



USSABC Economic Brief: Saudi Arabia's Healthcare Update

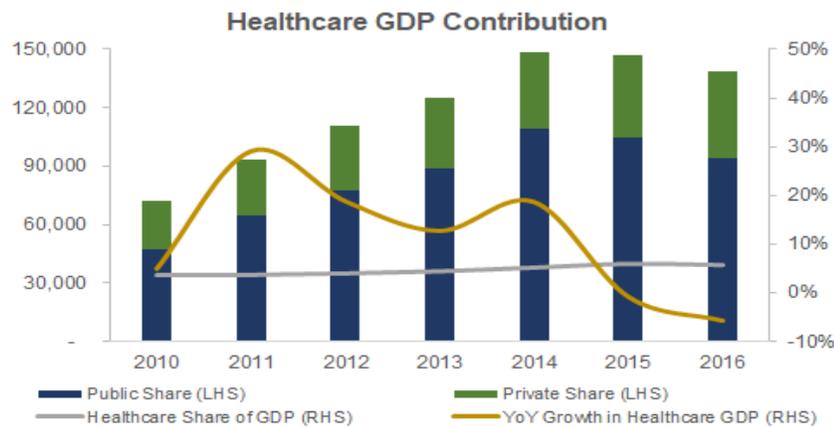
Overview

Saudi Arabia's changing demographics is one of the largest factors that will drive growth of the Kingdom's healthcare sector in coming years. The trend of increasing demand correlates with a growing Saudi population, increasing proportion of elderly Saudis, and a rising occurrence of lifestyle-related and chronic diseases. The percentage of the population age 65 years and older, those with the greatest healthcare requirements, is projected to increase from 3.2 percent to 7.5 percent of the total population between 2019 and 2030. The 65 years and older population segment will account for a larger share of the population as life expectancy increases.

Saudi Arabia accounts for approximately 60 percent of the total healthcare market in the GCC overall. A clear supply and demand gap will continue to widen with the current trajectory of the sector. The compound annual growth rate (CAGR) of national supply is 1.3 percent, and the CAGR of national demand is 2.3 percent, suggesting more opportunities for service providers.

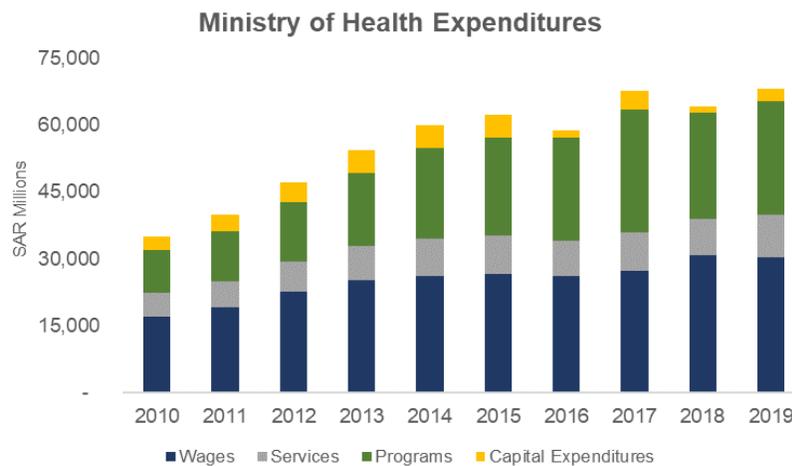
Market Size

According to the latest figures from the World Bank, Saudi Arabia's healthcare contribution to nominal GDP reached 5.74 percent or SAR139 billion (\$37 billion) in 2016. More impressive is that healthcare GDP grew at a CAGR of 11 percent between 2010 and 2018 while nominal GDP grew at 3 percent, indicating growing investments by the government and private sector. Furthermore, healthcare expenditure per capita grew from SAR2,635 (\$703) in 2010 to SAR4,302 (\$1,147) in 2016.



Source: World Bank, World Health Organization, USSABC estimates

In terms of expenditures, the MOH's budget increased by 6.1 percent in 2019 compared to last year. Wages account for the highest share of expenditures, registering 45 percent of spending. Wages continue to garner the largest share of the MOH's budget but this category decreased in 2019 compared to last year when it accounted for 48 percent of the total budget. The MOH appropriated larger capital expenditure spending for 2019 compared to last year, jumping from 2.5 percent to 4.3 percent.



