

**Gulf Research Center**  
Knowledge for All

## Kingdom of Saudi Arabia

### Healthcare Sector Report





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# Healthcare Sector Report



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## About the Gulf Research Center

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The Gulf Research Center (GRC) is an independent research institute founded in July 2000 by Dr. Abdulaziz Sager, a Saudi businessman, who realized, in a world of rapid political, social and economic change, the importance of pursuing politically neutral and academically sound research about the Gulf region and disseminating the knowledge obtained as widely as possible. The Center is a non-partisan think-tank, education service provider and consultancy specializing in the Gulf region. The GRC seeks to provide a better understanding of the challenges and prospects of the Gulf region.



## Key Business Sectors in the Kingdom of Saudi Arabia

The current significant economic growth in Saudi Arabia deserves detailed study and analysis, with a view to exploring future growth and development. This series of six sector reports prepared by the Gulf Research Center addresses the key business sectors, namely energy, healthcare, industry, real estate, water, foreign trade and Foreign Direct Investment (FDI). Each sector report presents an in-depth study of the current situation and includes an integrated view of the principal indicators. Key current challenges are analyzed, and regulatory issues are discussed. The primary emerging themes in each sector are identified, analyzed, and discussed, with a specific focus on development potential. Finally, having built a strong 'current situation – key challenges – emerging themes' foundation, each report examines investment opportunities in the relevant sector.

The petroleum industry in the **energy sector** is the backbone of the economy, contributing about 80%, 45%, and 90% of revenue, Gross Domestic Product (GDP), and exports, respectively. The economy is dependent on non-renewable sources of energy, with a high correlation between GDP and oil prices. However, over-reliance on oil and natural gas has increased the pressure on these energy resources as well as the economy. In 2012, net electricity consumption was more than twice compared to the year 2000, reaching an estimated 232 billion Kilowatt Hour (kWh). Recent reports show that the country generated 292.2 billion kWh of electricity, 7% more than in 2012, to meet the increasing demand.

The current power generation and consumption patterns are unsustainable. Increasing the share of alternative sources of energy has become a strategic imperative for the Kingdom. Focused government initiatives and increased private participation are necessary to make renewable energy and other energy solutions viable alternatives to fossil fuels.

The **healthcare sector** has grown at a rapid pace in the last two decades – healthcare expenditure per capita in the Kingdom trebled during 1995–2010. With a strong focus on cultivating local talent, 16 medical schools were set up during 2000–2008. From 2006 to 2011, the share of private participation in healthcare expenditure increased from 25% share to 31%. In 2014, total healthcare expenditure was estimated at USD 20 billion, and it is considered to be growing at an average of 11%. As of 2014, health and social expenditures account for 12.6% of the total expenditure. Envisioning the future, the government is encouraging private participation by providing an investor-friendly environment, inviting bids for large-scale projects, such as medical cities, organizing programs for increasing awareness about healthcare, and implementing policies to enhance the quality of medical education. The healthcare sector is predicted to remain bright, backed by demand trends, government initiatives, and increasing private participation.

Over the years, **industrial growth** in Saudi Arabia has been driven by the construction, petrochemical, and mining sectors. The construction sector is the biggest in the Gulf Cooperation Council (GCC) region. Projects planned/underway are worth USD 1.2 trillion. Saudi Arabia is one of the top 10 cement producers in the world and consumes 98.8% of its domestic cement production. In 2015, cement sales increased by 7.9% Y-o-Y. The metals and mining sector is strategic for Saudi Arabia's economic diversification plan. The industry size of the mining sector was USD 2,970 billion. Saudi Arabia has invested close to USD 25 billion for building plants to process mineral ores. The petrochemical sector is a high revenue generating sector for the Kingdom. Saudi Arabia produces 50 different petrochemical products. The petrochemical and refineries sector accounted for 75% of GCC's petrochemical exports in 2014.

The **construction sector** will remain an integral pillar of the Kingdom's economic growth, by supporting the plan of expanding industrial construction and providing housing to its citizens. Infrastructure, one of the sub-sectors of the construction industry, will play an important role in developing new economic cities and other transport projects to cater to the rising needs of the Kingdom. The cement industry is expected to witness slow growth, owing to increase in raw material price and inventory. With the abundance of minerals ores, Saudi Arabia is set to be a top exporter of minerals in the GCC region. With several refinery projects underway, Saudi Arabia aims to position itself as the world's top petroleum refiner by 2025. However, the overall growth of the manufacturing sector will be sluggish as a result of the dip in crude oil prices and subsequent contraction in government spending as seen in the budget of 2016.

The **real estate sector** has an optimistic long-term outlook, driven by investment as a part of the non-oil economic diversification initiative. The sector will experience steady growth in the future, owing to the rise in disposable income and a young and growing population. Shortage of affordable housing remains a major hindrance to the sector's growth, despite the residential sector expansion. There are a few other key challenges persistent in the real estate market, such as unavailability of land, affordability issues, and unavailability of adequate financing options. However, significant measures, such as the Real Estate Development Fund and White Land Tax, are being implemented by the government to address the issues. The six economic cities will further support the increase in quality commercial and retail space in the Kingdom.

The **water sector** is strategic. Despite unfavorable climatic conditions and scarcity of natural water resources, the Kingdom has succeeded in meeting most of the water requirements of its rapidly growing population. Water requirements have been met by groundwater aquifers, surface water, desalinated water, and treated wastewater. As of 2014, while groundwater is estimated to have provided 46.3% of water requirements, desalinated water is the major source for household water supply. Efforts are underway to reduce the agriculture-related consumption and address food security issues simultaneously, primarily by cutting down wheat production and increasing the dependence on imports as of 2016. It will be crucial to upgrade the current desalination infrastructure that is primarily based on energy-intensive, traditional thermal processes, which consume large amount of fossil fuels. There is also a need to minimize water loss and other infrastructure gaps in the water distribution system and address water conservation issues, which include the role played by water tariffs.

**Foreign trade and FDI** play a crucial role in the Saudi Arabian economy. One of the key developments that strengthened the Kingdom's international position was its World Trade Organization (WTO) membership in 2005. The FDI inflows in 2005, the first year of its WTO membership, increased nearly 20 times from the previous 20 years' average. Since 2005, the GDP has grown at a Compound Annual Growth Rate (CAGR) of 11%, faster than most of the economies in the world. In 2014, the GDP growth rate was 3.64%, up from 2.67% in 2013. However, due to decline in crude oil prices, the GDP growth in 2015 fell to 3.49%. Government initiatives have liberalized foreign investment policies and enabled a friendly investment environment. Most foreign investments in the Kingdom have been in major sectors, including crude petroleum and natural gas, followed by non-oil sectors, such as construction and financial services. While the government is focused on diversifying from oil in the future, developments in several areas will impact the economy. These include economic development through FDI, buying strategic global assets, strengthening foreign relations, and further enabling an investor-friendly environment.

Together, these sector reports constitute a valuable tool, which can be used not only to understand the economic development of the Kingdom, but also to recognize the challenges that exist for future development and decide how to meet these challenges.

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## Key Abbreviations

API	Active Pharmaceutical Ingredient
CAGR	Compound Annual Growth Rate
CDSI	Central Department of Statistics & Information
CRO	Contract Research Organization
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
MERS	Middle East Respiratory Syndrome
MOH	Ministry of Health
MoU	Memorandum of Understanding
OECD	Organization for Economic Cooperation and Development
OTC	Over the Counter
PHC	Primary Healthcare Centers
SAGIA	Saudi Arabian General Investment Authority
TRIPS	Trade-related Aspects of Intellectual Property
UAE	United Arab Emirates
WHO	World Health Organization
WTO	World Trade Organization

# Executive Summary

## Healthcare Market Overview

- Saudi Arabia has the largest healthcare market among the GCC countries. It is expected to grow at a CAGR of 12%, reaching USD 48.13 billion by the end of 2018
- Rising population, increased life expectancy, growing adult risk factors, and mandatory health insurance are expected to be the major growth drivers

## Healthcare Infrastructure

- There are three tiers in the Saudi Arabian healthcare industry, namely Ministry of Health (MOH), the private sector, and other government agencies. MOH is the governing body, and it is responsible for regulating the entire healthcare sector, including private and other government agencies
- The government increased its healthcare budget by more than 48% in 2015, so as to improve the healthcare infrastructure across the country
- As of 2014, Saudi Arabia had 453 hospitals and 67,997 hospital beds. With the demand rising at a faster pace, the government has invested heavily to cater to future needs, with the number of hospitals set to reach 600 and hospital beds to double in the next decade
- The total number of healthcare professionals has increased by more than 44% since 2009, with a substantial increase across the entire healthcare profession segment

## Key Challenges

- In the future, a gap in the demand and supply of healthcare workforce is expected. The government has not been able to increase its healthcare workforce proportionately to the population growth. However, there are plans to open up new medical schools and international exchange training programs to develop the workforce in the healthcare sector
- Non-communicable diseases are on the rise, including the prevalence of diabetes. Also, the increased incidence of Middle East Respiratory Syndrome (MERS) in Saudi Arabia is a new challenge

## Emerging Themes

- Private participation in the healthcare sector is expected to rise exponentially through PPPs, creating huge investment opportunities across the sector
- The government of Saudi Arabia has invested USD 70 billion in the upgradation of various facets of the healthcare sector, such as pharmaceutical, medical device manufacture, and education & training
- As a part of its 2030 vision, the government aims to increase the average life expectancy from 74 to 82 years

## 1. Overview of Saudi Arabia's Healthcare Sector

The origins of organized healthcare in Saudi Arabia can be traced to 1926, when a Health Directorate in Jeddah and the Ajjad and Bab Shareef hospitals in Makkah and Jeddah, respectively, were set up. By 1950, the Directorate was renamed the Ministry of Health (MOH) and operated 11 hospitals and 25 dispensaries across the country. However, for the next decade, the MOH was strapped for resources, including an acute shortage of healthcare professionals. Between 1966 and 1976, government initiatives and a remarkable 40-fold increase in oil revenue led to a rapid increase in capital investment in healthcare.

Planning for a countrywide healthcare system began in 1971, with the development of successive five-year national health plans. Since then, there has been tremendous improvement in healthcare provision and delivery in the country. In 1970, Saudi Arabia had 74 hospitals, with a total of 9,039 beds. Currently, it has more than 400 hospitals and 65,000 beds, representing nearly a five-fold increase in healthcare infrastructure in the past 30 years. In 2000, the World Health Organization (WHO) ranked Saudi Arabia's healthcare system 26th among 190 countries.

The Saudi Arabian government has transformed the healthcare sector over the last decade by increasing investments and encouraging private players to participate in the sector. Healthcare expenditure as a proportion of the national budget has more than doubled in the recent years, and life expectancy has risen from 73 years in 1990 to 76 years in 2013. Infant mortality has declined to 13.4 deaths/1,000 live births in 2013 compared to 19.3 in 2003. In 2014, Saudi Arabia ranked 16th globally in terms of healthcare systems arrived at by comparing countries on three criteria, namely life expectancy, healthcare cost as a percentage of GDP, and healthcare cost per capita. In all these three aspects, Saudi Arabia performed better than it did in 2013.

At present, the healthcare sector is one of the fastest growing markets in Saudi Arabia. The increased expenditure, coupled with rising population and lifestyle changes in the Kingdom, is expected to be the major growth driver in the future. While the fall in oil revenue has prompted plans to pull back or cut down some of Saudi Arabia's programs, the government is keen to improve health standards and, therefore, has consistently increased the budget allocation to this sector. The government is focused on increasing healthcare capacity and spreading it across the entire country, including remote locations, while also boosting private investment in the sector.

