19 response. The 17 hospitals in Budapest identified for rehabilitation are i) national/regional level designated COVID-19 care centers or ii) hospitals where patients face a significantly higher risk due to their chronic diseases, or iii) hospitals where capacity must be fully maintained during the pandemic. A total of 235 buildings within the 17 identified hospitals fall under the rehabilitation program under Component 3. These designated hospitals are located in Budapest but treat COVID-19 patients from all over the country.

8. The rehabilitation program is designed to enhance the quality and capacity of each of the 17 hospitals. Investments under Component 3 will upgrade hospitals with modern technology through the installation of efficient ventilation systems to operating rooms, development of unified hospital access control systems and patient referral areas, renovation of hospital wards, waiting areas and the connecting social areas. Other upgrades include replacement of surfaces (e.g. painting, tilting and flooring) to allow for better disinfection, and replacement of outdated and inefficient water pipes, lighting and sanitary fixtures. Patient flow will be reorganized to improve infection control, and vaccination sites and patient referral areas will be added, and complete refurbishment of COVID-19 treatment areas will be undertaken in the hospitals. These are crucial features that will help the hospitals prepare for potential future waves of COVID-19 and improve the overall capacity of the patient care system and the ability of the system to respond to future pandemics. There are no new constructions on greenfield sites, nor any expansion of existing facilities envisioned under this component. KEF conducts technical assessments of the scope of rehabilitation work required under the designated hospitals and monitors the progress.

### **Hospitals identified for refurbishment**

#### **1. Designated national COVID-19 center**

- National Institute for Hematology and Infectology - South Pest Center Hospital
- Korányi National Institute of Pulmonology (OKPI)
- Heim Pál National Institute of Pediatrics

#### **2. Additional capacity for designated COVID-19 center**

- National Institute of Medical Rehabilitation (OORI)

#### **3. Regional COVID-19 center**

- North-Central Buda Center, New Szent János Hospital and Clinic

#### **4. Regional hospitals authorized to provide COVID care**

- Szent Imre University Hospital

- Szent Margit Hospital
- Uzsoki Hospital
- Jahn Ferenc South Pest Hospital and Clinic
- Bajcsy-Zsilinszky Hospital and Clinic

**5. Institutions at high risk for nosocomial COVID-19 infection due to special patient group**

- Nyíró Gyula National Institute of Psychiatry and Addictions (psychiatric patients)
- Péterfy Hospital and Clinic and Manninger Jenő National Institute of Traumatology (chronic patients)
- Károlyi Sándor Hospital (chronic patients)

**6. National institutions whose health care capacity must be maintained throughout COVID-19 pandemic**

- National Institute of Oncology (OOI)
- National Institute of Clinical Neuro Sciences (OKITI)
- National Institute of Rheumatology and Physiotherapy (ORFI)
- Gottsegen György National Institute of Cardiology (GOKI)

9. These components together comprise a comprehensive package that supports Hungary's emergency response to the COVID-19 crisis to minimize the loss of life. It further enhances pandemic preparedness with medium and long-term interventions to improve the health of its citizens.

### Annex 3: Sovereign Credit Fact Sheet

1. **Background.** Hungary is a high-income country in Europe, with a population of slightly below 10 million and GDP per capita of around USD18,000 (USD35,000 at purchasing power parity). Hungary is a member of the European Union and the OECD. Its central location in Europe, educated workforce, good infrastructure, EU membership and substantial FDI inflows have contributed to a robust, diversified, export-oriented economy that is well-integrated into Europe's value chains, particularly towards Germany. Trade volumes are high (180 percent of GDP in 2019) and manufacturing plays an important role. In particular, the automotive industry is a major income earner, accounting for about 15-25 percent of exports and about 5-7 percent of GDP. In addition, Hungary is benefiting from the strong inflows of EU's structural and investment funds, with total allocation for 2014-20 of EUR 25 billion, or about 3 percent of GDP annually, and similar amounts expected for 2021-27.
2. Regarding politics, since the landslide victory in the 2010 elections (and subsequently in 2014 and 2018), the current government coalition has been enjoying a supermajority in the parliament, which has ensured policy continuity.
3. With favorable external conditions and prudent policies Hungary has had a robust economic performance in the past several years. During 2014-19, GDP growth averaged four percent and wage growth over 8 percent per year in real terms. This has led to fast income convergence and a decline in the unemployment rate (to 3.3 percent, from 9.8 percent in 2013). Inflation has been contained in line with the central bank's target band (3 percent +/- 1 percentage point), despite occasional pressures due to the tight labor market and strong growth.
4. Fiscal policies have been prudent. Hungary's strong fiscal framework consists of EU's Stability and Growth Pact caps on debt and deficit, as well as nationally legislated three percent of GDP ceiling on deficit and a budget rule aimed at bringing down debt to below 50 percent of GDP. With strong growth, inflows of EU funds and better tax collection, fiscal deficits have been kept below 3 percent of GDP (down from the peak of 9 percent of GDP in 2006). As a result, public debt has declined from above 80 of GDP in 2011 to 65.5 percent of GDP in 2019.
5. The Hungarian economy's external position and resilience to shocks have improved in parallel. Due to strong exports, the balance of payment has been in surplus for almost a decade. External surpluses and EU transfers have helped stabilize foreign exchange reserves since 2016. At EUR 30.8 billion as of June 2021 (21 percent of GDP or about 3 months of imports) reserves are adequate by IMF standards. Likewise, Hungary's external debt has declined rapidly, to about 72 percent of GDP in 2019, down from over 150 percent of GDP a decade earlier.