Source: Ministry of Health

The Kingdom's 2019 budget allotted SAR172 billion (\$46 billion) or 15.5 percent of its SAR1.1 trillion (\$295 billion) budget to the 'Health and Social Development' category. This marks an 8 percent increase over 2018 and a 28 percent increase over 2017. The MOH's 2019 budget accounts for 6.2 percent of the total state budget and approximately 40 percent of the budget's 'Health and Social Development' category. The share of MOH's budget to the 'Health and Social Development' category has continually decreased over the last several years as the private sector's participation level increased and preventative care has increased due to growing social awareness programs by the MOH.

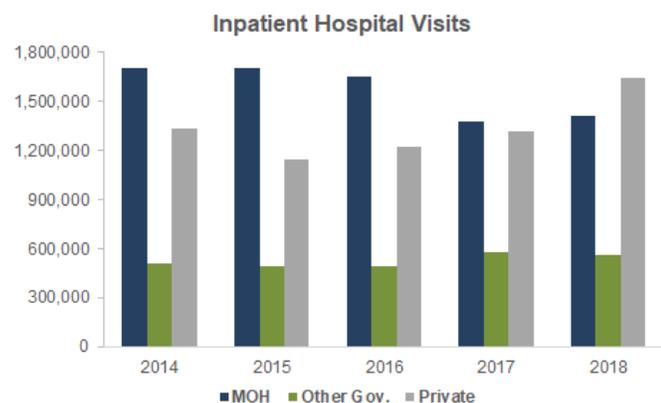
Saudi Arabia's Health Budget (SAR Billions)

	2017	2018	2019
State Budget	930	1,030	1,106
Health & Social Development Budget	134	159	172
MOH Budget	67.8	64.3	68.2
MOH Budget (% of State Budget)	7.3%	6.2%	6.2%
MOH Budget (% of Health & Social Development)	50.6%	40.4%	39.7%

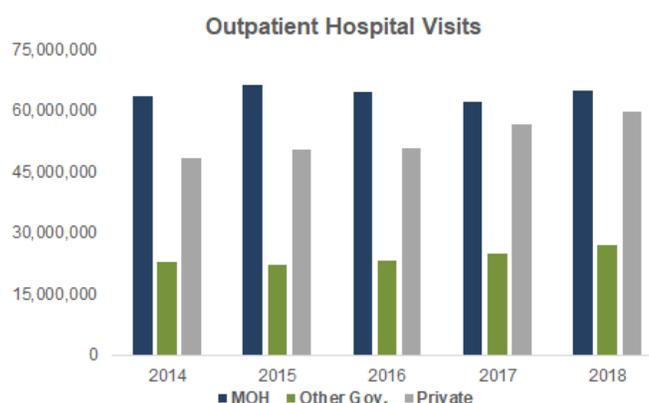
Source: Ministry of Health, Ministry of Finance

The Saudi Arabian Government has continually emphasized the increased role of the private sector through privatization and financing of activities related to job creation and investment. Currently, the private sector accounts for approximately 30 percent of the Saudi healthcare market. The healthcare sector has been opened to global healthcare companies, promoting increased competition. Processes for international investors have eased in recent years. Foreigners may now own and operate hospitals in Saudi Arabia. In an effort to allow companies to attract qualified health professionals, experienced workers may now move among institutions without restriction.

Total inpatients visits at private sector hospitals in Saudi Arabia reached 1.6 million in 2018 representing a compound annual growth rate (CAGR) of 5.4 percent since 2014. The growing demand for inpatient services at private sector hospitals exceeds the rate of growth of inpatient visits across the Ministry of Health (MOH) and other government sector hospitals as they accounted for -2.8 CAGR over the five year period. Private sector outpatient visits have also increased by a CAGR of 5.4 percent from 2014 to 2018, reaching 60 million patients, and exceeding MOH and other government sector outpatient growth of 1.6 CAGR.