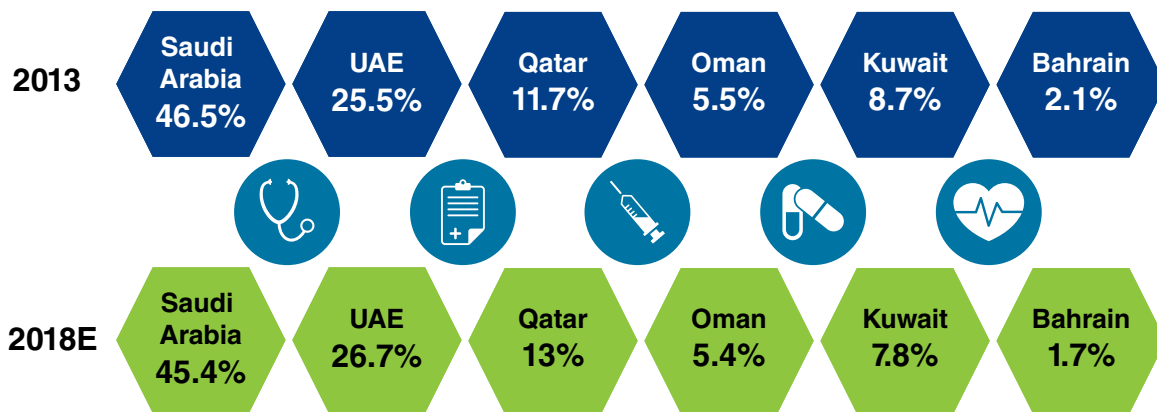
“Projects in sectors such as education, health and infrastructure are not only important for the private sector, but also for the long-term growth of the Saudi economy.”

– Ibrahim Alassaf, Minister of Finance, Sept. 2015

## 1.1 Healthcare Expenditure

Saudi Arabia is the largest country in the GCC region, and it is home to over two-thirds of the region's population. It also has the largest healthcare market among the GCC countries, accounting for 46.5% of the market in 2013. It is expected to be the leading market in 2018 again, with a share of 45.4%. However, the fastest growing markets in the GCC are expected to be Qatar and the United Arab Emirates (UAE).

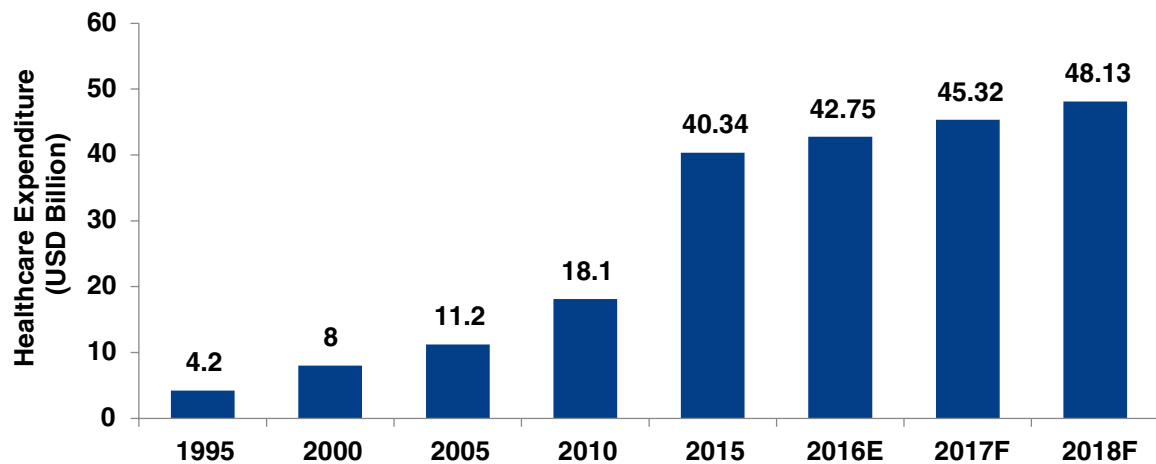
**Figure 1. Share of Healthcare Expenditure in the Gulf Cooperation Council (GCC)**



Sources: World Bank, Alpen Capital

Over the years, the Saudi Arabian government has consistently increased its healthcare budget. More recently, the budget allocation for the healthcare sector grew from USD 18.1 billion in 2010 to USD 42.7 billion in 2015, so as to fund the development of 117 hospitals and 8 medical cities, along with new primary care centers, 3 new hospitals, 3 blood banks, 11 medical centers, and 10 comprehensive care clinics across Saudi Arabia. About 70% of the Kingdom's healthcare expenditure is funded by public sources, while the remaining 30% is obtained from private sources. Public spending in Saudi Arabia is relatively high compared to other developed countries, which average between low and mid-sixty, in terms of government expenditure as a percentage of total healthcare expenditure. Out-of-pocket spend makes up around 55% of all private expenditure, and private insurance plans account for nearly 23%.

**Figure 2. Healthcare Expenditure in Saudi Arabia (1995–2018F)**



Sources: Economist Intelligence Unit, World Bank, Al-Press News Agency

Over the past few years, the healthcare sector in Saudi Arabia has witnessed unparalleled growth. Healthcare expenditure grew at a CAGR of 10.2% from 1995 to reach USD 18.1 billion in 2010, and it is estimated to have grown at a CAGR of 14% during 2010–2015 to reach USD 40.34 billion in 2015.

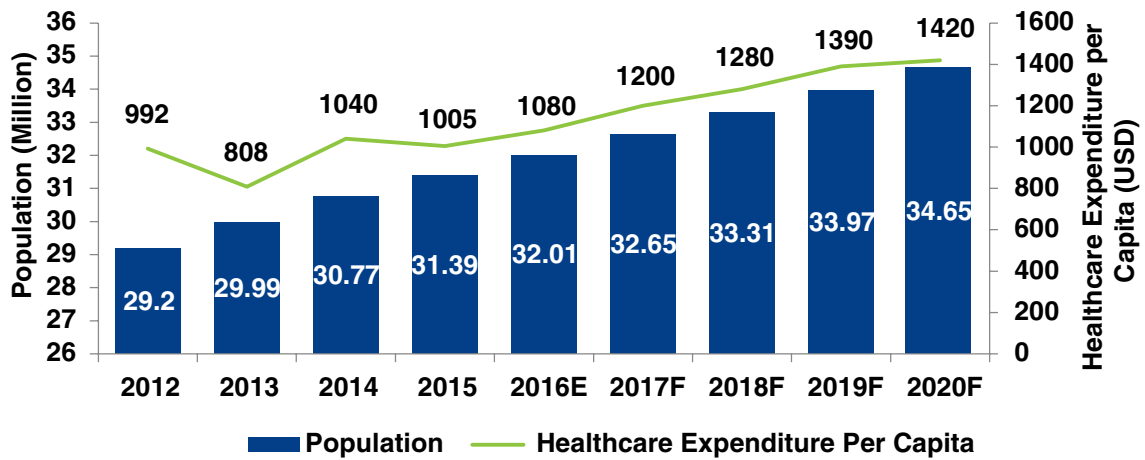
“Amidst population growth and lifestyle changes in Saudi Arabia, the demand for essential healthcare services is on the rise. The Kingdom is seeking to increase physical healthcare capacity across its entire geography, including border areas and remote regions while also looking to provide qualified manpower for these new facilities.”

**- Official from Riyadh Exhibitions Company, 2015**

### 1.1.1 Healthcare Expenditure Per Capita

Per capita healthcare expenditure in Saudi Arabia is quite low relative to more developed countries. It was USD 1,005 per capita in 2015, which is significantly lower than some of the other developed nations whose value goes as high as USD 2,700 per capita. The out-of-pocket spending accounts for about 55% of all private expenditure and private pre-paid insurance plans account for about 23%.

Figure 3. Saudi Arabia's Healthcare Expenditure Per Capita



Sources: WHO, Trading Economics, Kaiser Family Foundation, World Bank, AME Info

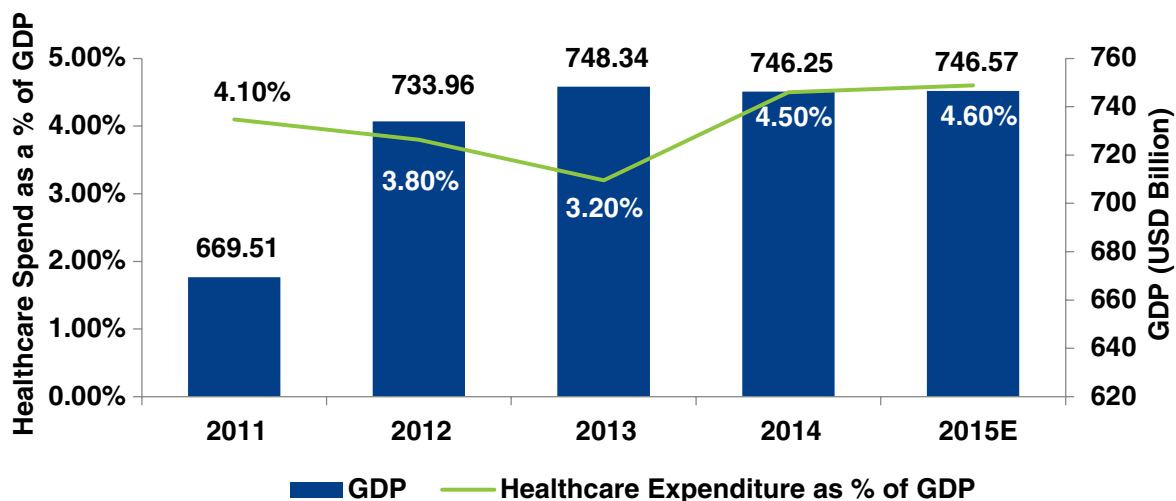
### 1.1.2 Health Expenditure as a Percentage of Gross Domestic Product (GDP)

In 2015, ~18.6% of the total budget of Saudi Arabia was allocated to the healthcare sector, which amounted to USD 41 billion. The budget allocated to the sector had increased by about 48% compared to 2014. Healthcare expenditure represented about 4.5% of Saudi Arabia's GDP in 2014, and it is estimated to have increased marginally to 4.6% by the end of 2015.

“Even if the drop in oil price continues, we believe that the government can sustain the current levels of expenditure even as budget turns into a deficit for longer periods considering the Kingdom’s negligible public debt-GDP ratio and large government reserves built up over the years. The healthcare sector will continue to remain one of the priority sectors for the government and private hospitals will rapidly scale up their capacities.”

- Official from Al-Rajhi Capital

**Figure 4. Healthcare Expenditure as a Percentage of Gross Domestic Product (GDP)**



Source: Trading Economics

## 1.2 Healthcare Infrastructure

There has been a marked increase in the Saudi Arabian government's focus on healthcare in the past few years. This has resulted in larger capital inflows, both public and private, into this sector. This has, in turn, led to the development of world-class healthcare infrastructure. Currently, ~60% of the healthcare services in Saudi Arabia are provided by the MOH, 20% by bodies that cater to state employees, such as soldiers or oil workers, and 20% by the private sector. The Saudi Arabian healthcare market revenues have grown at a CAGR of 10.0% from 2009 to 2014. The government has been encouraging private participation in this sector, especially over the past couple of years, so as to meet the exponentially rising demand. Initiatives have been put in place to encourage the private sector to invest and support the expansion efforts in this sector. This has augmented the number of PPPs in the Kingdom, and this trend is expected to continue in the upcoming years.

