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Oman:
Healthcare & Pharmaceuticals
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MAP OF OMAN

Source : PRS Group

EXECUTIVE SUMMARY

Oman's healthcare and pharmaceuticals industries are small compared to some of its regional neighbours and are dominated by high levels of government expenditure, and a robust, free public healthcare service for indigenous residents. Increasing wealth, overstretched public services and a growing population has upped demand for the high quality of service and imported pharmaceuticals that only the private sector can supply. The government, eager to cut costs, has been steadily shaping a healthcare development plan that will see the expansion of public health care services through public-private partnerships (PPPs).

Since the 1970s, the Omani government has invested heavily in the healthcare sector, resulting in a relatively well-developed and modern healthcare system. Positive health indicators, such as an average life expectancy of 75.5 years, place Oman on a par with both its GCC neighbours, and with many Western nations. The country's healthcare infrastructure is also adequate, with 1.6 hospital beds per 1,000 citizens, although factors such as rising population levels and an uptick in non-communicable lifestyle diseases diagnosis are expected to see demand for public healthcare services skyrocket, necessitating a need for further investment and development within the sector in the coming years.

The rising cost of public healthcare combined with recent years of stagnant energy prices that has resulted in a rising government budget deficit poses a growing risk to the sector. The Ministry of Health (MOH) currently accounts for around 80% of Oman's total healthcare expenditure, while total expenditure within the sector is projected to rise 12.9% annually up to 2020. In 2014, the government of Oman released a long-term programme for the domestic healthcare sector, Health Vision 2050, aimed at creating a well-organised, efficient and responsive health system within the country. Initiatives include the establishment of 10,000 health centres, and the introduction of a national certification for patient safety and quality control in conjunction with the World Health Organisation (WHO), along with a number of missions covering health technologies, primary care and professional development. In the near-term, the country's most recent development plan, spanning 2016-2020, prioritises the development of integrated medical cities, further investments in human resource development and medical training, and boosting healthcare spending.

Built on a solid foundation, the Omani healthcare and pharmaceutical industry continues to operate at a high level despite challenges related to rising costs, diminished investment and a heavy reliance on foreign medical expertise and imported medicines and equipment. Looking ahead, so long as the government is able balance its ambitious infrastructure development schedule with rising healthcare costs while continuing to implement Health Vision 2050 initiatives, opportunities abound for private sector players looking to enter the market.

INDUSTRY STRUCTURE

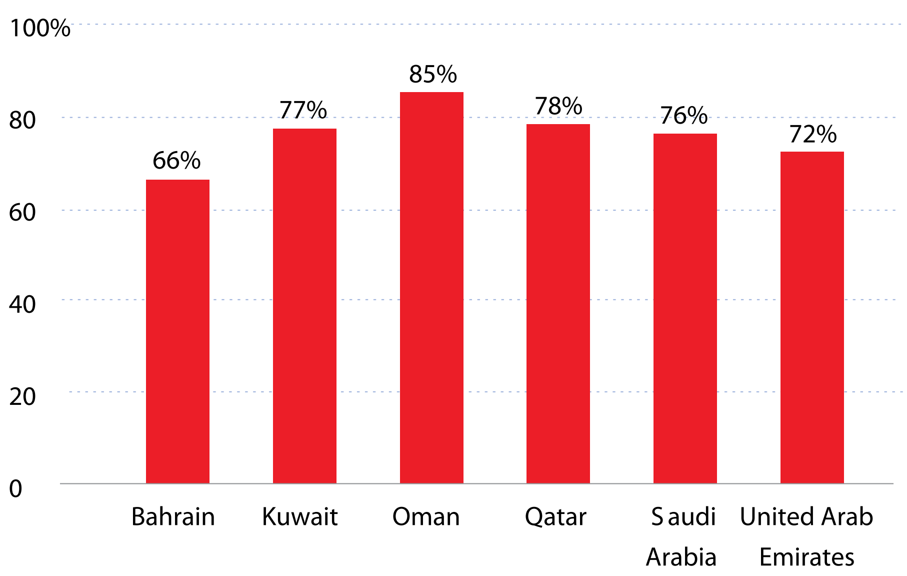
The healthcare and pharmaceuticals industry is composed of a range of products and services that together satisfy the bulk of global demand for healthcare-related services. Healthcare involves the diagnosis, treatment and prevention of disease, illness and injury via curative, preventive, rehabilitative and palliative care. Diagnostics and treatment are delivered by a network of healthcare professionals, including technicians, nurses, pharmacists, doctors and other care providers. Services are provided at primary, secondary and tertiary care facilities, which include hospitals, private clinics and public health facilities. Health education and government healthcare policies also play an integral role in shaping the industry. The pharmaceutical industry develops, produces, markets and distributes drugs for sale in the market. This includes prescription-only branded drugs and generics as well as over-the-counter remedies and pseudo-pharmaceuticals. Marketing and distribution are important aspects of the industry, as are government-imposed distribution regulations and testing requirements.