<b>Selected Macro Indicators 1/</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP growth (% change)	4.3	5.4	4.6	-5.0	6.2	4.9
Inflation (average, % change)	2.4	2.8	3.4	3.3	4.1	3.6
General government overall balance	-2.4	-2.1	-2.1	-8.1	-7.1	-5.8
Nominal gross public debt	72.2	69.1	65.5	80.4	78.3	77.1
Public gross financing needs	22.8	21.6	23.6	24.9	20.5	18.3
Current account balance	2.0	0.3	-0.5	-0.1	0.5	0.8
External debt	83.4	78.9	71.6	78.5	69.9	64.1
Gross international reserves (EUR billion)	23.4	27.4	28.4	33.7	35.9	36.7
Exchange rate (HUF/EUR) 2/	310.4	321.5	330.5	365.1	358.1	...

Source: IMF Country Report 21/135, Hungarian central bank, Hungarian Central Statistical Office

Notes: 1/ in percent of GDP, except as indicated otherwise; 2017-19 actuals, 2020 estimates, 2021-22 projections.  
2/ end-of-period; for 2021: as of July 8.

6. **Recent developments.** The first wave of the pandemic in early 2020 was relatively mild, as lockdowns and other restriction were swiftly imposed. The second and third waves, peaking in November 2020 and March 2021 respectively, were much more severe, and led to the reintroduction of the various containment measures. In total, there have been over 800,000 confirmed cases in Hungary, with over 30,000 deaths. As of early August 2021, infections are contained and many restrictions have been lifted. This is being facilitated by a rapid vaccination campaign, with eight vaccines authorized for use. As of August 2021, over half of the population had been fully vaccinated against COVID-19.

7. Hungary's economic policy response to COVID-19 has been one of the largest among regional peers. Through the Anti-Epidemic Protection Fund (health) and the Economic Protection Fund (economic support), the government has injected into the economy around 10 percent of GDP in direct fiscal stimulus. Measures included wage subsidies for companies to retain workers, additional pension payments, subsidized loan and guarantee schemes for businesses, support to investors and exporters as well as a temporary reduction of various taxes and fees. On the monetary side, measures included liquidity support to banks via several measures, reduction in the policy interest rate, a debt service moratorium for individuals and companies, which continues into 2021, SME lending programs, regulatory forbearance as well as quantitative easing via secondary market purchases of corporate bonds and government debt.

8. Being small and open economy Hungary has been significantly affected by COVID-19, even though the impact on macroeconomic stability was muted. GDP contracted by 5.1 percent in 2020, due to lockdowns, lower business confidence, lower external demand, and a collapse in

tourism. The fiscal deficit widened sharply to over eight percent of GDP, on stimulus spending. However, growth rebounded strongly by 2020 Q3, and by mid-2021 the economy appears to have adapted and virtually recovered to pre-pandemic levels. The unemployment rate has barely increased (to 4.1 percent), as a result of government wage support. The current account has improved, with the reduction of export and tourism offset by the decline in imports and lower profits of multinationals. The currency depreciated slightly, by 5-10 percent, without any major impact on external vulnerability.

9. On the other hand, public debt increased sharply to 80.4 percent of GDP in 2020, or by 15 percentage points, due to the large deficit, GDP contraction and the pre-emptive increase in buffers. Public debt remains one of the highest among regional peers. Gross public financing needs (about 20-25 percent of GDP) are also high, due to the relatively short average maturity.

10. **Outlook and risk.** Going forward, the economy is expected to grow by around 6 percent in 2021, driven by export. Not unlike in other countries, inflationary pressures are emerging, causing the central bank to tighten policy. The government plans to continue the fiscal stimulus, as necessary, and has recently increased the 2021 deficit target to 7.5 percent of GDP. The main risks relate to the future course of the pandemic and the evolution of the external environment. Potential escalation of the long-standing tensions with the EU over the perceived deterioration of the rule of law in Hungary is an additional factor. Parliamentary elections are scheduled for 2022, which may affect policymaking in the short term.

11. Despite the pandemic, debt sustainability is not a major risk. Under IMF's baseline scenario, as the economy recovers from the temporary shock of COVID-19, debt is expected to start declining, and fall below 70 percent of GDP by 2026. The key drivers are authorities' demonstrated commitment to fiscal prudence and country's strong fiscal framework. Other factors of resilience include continued and tested access to markets, low foreign component of public debt (below 20 percent), record low funding costs, sizeable cash buffers, limited contingent liabilities and a broad investor base, including a large domestic retail bond program.

12. On the external side, debt and financing needs are moderately high, but sustainable as a result of the large share accounted for by intra-company loans, adequate reserves, repo lines with the ECB, the balanced current account and the floating exchange rate that cushions external shocks. Accordingly, Hungary was able to maintain its BBB/Baa3 investment grade rating through the pandemic. S&P changed the outlook from positive to stable in April 2020, while Moody's— from stable to positive in September 2020. The stable/positive outlook reflects demonstrated resilience and a strong expected performance of the economy.