The healthcare structure in Saudi Arabia is made up of three broad components, namely MOH, semi-public organizations, and the private sector. In the public segment, the MOH owns and operates more than 50% of Saudi Arabia's hospitals, providing primary, secondary, and specialized care services. Measures are underway to make hospitals under the MOH available exclusively to Saudi Arabian nationals, with certain exceptions allowing expatriates to access specific services or basic care in rural areas, where private facilities are unavailable. The expat population, primarily located in Riyadh and Jeddah, is consequently using private healthcare facilities. Semi-public and other government organizations, like the National Guard, the Ministry of Defense and Aviation, and the Royal Commission, have their own healthcare facilities, which are available for free of cost to their employees. The private sector is playing an increasingly substantial role in healthcare investments and infrastructure. Usually, private care facilities have held the largest share of outpatient services in the country; however, with the increased limitations on MOH facilities, an increase in the usage of private facilities for inpatient care is being observed.

“The penetration of hospitals is lower in Tier-II and Tier-III cities and thus indicates a gradual shift towards setting up more hospitals in Tier-II and Tier-III cities will enable the healthcare providers to serve different consumer segments such as the lower middle income and rural population. Moreover, in the medical devices market, the country has showcased huge dependence on imports. Hence, the country should encourage increasing production of medical devices in the domestic arena.”

- Official from MoH

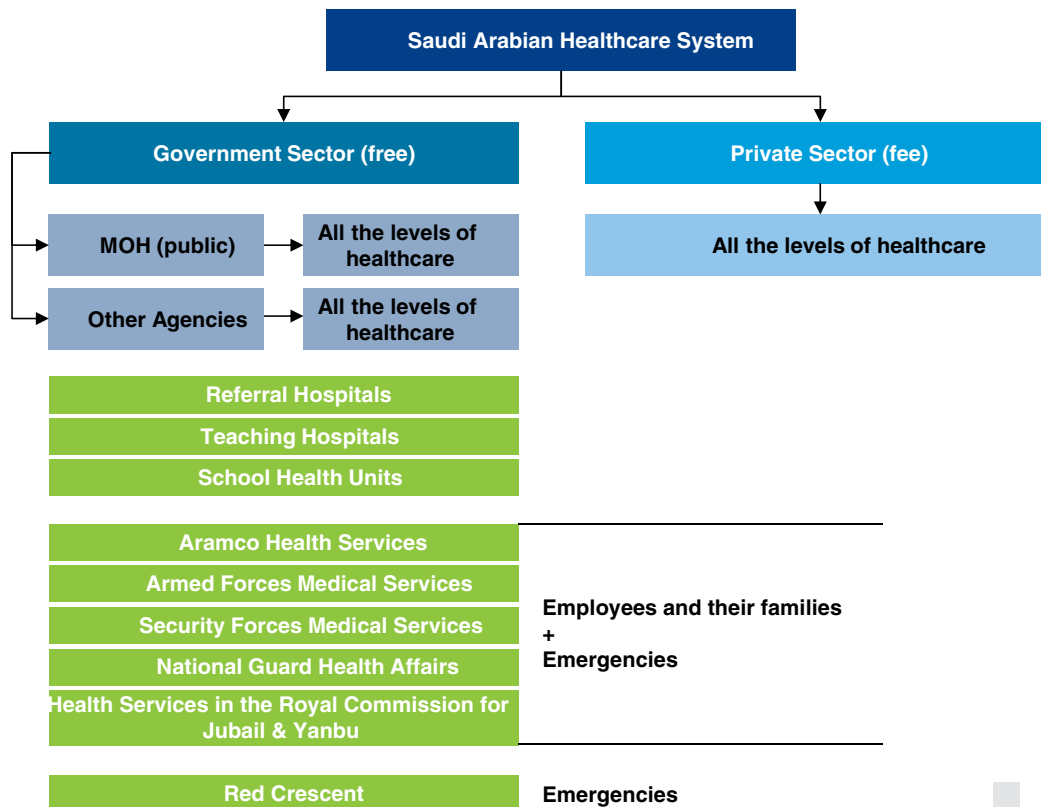
### 1.2.1 Structure of Healthcare System

Healthcare in Saudi Arabia is managed by the government through the MOH, which is responsible for operations of all the healthcare activities including the following:

- Provision of healthcare at all the levels, promotion of general health, and prevention of diseases
- Research and development activity and academic training in the field of healthcare
- Developing laws and legislation regulating both the government and private sectors
- Performance monitoring of health institutions

In addition to the MOH, there are a number of semi-public organizations and private sector operators who provide healthcare services. Also, there are other agencies, which take care of healthcare services for a specific organization, such as Aramco Health Services.

Figure 5. Structure of Healthcare in Saudi Arabia



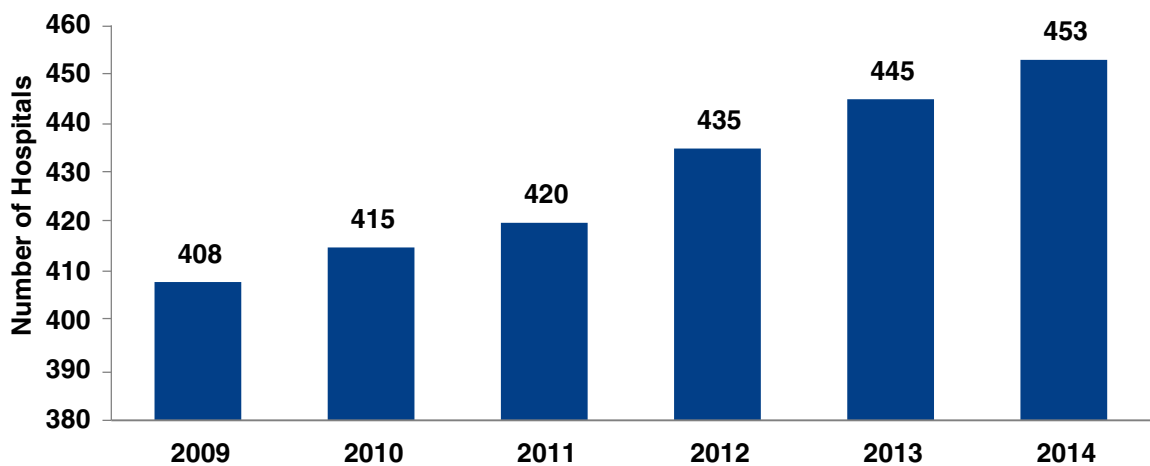
Sources: Healthcare System in Saudi Arabia: An Overview, Eastern Mediterranean Health Journal, Health Statistical Yearbook, Saudi Arabia MOH

### 1.2.2 Hospitals

There are a total of 453 hospitals with 67,997 beds across the Kingdom, and these hospitals account for 60% of the total healthcare services in the country. The government runs 270 of these hospitals, with a total capacity of close to 40,300 beds. The private sector has its healthcare offerings in cities and large towns, with a total of 125 hospitals, 13,020 beds, and 2,218 clinics and dispensaries. The main players in the private sector are the Almanac Healthcare Group, the Saudi German Hospital Group, Suleiman Al Habib and the Al-Hammadi Hospital.

From 2009 to 2013, 37 new hospitals were built in Saudi Arabia, resulting in an increase of 9.1% in the total number of hospitals, while eight new hospitals were constructed over the span of the last year, recording a growth of 1.8%.

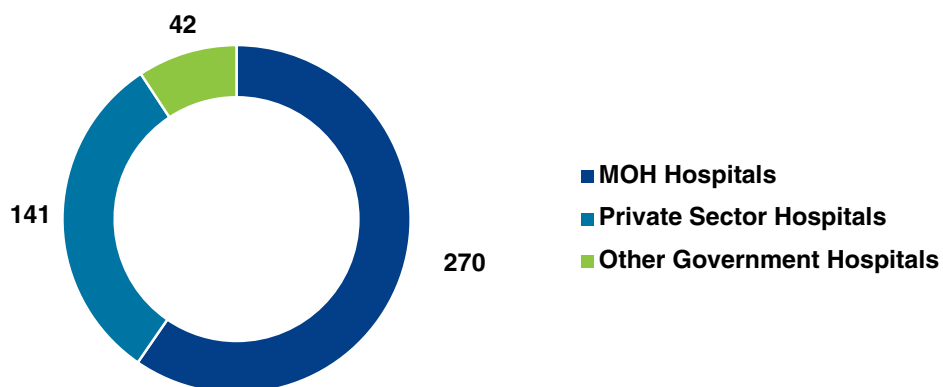
**Figure 6. Operational Hospitals in Saudi Arabia (2009–2014)**



Source: MOH

Moving forward, the MOH is expected to invest more than USD 53 billion in the coming decade that will help in raising the number of hospitals to 600.

**Figure 7. Operational Hospitals by Type (2014)**

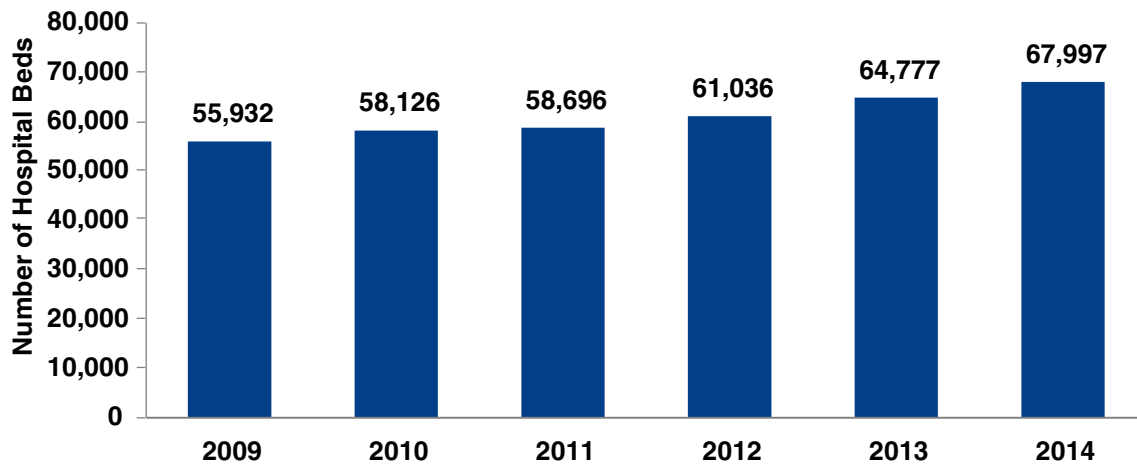


Source: MOH

### 1.2.3 Hospital Bed Capacity

The total number of hospital beds was 67,997 in 2014, an addition of 12,065 beds since 2009, showing an increase of 21% of the total capacity. There was a 5.1% increase over the previous year. The rate of beds per 10,000 population was 22.1 which meant that there was one bed for each of the 452 people. This is significantly greater than 12 hospital beds/10,000 of the population in the Eastern Mediterranean region, but lower than the global average of 30 beds/10,000 population. Saudi Arabia has plans to double the number of beds by 2020.

