Healthcare: Growth behind the mask

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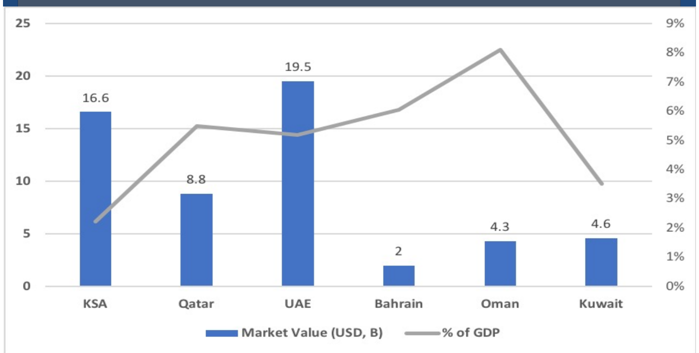
- **We expect to see higher growth in healthcare provision across the GCC, which to date has tended to lag many other places in both the developed and developing world.**
- **The region is behind the global average in terms of medical care spending and the sector still faces supply-side constraints. We expect this to change as demand surges due to factors such as an ageing population, mandatory health insurance, a high incidence of lifestyle-related diseases and rising per capita income.**
- **COVID-19 vaccine developments in the region and the loosening of traditional entry barriers associated with healthcare regulation and ownership, will spur opportunities and increase the participation of private investors in the sector.**

Healthcare demand soars in GCC

The healthcare market in the GCC has been growing at an annual rate of 5% and is estimated to be worth USD 70B by the end of the year. While the region still lags the world in healthcare provision, the pandemic has accelerated government diversification efforts by boosting medical provision and investment opportunities, including through privatisation of hospitals.

- Healthcare in the GCC -- which makes up half of the total MENA market value -- grew by 11% from 2017 to reach USD 69B in 2018. Despite this, public spending on the sector stands at just 3.5% of GDP, far below the 10% world average.
  - Looking ahead, spending is expected expand to USD 104B by 2022.
- Across the GCC, Saudi Arabia and the UAE are leading in healthcare provision, accounting for 76% of the total market value. Qatar is working to establish itself as a leader in health provision, with health spending projected to grow by 2.2% per year till 2022.
  - When it comes to market value as a percentage of GDP, Oman is forecast to top the list this year, followed by Bahrain, Qatar, the UAE, Kuwait and Saudi Arabia.
  - In Saudi Arabia, 2020 healthcare takes up 18% of spending (USD 44.5B), the third largest share of any sector in the budget. While this is 2.8% less than 2019's allocation, it merely reflects the overall 9% reduction in the kingdom's total budget expenditure. This year's allocation is a huge 157% increase from the 2010 budget.
  - Saudi spending on healthcare expanded to nearly 6% of the kingdom's GDP in 2019. On the back of the pandemic and lower oil prices, we expect spending next year to decline slightly as the budget deficit reaches 6.5% of GDP -- a 38% YoY increase from FY 2019/2020 deficit.
    - By consistently increasing expenditure over the years, Saudi Arabia has made strides in improving life expectancy to 75 years, from only 45.6 years in 1960.
  - The UAE's health expenditure reached USD 14B in 2019 (3.4% of GDP) -- a nearly 5.5% increase from 2018. It is expected to increase annual spending by over 9%, to USD 26B by 2028, as the population grows rapidly, and mandatory health insurance is introduced.

Figure 1- Healthcare Market Value for 2020f, by country[1]



  - Qatar has allocated USD 6.2B to healthcare in 2020 from a total budget of USD 57.8B, nearly 11% of the budget and a 29% YoY growth from 2019's allocation. Extraordinary expenditures to deal with the virus could well have increased these figures.
  - Regardless, Qatar has the highest health expenditure per capita in the region. It currently leads the region at around USD 1.70K per capita, compared with USD 1.32K in the UAE and USD 1.15K in Saudi Arabia.
    - Life expectancy in Qatar reached 80.16 years in 2019, close to Western European levels. It registered a 0.18% YoY rise from 2018 and has grown more than 14% over last two decades. It is currently ranked the highest in the region and 37th globally in life expectancy.

The development of better healthcare in the GCC has been driven in part by changing demographics and a greater prevalence of so-called lifestyle diseases (lack of exercise, smoking etc). It will be helped by GCC initiatives to find a COVID-19 vaccine, positioning the region more competitively as a healthcare provider. Investments to match the demand should come, lessening supply-side constraints.

- The GCC population is one of the fastest growing in the world, reaching over 54 million this year at a growth rate of 12% between 2015 and 2018. By 2025, the population is expected to grow by at least 5% more, which will create additional demand pressures on healthcare.
  - The majority of the population is young, with only 4% estimated to be older than 65 years.
  - This means that the population that is 65 years-plus is expected to surge from 1.2 million in 2015 to 14.2 million in 2050.
- High spending power, rapid urbanisation as well as changes in dietary habits and lifestyle have led to a high incidence of diabetes, obesity, and cardiovascular diseases among the region's residents.
  - In the UAE and Saudi Arabia, statistics show that 15% of adults aged between 20 and 79 years are diabetic. Bahrain, meanwhile, is considered one of the most diabetes-stricken countries in the region with the disease affecting 19.6% of the adult population this year, a 25% YoY growth from 2018. This compares with a global average of 6%.
    - Forecasts suggest that by 2030, a quarter of the GCC population will be diabetic.
    - Daily calorie intake from packaged food and soft drinks in the GCC has grown at an annual rate of 3.5% since 2016.

[1] Arabia Monitor; Ministries of Finance of respective countries; IMF.