Over the last 40 years, the Omani healthcare sector has seen significant investment and development. Since its establishment in 1971, the MOH has been tasked with the organisation and development of national health services within the country. The industry is split into ten health regions, with local health administrations serving each district level. Each health region is considered as a somewhat independent and decentralised administrative body responsible for the executive affairs of each region. The country's healthcare infrastructure is well-developed, with 67 public hospitals, 242 health centres and around 1,000 private clinics located throughout the Sultanate, signalling a rising willingness amongst Omani nationals to spend out-of-pocket for private healthcare services. The General Directorate of Pharmaceutical Affairs, acting under the MOH, is responsible for all aspects of the country's pharmaceutical industry, including marketing authorisation, inspection, import control and licensing. While Oman is largely dependant on imported pharmaceuticals, there are currently two licensed pharmaceutical companies operating in Oman. Oman's government is eager to share the burden of healthcare spending and has laid out development plans that involve increasing levels of private sector participation.

MARKET OVERVIEW

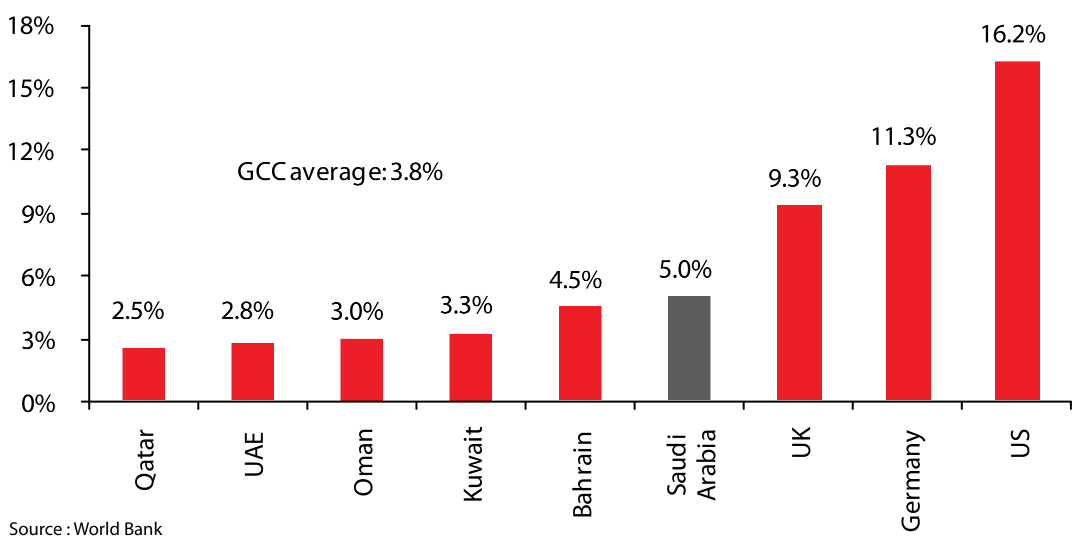
Oman's healthcare and pharmaceuticals industries are small compared to some of its regional neighbours and are dominated by high levels of government expenditure, and a robust, free public healthcare service for indigenous residents. Increasing wealth, overstretched public services and a growing population has upped demand for the high quality of service and imported pharmaceuticals that only the private sector can supply. The government, eager to cut costs, has been steadily shaping a healthcare development plan that will see the expansion of public health care services through PPPs. Indeed, Oman's healthcare market is projected to rise to US$ 4.3 bn by 2020, registering a CAGR of 12.9% for the 2016-2020 period.