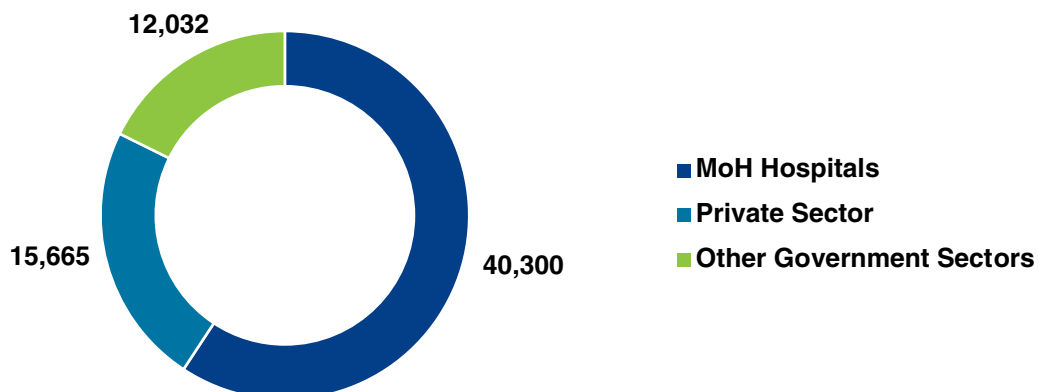
**Figure 8. Hospital Bed Capacity (2009–2014)**



Source: MOH

The number of beds in hospitals under the MOH stood at 40,300, which corresponds to 59.3% of the total hospital beds in the Kingdom. This translated to 13.1 beds/10,000 people, i.e., one bed for each of the 763 people. The total number of beds in the private sector was 15,665, while those in other government sectors stood at 12,032.

**Figure 9. Hospital Bed Capacity by Type (2014)**



Source: MOH

### 1.2.4 Outpatient Visits

The total number of outpatient visits in Saudi Arabia across all sectors was 134.265 million in 2014. The number of outpatient visits has been decreasing consistently, with 5.1 annual visits/individual in 2009 and 4.4 annual visits/individual in 2014. In terms of visits to clinics and outpatient departments at the MOH centers, the annual visit/individual decreased from 2.6 in 2009 to 2.06 in 2014.

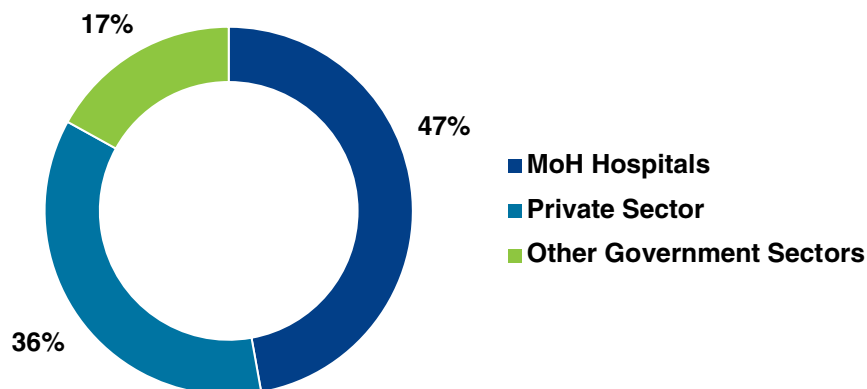
Outpatient visits at the MOH centers have been decreasing since 2011, whereas the visits at private facilities have been increasing at a faster pace. In 2014, outpatient visits at the MOH centers accounted for 47% of the total number of the visits.

**Figure 10. Outpatient Visits in Saudi Arabia (2009–2014)**



Source: MOH

**Figure 11. Outpatient Visits in Saudi Arabia by Sector (2014)**

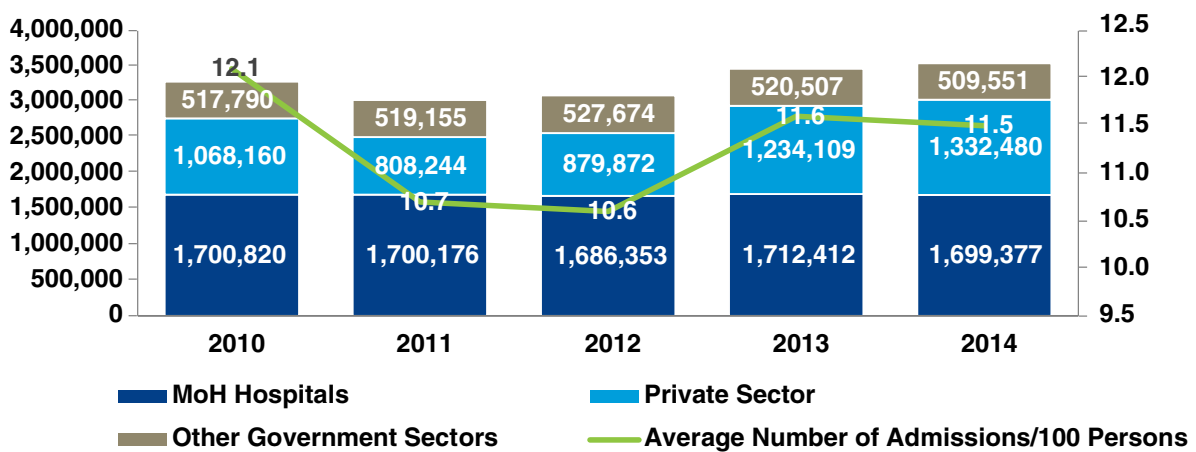


Source: MOH

### 1.2.5 Inpatient Visits

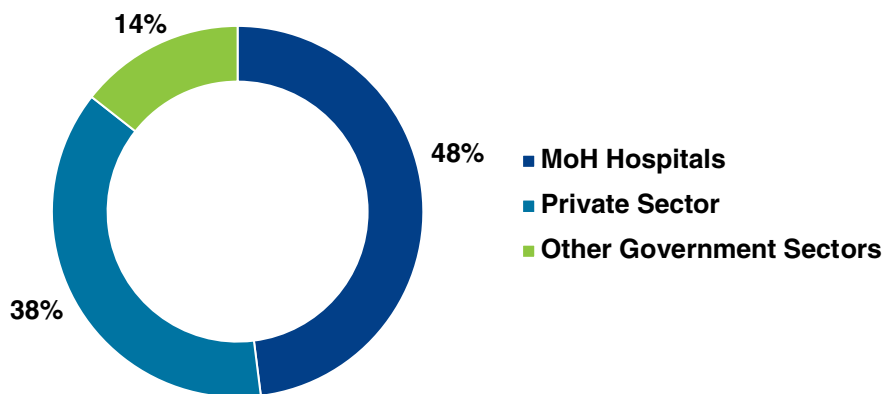
The total number of inpatient visits in Saudi Arabia across all sectors was 3.54 million in 2014. Saudi Arabian nationals accounted for 86.4% of the total number of inpatients. The average number of admissions/100 individuals decreased from 12 in 2009 to 11.5 in 2014. In terms of inpatients at the MOH facilities, the share decreased from 51.7% in 2010 to 48% in 2014. Traditionally, private care facilities have led outpatient services in Saudi Arabia; however, with the increased restrictions on the usage of MOH facilities, there has been an increase in the usage of private facilities for inpatient care as well (e.g., expats).

**Figure 12. Inpatient Visits in Saudi Arabia (2010–2014)**



Source: MOH

**Figure 13. Inpatient Visits in Saudi Arabia by Sector (2014)**

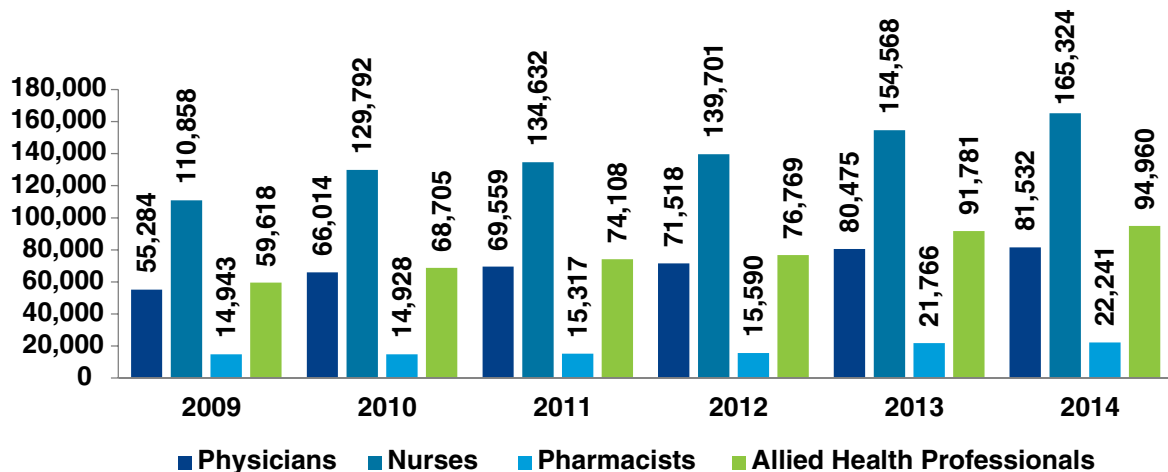


Source: MOH

### 1.2.6 Medical Personnel

According to the MOH, the total number of physicians in Saudi Arabia is about 81,532, out of which 19,029 (23.3%) are Saudi Arabians, while the total number of dentists working across Saudi Arabian hospitals stands at 12,785. The total number of nurses in the Kingdom is 165,324, out of which 37.2% were Saudi Arabian. The total number of pharmacists and allied health personnel was 22,241 and 94,960, respectively, of which 20.6% and 72.6%, respectively, were Saudi nationals. For every 10,000 population, the rates of physicians, dentists, nurses, and allied health personnel are 26.5, 4.1, 54, and 31, respectively.

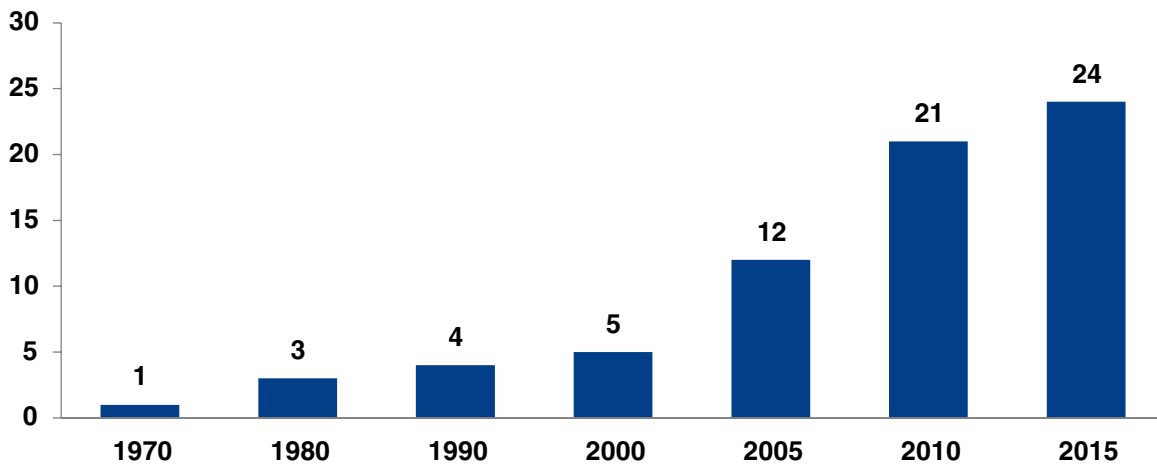
**Figure 14. Medical Personnel in Saudi Arabia (2009–2014)**



Source: MOH

### 1.2.7 Medical Education and Training

A well-established medical education system is crucial to address the demand-supply gap. In the past few years, the government has taken many initiatives to educate and train Saudi Arabian nationals for professional healthcare services. Since 2000, 19 new medical schools have been set up, bringing the number of schools up to 24 in 2015, while four schools are in various stages of development.