- This is worrisome both in health terms and as a strain on the medical sector. The availability of medical doctors to cater to the existing population is below the levels seen in developed countries. Physician density per 1,000 persons in the GCC (1.5) is lower than that in the U.S. (2.0) and far lower than that in Europe (3.3).
    - The supply of nurses is also low -- in Saudi Arabia and the UAE there are 3.1 and 5.2 nurses per 1,000 persons, respectively, versus the 9.9 nurses in the U.S.

➢ This imbalance between rising demand and low supply has prompted governments to seek investments to offset some of the costs and raise the level of care.

➢ The UAE, Saudi Arabia and Bahrain have joined China in seeking a COVID-19 vaccine. This is expected to encourage private sector participation in healthcare and attract global skilled professionals in the field.
- In June, the UAE launched the world's first phase of three clinical trials for an inactivated vaccine, developed by G42 Healthcare, an Abu Dhabi-based company, and the Chinese Sinopharm National Biotec Group, the world's sixth-largest vaccine manufacturer. [2]
    - In the last six weeks, 31,000 volunteers have taken part in testing facilities in Sharjah and Abu Dhabi.
    - The trial was extended to Bahrain in August, involving an estimated 6,000 volunteers over a period of 12 months.

➢ We believe this will not only benefit Sino-MENA investments, but also accelerate science exchange in the region, grow medical tourism, and accelerate the shift in focus from curative healthcare to preventive care.

➢ The pandemic has also ushered in health and medical technology with healthtech start-ups taking on an important role in the front-line defence against the COVID-19 virus.[3]

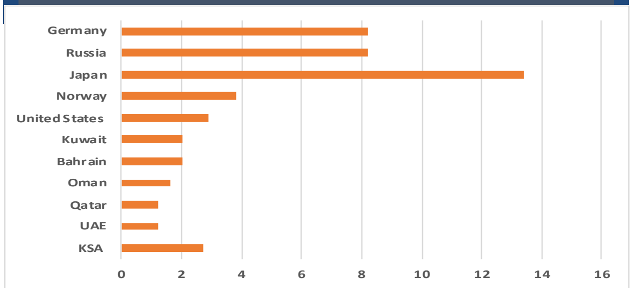
➢ Recent rapid advancements being made in these fields are transforming existing structures, signifying that innovations in healthcare, going forward, will extend beyond searching for a COVID-19 vaccine.
- Industry is working to integrate new technologies that enable smarter, more accurate, affordable and predictive diagnostics and treatments, while also creating newer opportunities within the virtual healthcare space.

The rapidly growing healthcare market in the GCC presents opportunities for private investors, prompting governments and regulators to encourage private sector participation to build hospitals and clinics, upgrade existing infrastructure, and match the quality of services offered in the developed countries.

➢ Opening the sector to private players is becoming more of a priority for all GCC governments, given that the public sector share in healthcare spending averages 73% at the moment

➢ The healthcare sector has already seen a move towards public-private partnerships, and this trend is likely to be enhanced by the shortage of hospital beds and skilled workers.
- Initiatives such as soft loans and land grants to increase private sector participation and kick-start investment plans have also been launched.
- In 2014, Saudi Arabia introduced new rules aimed at liberalising the health sector. New regulations allow experienced healthcare professionals to move freely

Figure 2 - Hospital bed density (beds/1,000 population)[4]



between institutions in an effort to improve efficiency.
- Recently, the kingdom allowed 100% foreign ownership for private healthcare institutions, including clinics and laboratories. This is a strategic move that will drive private sector investments and improve the quality of healthcare providers, in line with the kingdom's Vision 2030.
    - Prior to the change, foreign ownership was restricted to hospitals alone and required a minimum number of beds depending on the hospital's location and the area it served.
- In Qatar, nearly 90% of health services are provided by government entities, mainly by the Hamad Medical Corporation and the Primary Health Care Corporation. In response, the Ministry of Public Health is working to increase the number of private hospital beds by 25% in 2022 from the current 3,800 beds.
    - To date, there are only six private hospitals with 200 private polyclinics.
    - The current average beds per 10,000 population stands at 16.3 -- much lower than 48 beds averaged in OECD countries.
- Qatar is not alone in this. The GCC, as a whole, lags behind developed countries in bed count. The bed density in the GCC overall is currently at 1.8 beds per 1,000 compared with 3 beds in the U.S., 8.2 in Germany and 13.4 in Japan.
    - In Saudi Arabia, public healthcare accounts for 79% of bed capacity, compared with 66% in the UAE.
- But with governments progressively transitioning to a private healthcare system and encouraging public-private programmes, this is expected to improve.
    - In Saudi Arabia, the government aims to increase the private sector contribution to 35% of total healthcare spending by 2021 and add 20,000 beds by 2025.

Across the MENA region, an estimated 161 healthcare projects are currently in the pipeline, worth a combined USD 68.8B, of which USD 53.2B will be spent in the GCC. This is a significant upsurge from the 37 projects in the GCC, which were valued at USD 28B in 2017.

➢ The majority of the projects (19.2%) are in Saudi Arabia with mega projects pioneered by King Khaled Medical City and King Faisal Medical City. It is followed by Kuwait (12.9%), the UAE (10.3%), Egypt (2.7%) and Oman (2.1%).
- These projects are expected to add more than 40,330 beds to the current capacity across MENA.

➢ We see this, alongside the introduction of mandatory health insurance for expatriates, and insurance reform across the GCC, providing great potential for new pharmaceutical companies, laboratories, insurers and healthcare providers to invest and contribute to the growing healthcare market.

[2] An inactivated vaccine is one that has lost its virus-producing ability.
[3] See Q3 2020 MENA Outlook for more on healthtech start-ups.
[4] Arabia Monitor; CIA World Factbook.

Disclaimer

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