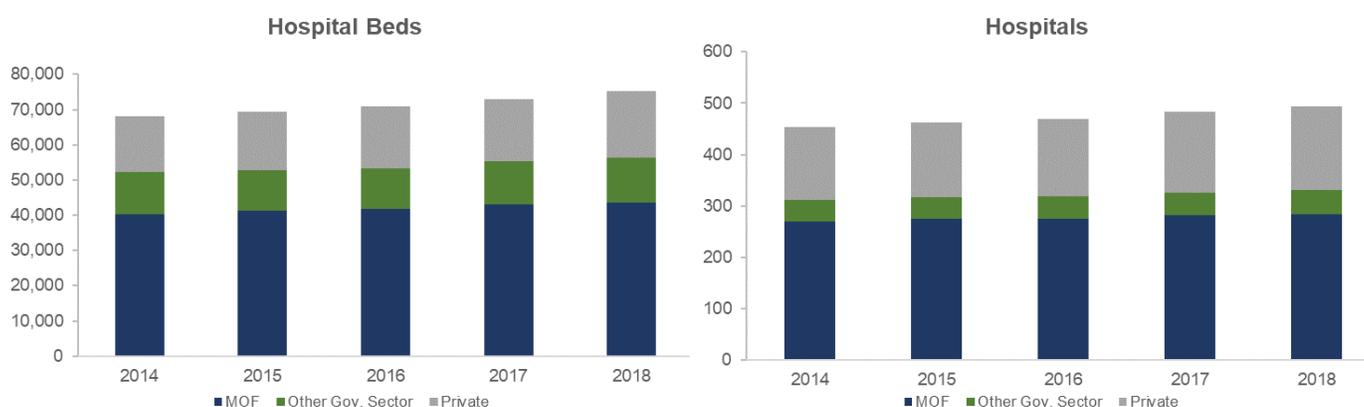


Source: MOH, GaStat



Source: MOH, GaStat

The total number of hospitals has grown from 453 in 2014 to 494 in 2018 representing a CAGR of 2.2 percent. Private sector hospitals accounted for the largest growth, reaching 163 hospitals in 2018 from 141 in 2014. Conversely, MOH hospitals have grown at a marginal pace during the same period as it added only 14 hospitals. Growth of other government sector hospitals have remained relatively flat, as they grew from 42 hospitals in 2014 to 47 in 2018. Alternatively, the number of hospital beds for the MOH reached 43,680 in 2018, while private sector beds reached 18,883 and other government sector beds reached 12,583. MOH hospitals averaged 153 beds in 2018 while the private sector averaged 115 beds and other government sector averaged 267 beds. The hospital beds to population ratio has remained relatively flat over the last ten years, standing at 2.2. This indicates that total population growth has grown at a similar rate to the growth in hospital beds during the same time period.



Source: Ministry of Health

Source: Ministry of Health

Privately managed facilities have grown over the past few years in stride with government initiatives and regional trends towards growing private sector involvement in the health industry. As the Ministry of Health shifts the burden of care to the private sector, long-term and post-acute care service (LTPAC) opportunities will emerge. At times over 30 percent of beds in Ministry of Health hospitals have been occupied by patients requiring these services due to a high rate of severe traffic accidents. A growing gap between the demand and available services has emerged, especially for rehabilitation and long-term care, that makes the area a key focus for private sector involvement. With an increasing number of elders requiring care and restructuring of how care is delivered, the demand for home health care is rapidly increasing in a previously inexistent area of services. Saudi Arabia's healthcare market is one of the most advanced in the GCC, yet a limited number of long-term care operators exist with respect to the size of the population.

Outlook

As part of Vision 2030, the government seeks to enhance the private sector's participation rate across all sectors. The healthcare sector is one of the main focal points within Vision 2030. The imbalance between demand for hospital beds and current supply shortages presents challenges to the government as the MOH is expected to become less of an operator and focus on regulatory oversight within the sector. While the Saudi population demographic is slanted towards younger age groups, the long-term healthcare needs of those citizens necessitate changes today to accommodate the future demand for healthcare services.

The current hospital beds to population ratio, which stands at 2.2 falls short of the global average of 2.7, according to the World Bank. To match the global average, the Kingdom would need to add approximately 15,000 beds and develop 100 hospitals, assuming the current average of 150 beds per hospital. To close the supply and demand gap, the government will largely depend on the private sector to reach equilibrium. The imbalance presents business opportunities for the private sector, whether local or foreign, to step in and provide the necessary capabilities with assistance from the government to achieve the Kingdom's long-term healthcare plans.

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