**Figure 15. Medical Schools in Saudi Arabia (1970–2015)**

Source: MOH

The number of students attending university medical and health colleges in 2014–2015 was 61,421, wherein the females represented 47.9%. The number of medical graduates for the same term stood at 6,568, with females constituting 46.5% of this number. Additionally, the MOH continued to provide opportunities to its personnel to be trained locally and abroad, so as to keep the sector updated with the latest developments in the healthcare space. The total number of doctors enrolled in local and abroad fellowship programs for 2015 stood at 795 (internal medicine: 100, pediatrics: 73, psychiatry: 18, family medicine: 81, community medicine: 32, general surgery: 60, ophthalmology: 8, ENT: 15, dentistry: 58, and other specialties: 108), while the number of trainees in technical skill development centers was 41,870.

### 1.2.8 Healthcare Regulatory Framework

Increasing private participation in healthcare services will be crucial in the upcoming years in Saudi Arabia. Several steps have been taken by MOH and the Saudi Arabian General Investment Authority (SAGIA) to improve and reform the country's healthcare regulatory framework. Recent reports indicate that the regulators are looking to establish a new governmental entity separate from MOH to increase PPPs. In addition, a new national fund will be established by MOF to finance healthcare services.

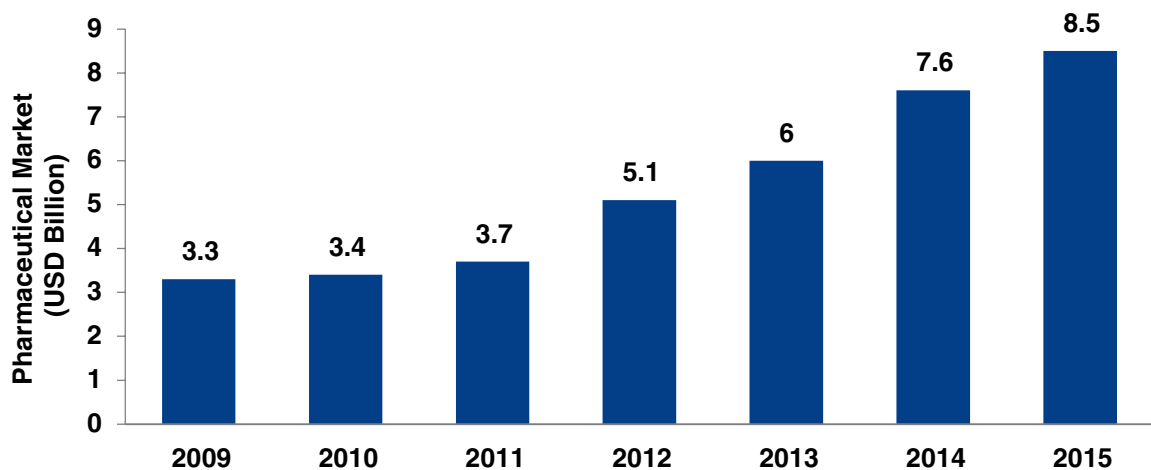
There has been an increased participation of private equity groups in the past few years in the healthcare sector – this trend is expected to continue in the future. Returns in the range of 30–40% have been realized by several private equity investors in the past few years.

The healthcare sector is governed by several regulations. Private institutions, which provide healthcare, are required to comply with the directives and circulars issued by the General Directorate of Health Affairs and the MOH. The Saudi Arabian government continues to promote local ownership – local ownership restrictions are still applied to the healthcare sector. The SAGIA lists services provided by nurses, quasi doctor services, and physical therapy on the negative list of activities which are reserved for Saudi Arabian nationals. Other healthcare activities are, however, exempt from this list.

### 1.3 Pharmaceutical Market

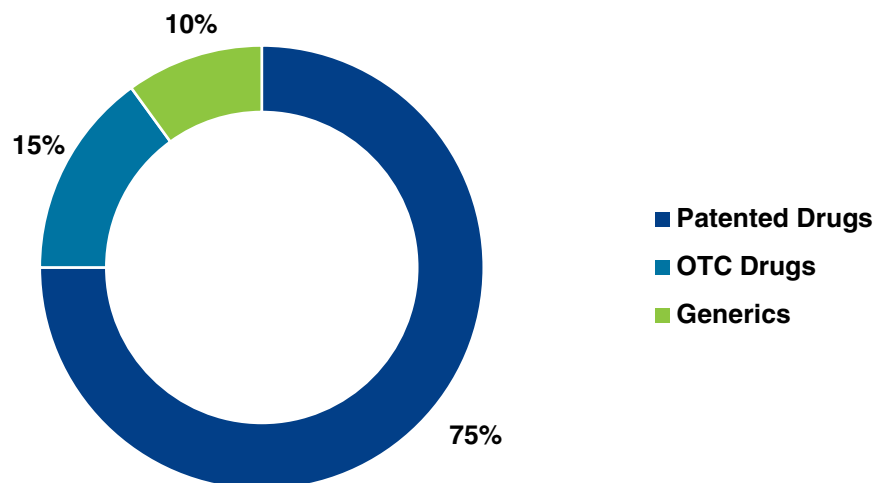
The Saudi Arabian healthcare sector offers remarkable growth opportunities for pharmaceutical companies, as the sector has grown rapidly over the last five years. The pharmaceutical market stood at SAR 28.4 billion (USD 7.6 billion) in 2014 and grew to SAR 31.8 billion (USD 8.5 billion) in 2015, registering a growth of 11.9%. The growth in this sector can be attributed to the rapidly increasing population coupled with increasing incidences of lifestyle-related diseases, such as diabetes and cardiovascular diseases. In terms of market share, patented drugs hold 75% of the market share, with Over the Counter (OTC) and generic drugs, accounting for 15% and 10%, respectively.

**Figure 16. Pharmaceutical Market in Saudi Arabia (2009–2014)**



Source: Saudi Pharmaceutical Industries & Medical Appliances Corporation

**Figure 17. Key Segments of Pharmaceutical Market in Saudi Arabia (2014)**



Source: Economist Intelligence Unit

An extended period of reduced oil prices might cause Saudi Arabia to cut back spending on high value drugs. While public spending on healthcare is expected to remain high owing to the sensitive nature of the sector and its political importance, the government might initiate cost-cutting through price cuts on medicines and increasing private sector engagement, so as to limit healthcare spending.

### 1.3.1 Regulatory Environment

The MOH is the main regulatory authority in Saudi Arabia, and it requires all pharmaceutical companies to be registered. The registration process takes ~6–18 months, and licenses have to be renewed every five years. New pharmaceuticals are approved by the MOH in a two-fold process:

- Initial approval by a primary committee
- Product analysis by local laboratories

**WTO agreement:** Saudi Arabia agreed to implement Trade-related Aspects of Intellectual Property (TRIPS) without any transition period in 2004. The following regulations have been passed since then: Trademarks Laws, Copyright Laws, Laws on Patents, Border Measures Regulations, and Rules of Protection of Trade Secrets (including protection for undisclosed pharmaceutical data). The last law ensures that test data submitted at the time of obtaining marketing approval will be protected against unfair use.

**GCC drug policy:** The GCC's pharmaceutical procurement system is based on a unified drug policy to procure pharmaceuticals being consumed in the member countries. The common drug policy ensures joint purchases of pharmaceuticals through tenders floated by the countries' respective health ministries. These bulk purchases enable member countries to acquire quality medication at the right prices. Additionally, the policy facilitates an efficient quality reporting system to closely monitor the efficacy and safety of the drugs. Under the common drug policy, all centrally registered pharmaceuticals are automatically registered in individual GCC countries. This exempts drug makers from undergoing a lengthy registration procedure for every member country of the GCC.

## 1.4 Medical Insurance

Health insurance is another space lined up for growth with the national initiative expected to produce greater opportunities for local and foreign policy providers. Health insurance was made mandatory in Saudi Arabia in 2006. This was a move by the government to increase privatization in the sector and reduce the cost pressure on the government due to the increasing demand for healthcare services. Hence, the government formulated a Council for Cooperative Health Insurance to introduce, regulate, and supervise the health insurance strategy for the healthcare market. Since then, the market for healthcare insurance products has grown manifold. Currently, the healthcare sector is flooded with insurance companies, with 25 insurance companies listed on the Saudi Stock Exchange.

The MOH, in July 2014, announced that 9.7 million people in the country had health insurance, including 7 million expatriates and 2.7 million nationals, accounting for a 71% and 13% penetration for expatriates and nationals, respectively, translating into an overall penetration of 32%. Therefore, there is a lot of opportunity for growth that can be tapped over an extended period.

In January 2015, insurance was made mandatory for any visitors and their dependents entering the country. Besides, health insurance was made compulsory for the dependents of expatriates. Thus, the market for healthcare insurance products is expected to grow further with the increase in population and the influx of expatriates and their dependents.

“The private sector covers roughly one-third of health services, so extending compulsory coverage to all Saudis will be a big benefit for the whole healthcare sector. It will allow more Saudis to access these private facilities, which will in turn improve the overall access to beds.”

– **Executive of Inaya Medical College**

Unlike in Dubai and Abu Dhabi, insurance has only been made mandatory for expatriates and Saudi Arabian nationals (along with families) working in private firms. It can very well be expected that insurance would be made mandatory for nationals as well in the near future. Presently, hospitals do not have the capability to house the anticipated traffic after mandatory insurance for nationals. Hence, it is expected that health insurance for nationals will be made mandatory gradually as more capacity becomes available. Besides the expected implementation of mandatory insurance, growth drivers, such as rapidly growing population, high salaries, increasing occurrence of lifestyle diseases, and an aging population would affect high growth in the sector.

“The provision of medical insurance for all residents – not just expatriates or Saudi nationals working in the private sector – will have a large impact on the Saudi healthcare sector. This will reduce the burden on the government sector and encourage the increased usage of the private sector.”

– **MENA Advisor for Healthcare (Ernst & Young)**

## 2 Key Current Challenges

Saudi Arabia has made substantial progress in improving the quality of healthcare over the past decade. However, this sector still offers ample opportunities for improvement. On essential parameters, such as physicians, nurses, and hospital beds/1,000 population, Saudi Arabia lags the global average and Organization for Economic Cooperation and Development (OECD) benchmarks. WHO statistics shows that the Kingdom spent 4.5% of its GDP on health in 2014, well below the 13% average of the cluster of high-income countries to which it belongs. Also, the current supply of care facilities is inadequate with respect to the population's need, and it will continue to aggravate as the population continues to expand. There are 22 hospital beds in the Kingdom per 10,000 population, which is less than the average of 56 beds among high-income countries. As a step toward resolving the issue, the authorities have allocated most of the healthcare budget to expanding infrastructure and the construction of several health cities so as to meet the demand.

The most crucial issues that pose a challenge to the healthcare system in the Kingdom are:

- Shortage of Saudi Arabian health professionals
- Changing patterns of disease
- High supply-demand gap of services
- Poor accessibility to healthcare facilities
- Absence of a national health information system
- Lack of investment
- Underutilization of electronic health strategies

### 2.1 Workforce Gap

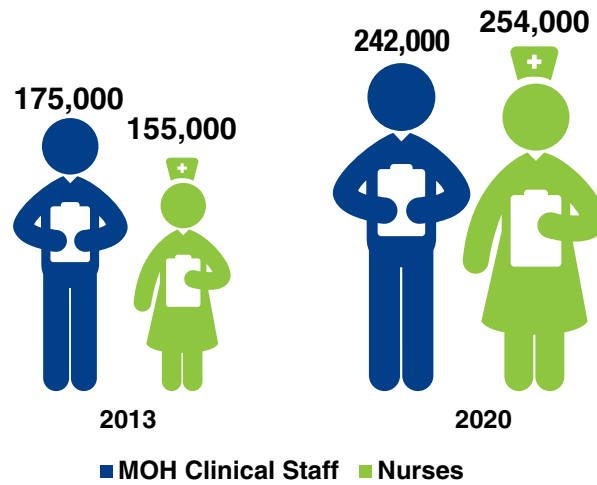
Currently, the biggest challenge that the Saudi Arabian healthcare sector is facing is the lack of qualified manpower. There is a shortage of healthcare professionals across all the categories. Over the next five years, officials have plans to double the health sector's clinical capacity, adding some 30,000 beds, which will require more skilled medical professionals. While investment in infrastructure and technology would raise the standard, it would further reduce the employee strength.