Public Healthcare Expenditure (% of total expenditure)



Source : World

Healthcare Spending (% of GDP)



Source : World Bank

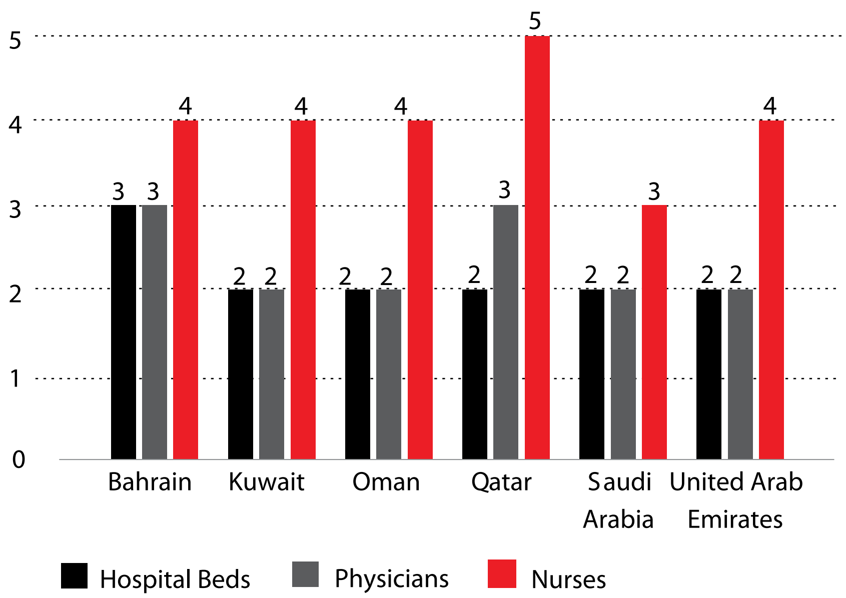
Oman's economy is heavily dependant on its oil and gas industry, which accounts for around 84% of government revenue annually. Since 2014, a sustained crash in global energy prices has driven the country into a budget deficit, registering US$ 6.2 bn in the first half 2017. In response, the government has taken measures to cut costs, restrict subsidies and actively pursue a programme of economic diversification. While an uptick in energy prices beginning in 2017 is promising, it is likely the government will have to take additional measures, such as its planned implementation of a national insurance scheme, or the introduction of small fees for doctor's visits at public hospitals, in order to fund further development initiatives within the sector in the near-term.

GCC Healthcare Infrastructure

Country	Hospital		Beds		Clinics	
	Govt.	Private	Govt.	Private	Govt.	Private
Saudi Arabia	283	125	44,099	11,833	2,037	2,308
UAE	32	58	6,627	2,549	243	2,057
Kuwait	30	15	5,149	653	97	98
Qatar	5	4	2,564	394	30	177
Oman	55	5	5,430	189	217	817
Bahrain	10	13	1,702	384	24	NA

Source : Alpen Capital

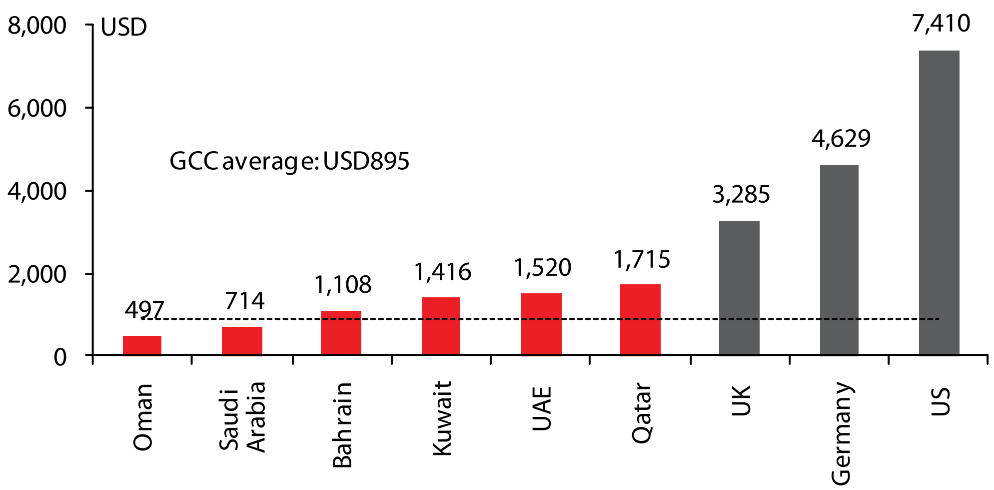
Medical Facilities per 1,000 Inhabitants