- The MOH clinical staff has been historically growing at 5% per annum. If this trend continues, there will be a workforce gap of 109,000 clinical staff by 2020. To achieve the desired workforce in 2020, the growth should be accelerated to 12% per annum
- The total number of nurses required in 2020 will be 302,000. If the growth in the number of nurses follows the current pace, then there will be a gap of 48,000 nurses by 2020

“As we are building hospitals, we need to work in parallel to develop the sector's human capital. There is a huge staffing gap.”

– **Executive Officer of King Saud University Medical City (KSUMC)**

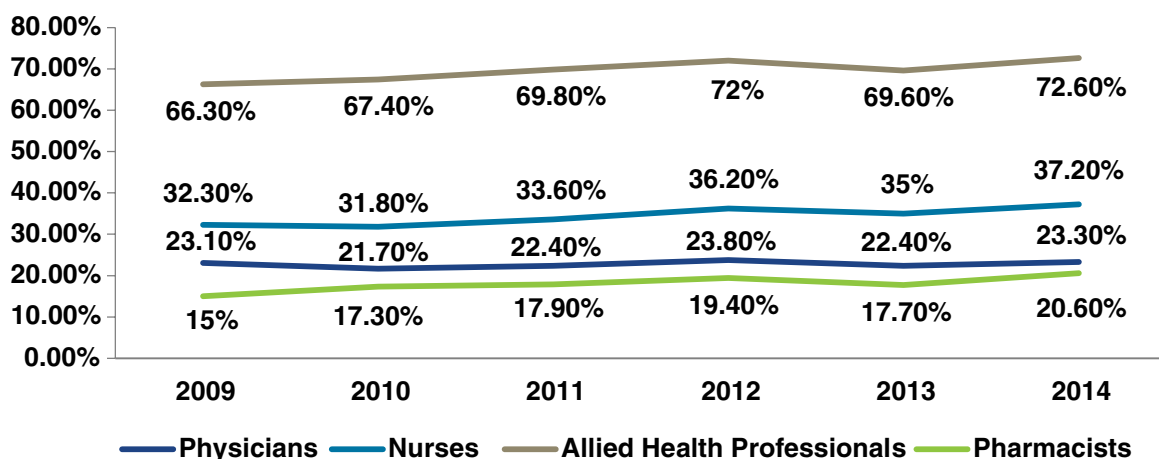
Figure 18. Saudi Arabia's Healthcare Workforce



Sources: World Bank Data, MOH

Also, the majority of workforce are expatriates, which leads to a high rate of turnovers and instability. Saudi Arabian nationals contribute to ~38% of the total healthcare workforce. Going forward, this percentage is expected to decrease even further. Therefore, one of the key current challenges faced by the government is to improve the standard of healthcare education, in order to produce more healthcare professionals from Saudi Arabia. To facilitate the same, the government has signed a Memorandum of Understanding (MoU) with the UK, under which the Saudi Arabian postgraduates will be trained in British hospitals. With an increase in the number of international tie-ups and a number of undergraduate colleges being planned all across the country, Saudi Arabia will be better equipped to meet this challenge in the future. With estimates of the staffing deficit ranging from 40,000 to 150,000, it is expected that the number of graduates from specialty programs/medical schools is set to increase by seven to eight times in the coming decade.

Figure 19. Percentage of Saudi Arabian Professionals (2009–2014)



Source: MOH

## 2.2 Changes in Disease Pattern

Saudi Arabia is witnessing a change in disease pattern from communicable to non-communicable diseases. Owing to lifestyle habits, there has been a rapid rise in the prevalence of chronic diseases, such as diabetes, cancer, childhood obesity, etc. The treatment of non-communicable diseases is expensive and sometimes ineffective as well. With MOH funding most of the public healthcare expense, the treatment cost to be borne will rise alarmingly. The rise in these non-communicable diseases is an area of concern for the government. The most effective way to reduce the prevalence of these diseases is early prevention and treatment.

### 2.2.1 Diabetes

Saudi Arabia has the highest comparative prevalence for diabetes among the GCC countries and globally. Almost 20% of the adult population, aged 20–79, has diabetes.

### 2.2.2 Middle East Respiratory Syndrome (MERS)

MERS is an illness caused by a coronavirus known as Middle East Respiratory Syndrome Coronavirus, which affects the patient's respiratory system. The first case of MERS in Saudi Arabia was reported in September 2012. As of August 2015, the number of cases reported was 1,063, of which 583 recovered, nine are under treatment, and 471 were fatal.

With the number of cases increasing, the MOH has laid down guidelines to make the citizens aware of the disease and also publishes a weekly report of cases through its website. The government has taken measures to reduce the number of MERS cases by creating awareness through its Command & Control Center for MERS disease.

Apart from these, there are challenges regarding the accessibility of healthcare services, privatization of hospitals, and utilization of e-health strategies. To sustain the current growth, it is important for the government to find solutions to these challenges, so as to improve the healthcare system of the country.

### 3 Emerging Themes

The healthcare industry in Saudi Arabia represents a large and expanding market, with a yearly budget allocation which is continuously increasing and has more than doubled in the last few years. It is one of the fastest growing sectors in the country and is expected to be one of the priority sectors for the government. To increase investment in the sector, the government is keen to bring in private participation through various incentives like mandatory insurance, interest free loans, and a host of recent new regulations. Most of the players in this space have announced substantial plans for expansion and new projects across the Kingdom over the next 4–5 years. The sectors pegged for the most robust growth in the Saudi Arabian healthcare industry are polyclinics and healthcare centers across the country, while MOH will continue to be the foremost healthcare provider over the coming decade.

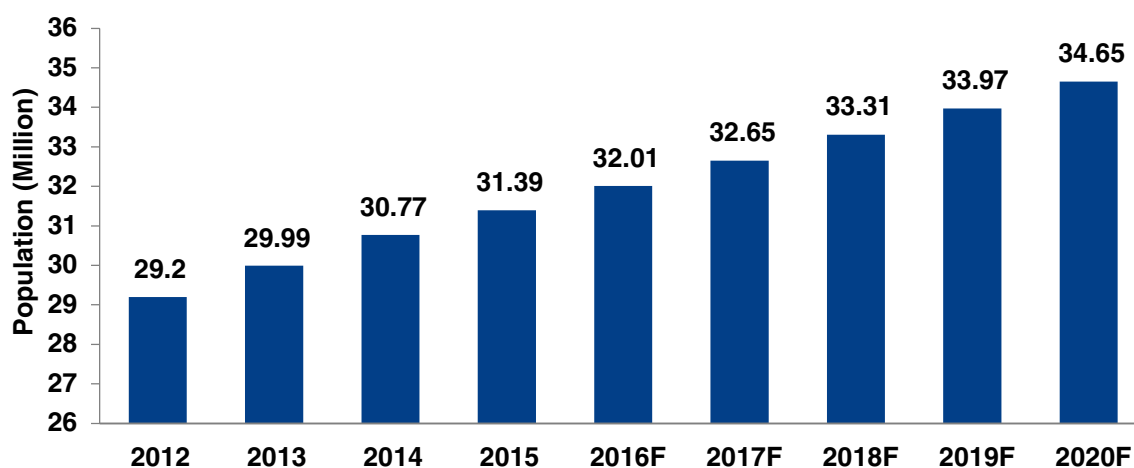
#### 3.1 Growing Demand for Healthcare

A prominent factor that will continue to drive growth in the coming few years is the fact that Saudi Arabia has a large and fast growing population. The growing population, with an increase in disposable income, rising life expectancies, and increasing incidence rates of chronic diseases, will contribute to a rise in demand for healthcare services.

##### 3.1.1 Population Growth

Population growth is one of the key drivers of the healthcare industry in Saudi Arabia. The Kingdom's population grew at a CAGR of 1.7% from 2012 to 2014. The growth is expected to remain the same, increasing the population to 34.65 million by 2020. Rising population will lead to an increased demand for healthcare services. Saudi Arabia's per capita income is also rising at a steady pace and was estimated at USD 26,000 in 2014. With the decline in oil prices, the income is expected to decrease in the medium term; however, it is expected to rise again, as the crude oil prices stabilize. More per capita income means more purchasing power, which is expected to drive up the demand for healthcare services in the long run.

**Figure 20. Saudi Arabian Population**

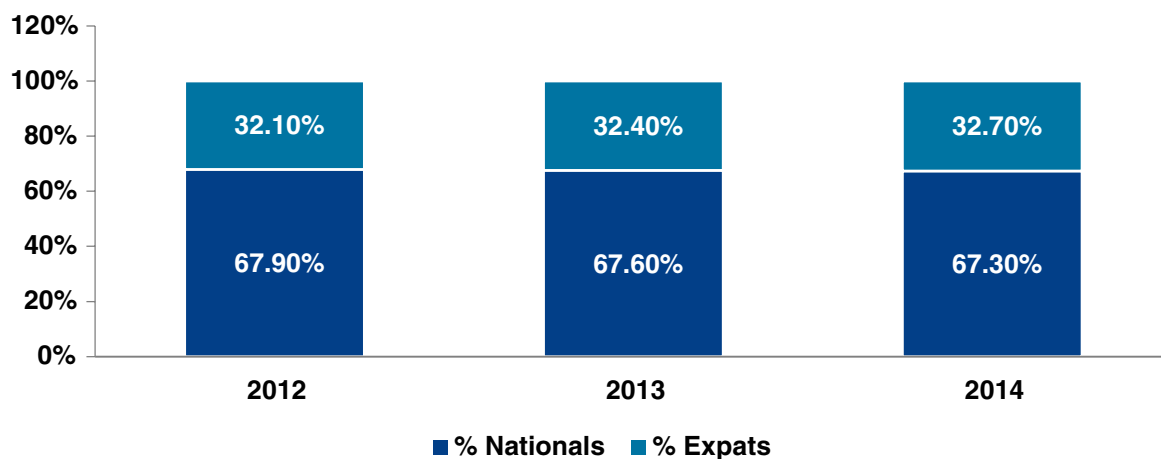


Sources: Central Department of Statistics & Information (CDSI), UN ESCWA

Also, Saudi Arabian nationals account for more than 67% of the total population. The expatriate population share in the total population has been marginally increasing over the years and accounts for more than 32% of the population. The country is also diversifying its economy to encourage the growth of the non-oil sector, resulting in a steady influx of expatriates and increase in population.

The expatriate population is expected to drive the private healthcare sector further up in Saudi Arabia. Growth in the private sector is also vital to the industry, as it brings technological advancements and innovation in addition to healthcare services to expatriates.

**Figure 21. Saudi Arabian National and Expat Population**



Source: CDSI

### 3.1.2 Increased Adult Risk Factors

Rising income levels and globalization have led to an increase in risk factors for lifestyle-related diseases. Factors driving the growth in unhealthy lifestyle conditions are urbanization, unhealthy eating habits (i.e., fast food), sedentary lifestyles, and excessive tobacco use (22% of the population smokes). Some of the most prevalent diseases observed are diabetes, obesity, cardiovascular diseases, and oncological conditions, which involve costly and prolonged treatment, and this non-communicable chronic illness accounts for about 78% of all deaths in the Kingdom. Conditions like high blood pressure, high blood sugar, and high obesity rates contribute to the high incidence rates. Saudi Arabia has a very high prevalence of diabetes, with over 20% of the general population suffering from type 2 diabetes, while 36% of the population is obese.