Source : World Bank

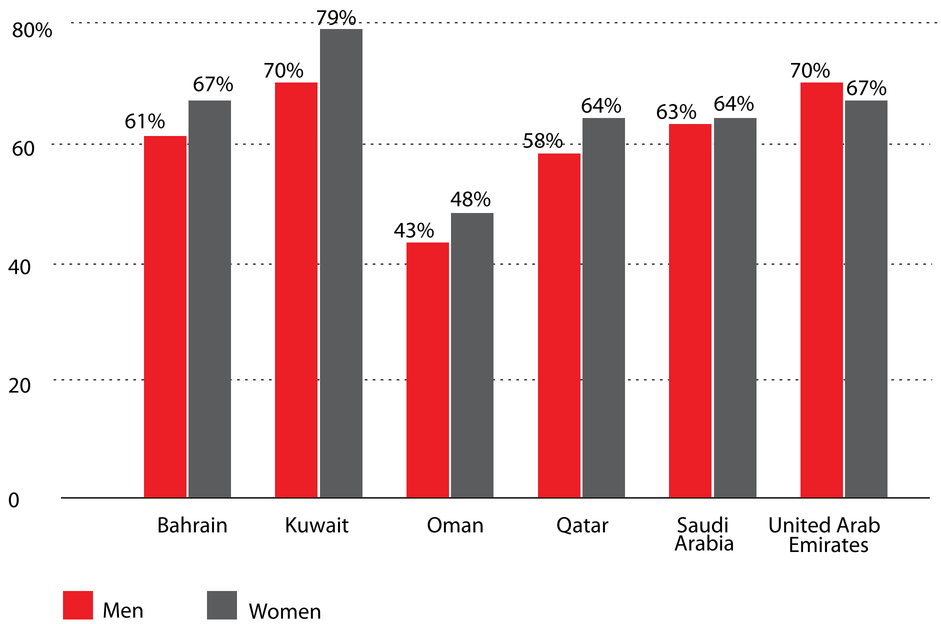
The country's rapid population growth, registering a compound annual growth rate (CAGR) of 5.2% between 2009 and 2014, has put increasing pressure on the public healthcare system. With a total population of 4.4 mn in 2016, Oman has a large expatriate population of around 2 mn. Indigenous citizens benefit from free public healthcare, while expatriates pay for health insurance and services out-of-pocket. Rising population levels and an increase in non-communicable lifestyle disease diagnosis, such as diabetes and cancer, has put an increased demand on the country's public healthcare resources. This has resulted in long wait times in doctors offices and an increasing preference for private sector care, signalling a need for further public sector development in terms of infrastructure, human resources and technology development.

GCC Per Capita Healthcare Expenditure



Source : World Bank

Overweight Individuals (% Population)



Source : World Bank

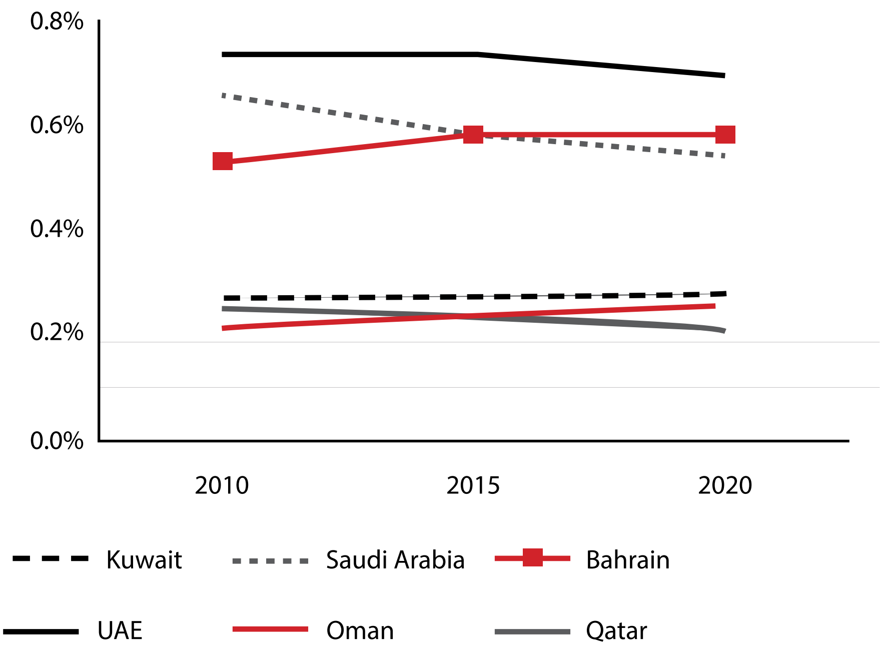
Indeed, in addition to a public infrastructure deficit, Oman is currently experiencing a shortage in qualified medical professionals. It has been estimated that the MOH needs to send at least 50 medical students abroad annually in order to keep up with demand. Technology development within the sector is also a priority as a means to increase efficiency and cut costs, and the MOH has expressed interest in partnering with United States-base universities and information management companies as a means to train its indigenous talent and standardise operations among government-run hospitals and clinics.