Aware of all these trends, the government is taking efforts for the advancement, expansion, and modernization of the healthcare system. Also, the MOH has implemented educational and prevention awareness programs through various channels to promote healthier lifestyles.

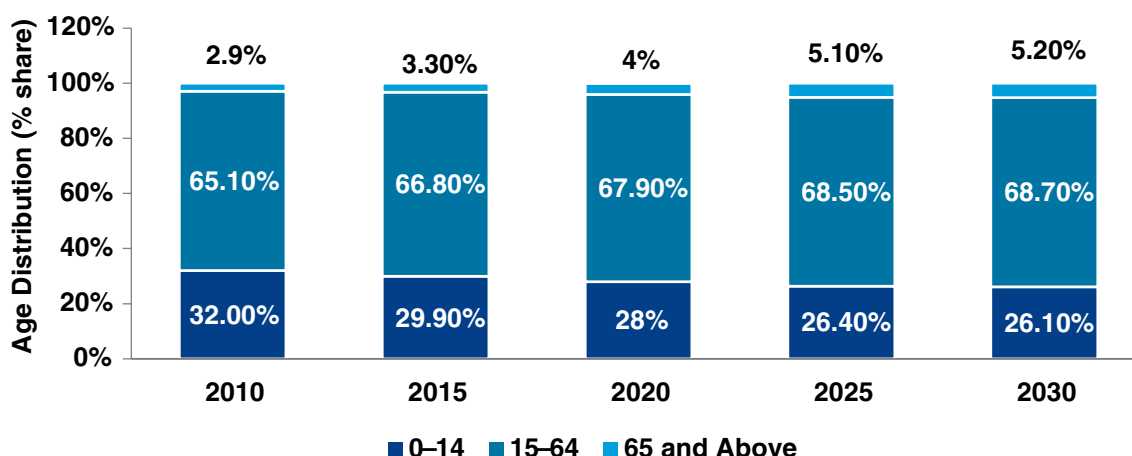
“The growth in demand for healthcare is expected to remain strong in the coming years, due to low healthcare penetration in Saudi Arabia, a growing and aging population, and an increase in lifestyle diseases. The health sector in Saudi Arabia remains relatively under penetrated with around 2.2 beds per 1000 population against a global average of 2.7, and around 4 for the West and Europe. This is coupled with an expected population growth of 2.13% over the coming four years and with life expectancy set to increase from 74.1 years to 75.3 years by 2016E. In addition to this, the increasing occurrence of lifestyle diseases will support demand for high quality healthcare in Saudi Arabia.”

– Official from NCB Capital

### 3.1.3 Age Distribution

Currently, people aged above 65 make up 3.3% of the total population, and this figure is expected to rise rapidly and reach 5.20% by 2030. The life expectancy in Saudi Arabia is getting higher, which means senior citizens would form a larger share of the population in the future. This, in turn, is expected to raise the demand for healthcare services. Typically, more than 80% of a person’s health demands arise after the age of 50. Also, senior citizens require more intensive healthcare services.

Figure 22. Age Distribution of Saudi Arabian Population



Source: UN ESCWA

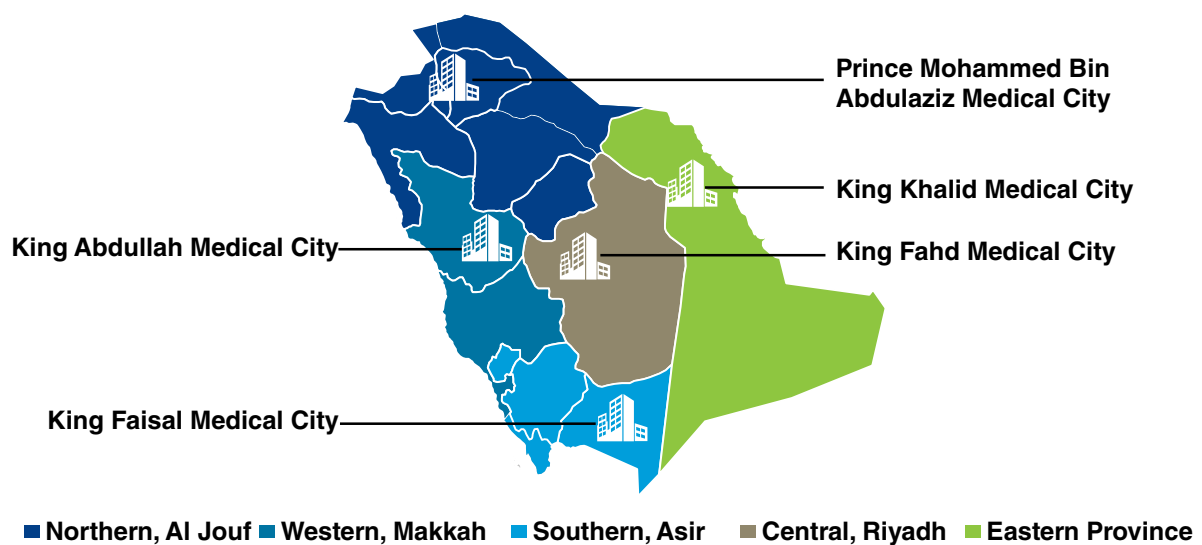
### 3.2 Government Initiatives and Private Sector Participation

The rampant growth observed in the healthcare segment has been largely driven by rising government initiatives over the last five years. The challenge of meeting the fast rising demand for healthcare services in the country has provoked the Saudi Arabian government into encouraging private participation in the healthcare sector, especially over the last couple of years, through channels such as expansion of health insurance, low interest loans for the construction of private hospitals, and the active promotion of public/private partnerships. This trend is expected to continue over the coming years.

### 3.2.1 Development of Medical Cities

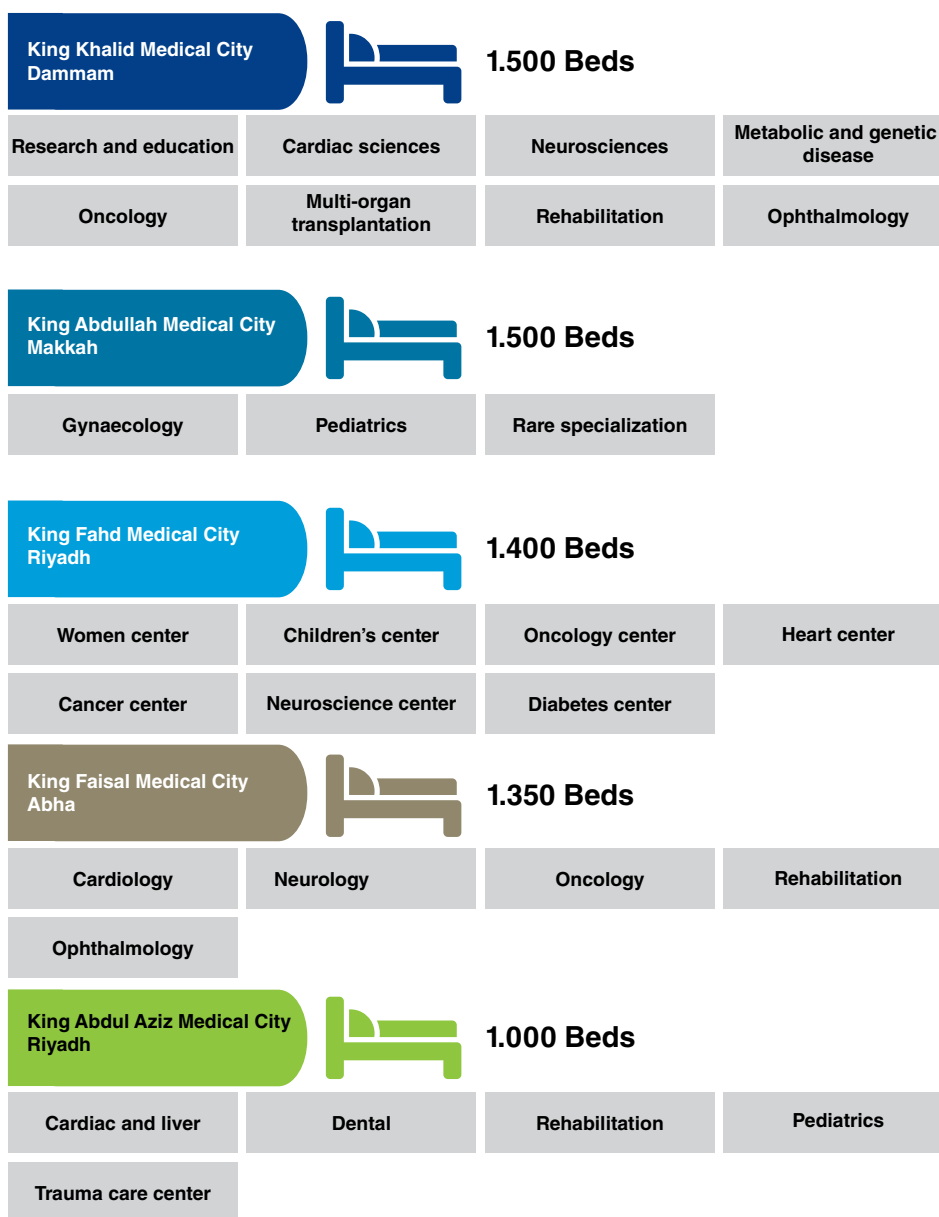
To increase the reach of healthcare services, the government has plans to build five medical cities over the next decade. The focus of these cities will be to provide specialized treatments to people residing in the rural areas. In addition to general hospitals, the medical cities will also include specialist hospitals. Also, these medical cities will serve as technologically advanced research centers to promote research and development in the healthcare sector. A total of 6,750 beds within hospitals and medical centers will be provided by these five medical cities.

**Figure 23. Regional Distribution of Medical Cities**



Source: MOH

Figure 24. Medical Cities across the Kingdom of Saudi Arabia



Saudi Arabia has many other projects in the pipeline as well. There is an expansion plan in place for King Fahd Medical City in Riyadh. Also, Prince Mohammed Bin Abdulaziz Medical City will be built in the Northern Province of Saudi Arabia and will start its operation by 2016. The new medical city will be built in Al Jouf, with a capacity of 500 beds. The specialized services will include cardiology, oncology, neurology, ophthalmology, and medical rehabilitation.

### 3.2.2 Healthcare Capital Projects

As of February 2015, the total ongoing projects in Saudi Arabia were valued at USD 14.8 billion. These projects are expected to increase the capacity (no. of beds) to 24,000. Saudi Arabia is aggressively working toward the development of the healthcare sector. It has the highest investment in ongoing healthcare projects, contributing to almost half of the GCC investment.

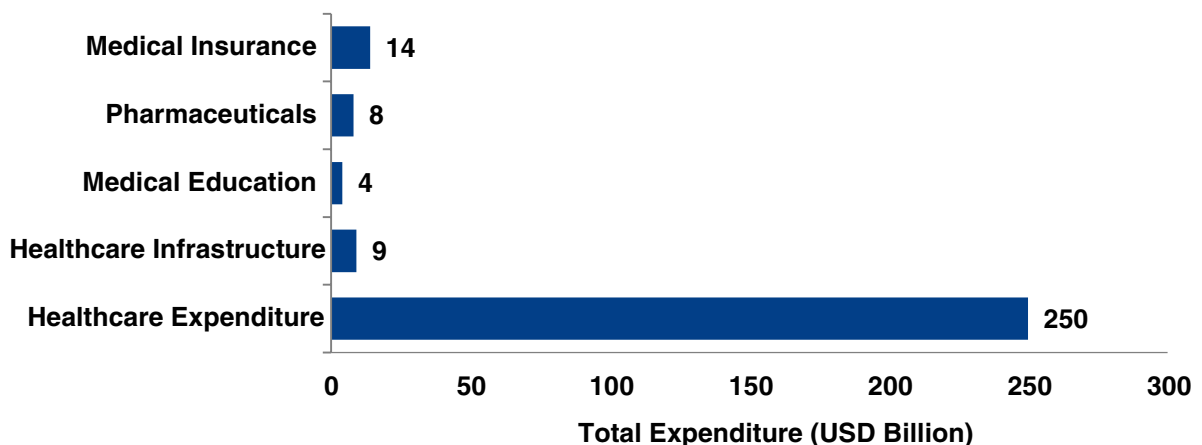
**Table 1. Major Healthcare Projects in the Pipeline**

<b>Project</b>	<b>Project Value (USD million)</b>	<b>Type of Facility</b>
King Abdullah Medical City	5,333	Medical city
Khamis Mushayt Hospital	67	Hospital
Baqeeq General Hospital	40	Hospital
Hail Maternity and Children Hospital	105	Hospital
Tabuk Maternity and Children Medical Tower	104	Hospital
Tabuk University Hospital Phase I	107	Hospital
Al Majardah Health Care Center	1.6	Health center
Aseer Specialized Hospital	171	Hospital
Prince Salman Medical Tower	42	Hospital
Sakaka Maternity and Women Hospital	67	Hospital
Al Baha University Hospital	109	Hospital
Tabuk 13 Health Care Centers	14,127	Health center
Healthcare Center in Medina – Group 1	7.1	Health center
Healthcare Center in Medina – Group 2	6.1	Health center
Prince Mohammad Bin Abdulaziz Medical City	154.7	Medical city
King Fahd Medical City Expansion	1,300	Medical city
Qassim University Hospital	133	Hospital
Al Sharaie Hospital	149	Hospital
Al Darb Hospital (Jazan)	49.4	Hospital
Rijal Almaa Hospital	54	Hospital
Hail Specialized Hospital	160	Hospital
King Saud Surgical Medical Tower	157	Hospital
King Faisal Specialist Hospital and Research Center Expansion	900	Hospital and research center
King Khalid Medical City	1,200	Medical city
Rabigh General Hospital Phase I	107.2	Hospital
King Faisal Medical City	1,000	Medical city

### 3.3 Investment Opportunities

Saudi Arabia's rapidly expanding healthcare sector offers various attractive investment opportunities. Besides the Kingdom being the Middle East's largest healthcare market, the current prevalent trends in population growth, aging, and occurrence of chronic diseases will create ample opportunities for investment in this sector. Attempts to reduce the healthcare challenge on the government through private sector participation (via PPPs) will create huge opportunities for investors. Moreover, there is an increased demand for quality medical facilities and improved medical insurance.

**Figure 25. Estimated Investment across Sectors (2016–2020)**

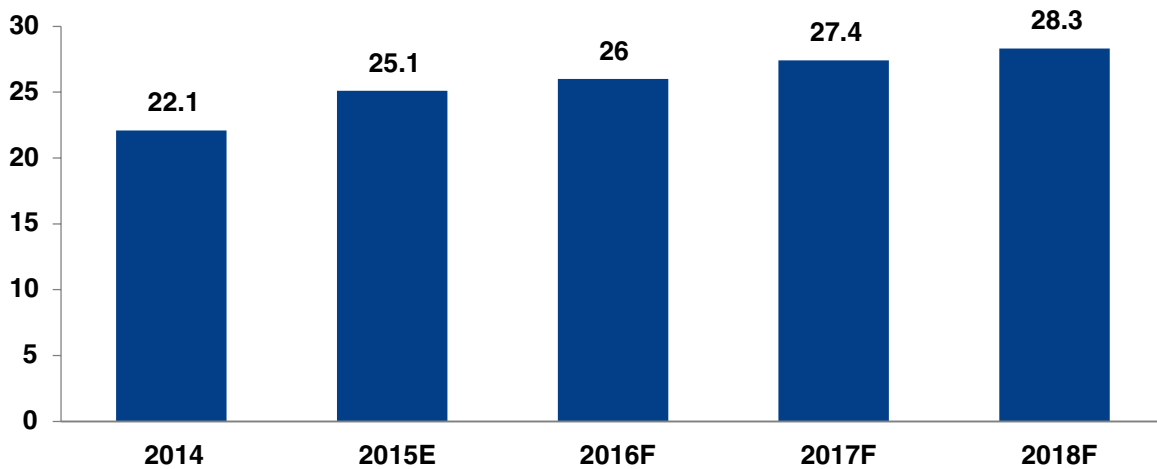


Source: Beroe Analysis, Bloomberg

The government of Saudi Arabia aims to raise the quality of healthcare services while improving cost efficiency, increasing productivity and creating employment opportunities. To achieve these objectives, over USD 70 billion of potential investment and 40 unique investment opportunities have been allocated to the following segments of the industry:

- Service provision:** ~USD 50 billion worth investment to promote appropriate access to high quality care, including the construction of 750 new Primary Healthcare Centers (PHCs), 15,000–25,000 new public hospital beds/alternative delivery models, 8,000–12,000 new private hospital beds, and an e-Health system. The Kingdom offers significant growth opportunities in this sector on primary parameters, such as hospital beds/1,000 population, which is among the lowest in the world, despite the substantial development in the last few years. Currently, around 38% of hospitals in the country are privately operated, and the increased requirement for hospital beds presents opportunities for hospital owners and operators. The recent change in the Private Healthcare Institutions Regulations and the revised investment legislations regarding hospitals and mandatory healthcare insurance policies will assist this growth in the coming years. It is estimated that the healthcare sector in Saudi Arabia would expand at a CAGR of ~9% during 2015–2020.

Figure 26. Hospital Beds per 10,000 Population (2014–2018)

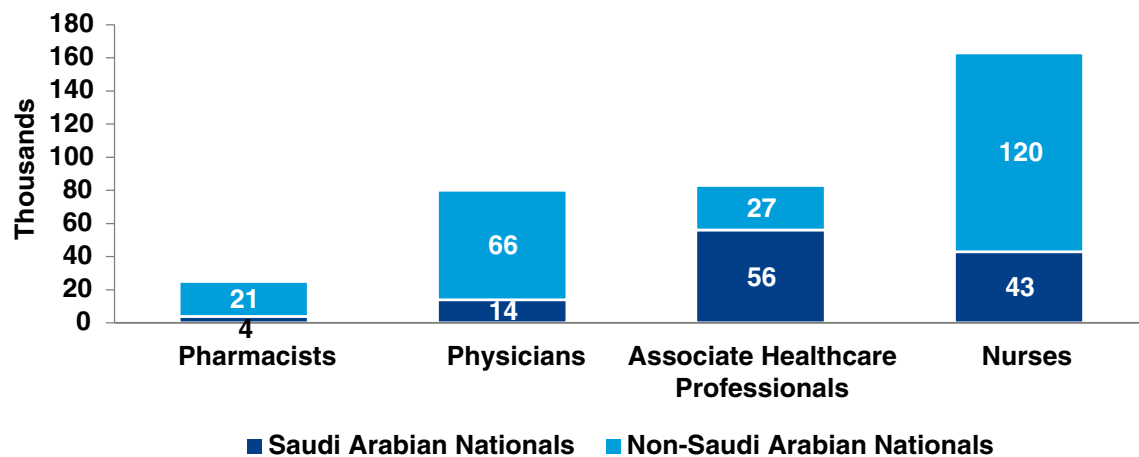


Source: Health Statistical Yearbook

- **Education and training:** ~USD 7 billion worth investment for training of the required number of healthcare professionals, increasing the number of medical school graduates from 4,000 to 6,000, and the number of nursing graduates from 5,000 to 12,000 annually

As shown in Figure 26, nearly two-thirds of the healthcare professionals are not of Saudi Arabian origin. The vast percentage of expats in this sector has led to a very high rate of turnover, thus leading to instability and stunted growth across the industry. The Kingdom is looking to increase the number of national healthcare professionals, for which it is planning hefty investments in the education and training of local citizens in the healthcare sector.

Figure 27. Nationality of Healthcare Professionals (2014)



Source: McKinsey Global Institute

- **Medical device manufacturing:** ~USD 1 billion investment from international medical device manufacturers toward local manufacturing, so as to develop an advanced medical device manufacturing environment, thus initiating a manufacturing business to meet the domestic demands
- **Pharmaceuticals manufacturing:** It is anticipated that there will be nearly USD 8 billion worth of investment for the development of a holistic pharmaceuticals manufacturing setup, and approximately USD 1 billion of investment from international medical device manufacturers toward local manufacturing. This would result in the development of an advanced medical device manufacturing environment, thus initiating a manufacturing business to meet the domestic demands, thereby reducing the Kingdom's dependence on imports. These include manufacturing of vaccines, sterile injectables, plasma, generics, biosimilars, and Active Pharmaceutical Ingredients (APIs)
- **Prevention and support services:** Investments to educate and help the local Saudi Arabian population to adopt healthy lifestyle habits to prevent the current rapid growth of chronic non-communicable diseases. This is being done by increasing public health awareness on risky behavior (e.g., healthy eating, automobile speeding, and smoking), implementing initiatives to raise public activity levels and launching immunization campaigns
- Also, investments to create native competencies in some critical support services [e.g., bioequivalence centers, cold-chain logistics, outpatient imaging, Contract Research Organization (CROs)] are needed to stimulate healthcare service provision
- The healthcare IT market in Saudi Arabia is projected to grow by at least 12% up to 2019. The rising requirement to maintain a standard record format has led to the conversion of traditional medical records to electronic health records. The increased requirement for private health insurance and managing illnesses also add to the growth potential of this market. For instance, mobile health solutions are gaining popularity as they allow healthcare providers to send and receive information, issue reminders to patients, and allow doctors to monitor patients in remote locations

## 4 Conclusion

The demand for healthcare services is expected to witness a strong growth. Population growth, rise in the number of aging people, and shifting patterns of diseases are expected to be the major drivers, which are likely to increase the burden on the Saudi healthcare system. The government has increased spending to achieve quality and expand capacity. Going forward, the private sector is expected to be a major partner and helps in delivering quality services to the citizens of Saudi Arabia.

As a part of the National Transformation Program, the Ministry of Health aims to raise the position of Saudi Arabia from current 26–10 in 2030 in the Social Capital Index by taking the following measures:

- Increase private sector share of spending through alternative financing methods and service provision
- Improve the quality of healthcare services (preventive or therapeutic)
- Achieve the highest levels of transparency and good governance in all the sectors
- Improve the efficiency and effectiveness of the healthcare sector through the use of information technology and digital transformation
- Increase the attractiveness of nursing and medical support staff as a preferred career path
- Improve the infrastructure, facility management, and safety standards in healthcare facilities
- Attain acceptable waiting times across all the stages of service delivery
- Adopt a national plan for emergency response to public health threats per international standards
- Improve public health services with a focus on obesity and smoking

The 2030 outlook for the Saudi Arabian healthcare sector looks positive. With increased spending, expanding capacity, and improved research and innovation happening all across the country, the healthcare sector is expected to provide better quality services in the future.

## Endnotes

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