GCC Diabetes Prevalence

Country	Prevalence	World rank
UAE	18.73%	2
Saudi Arabia	16.83%	3
Bahrain	15.43%	5
Qatar	15.39%	6
Kuwait	14.59%	8
Oman	13.42%	12
Global average	6.42%	-

Source : International Diabetes Federation

Pharmaceutical Sales (as % of GDP)



Source : Earth Trends

While there is currently a nascent pharmaceutical manufacturing industry in Oman comprising of a few local companies, over 93% of medical supplies, including laboratory, surgical equipment and pharmaceuticals, are imported from abroad.The domestic pharmaceutical market is ripe with opportunity, as wealthy expatriates have demonstrated a preference for higher priced, branded pharmaceuticals, while the public sector will continue to fuel demand for generic drugs. While market demand for pharmaceuticals continues to rise, Oman will have to compete with more established manufacturers in the region, such as Egypt and Jordan.

Government Role

The Omani healthcare sector is overseen by the MOH, which, in recent decades, has focused on the development of the country's healthcare infrastructure and elevating the quality of healthcare services to align with Western standards. All Omani nationals, along with expatriates working in the government sector, are entitled to free medical treatment at public hospitals. The MOH owns and operates around 83% of total healthcare facilities in the country, and accounts for roughly 92.5% of hospital beds.

Oman spends around 2.6% of GDP on the healthcare sector annually, slightly lower than the GCC average of 3.1%.Currently, over 80% of the country's health expenditure comes from the MOH, which had a budget allocation of US$ 3.4 bn in 2016.Healthcare spending was estimated at US$ 2.6 bn in 2016, with outpatient care accounting for around US$ 1.6 bn. In recent years, economic stagnation and rising healthcare costs have prompted the government to explore cost-saving measures such as the implementation of a national insurance scheme and partnering with private sector firms to carry out infrastructure development initiatives.

In 2014, the government of Oman released a long-term programme for the domestic healthcare sector, Health Vision 2050, aimed at creating a well-organised, efficient and responsive health system within the country. Initiatives include the establishment of 10,000 health centres, and the introduction of a national certification for patient safety and quality control in conjunction with the World Health Organisation (WHO), along with a number of missions covering health technologies, primary care and professional development. In the near-term, the country's most recent development plan, spanning 2016-2020, prioritises the development of integrated medical cities, further investments in human resource development and medical training, and boosting healthcare spending.

In an effort to cut costs and increase efficiency, the government has worked to integrate modern technological solutions within the sector over the past decade. Currently, over 86% of all public hospitals and healthcare facilities are linked electronically to a central database, and in January 2017, the Ministry of Health began its implementation of a cashless transaction system at public healthcare centres. In terms of the pharmaceutical industry, the Directorate General of Pharmaceutical Affairs and Drug Control (GDPA) is the responsible for ensuring the safety and efficacy of domestically produced and imported pharmaceuticals. While current local pharmaceutical production is minimal, Health Vision 2050 outlines the establishment of local drug manufacturing operations with the goal of raising local production to 20-30% of total consumption.

Investment and Development

While modern and reasonably well-equipped, high population growth and a rise in non-communicable disease diagnosis has resulted in a need for the expansion of the country's healthcare infrastructure, with hospital bed demand expected to grow at a CAGR of 3.1% over the 2016-2020 period. Oman currently houses around 67 hospitals with over 6,300 beds, a ratio of 1.6 beds per 1,000 people. While the country's hospital bed density remains in line with GCC averages, it compares unfavorably with world (27 beds per 1,000) and high-income country (54 beds per 1,000) averages. Oman also houses 242 health centres and over 1,000 private clinics, the majority of which are centered in the country's capital of Muscat. The Sultan Qaboos University Hospital (SQUH) is one of the most prestigious hospitals in Oman. Opened in 1990, the hospital and educational centre trains medical students in addition to providing tertiary medical care. The SQUH has achieved numerous International Standards certification awards and is actively working on compliance to international accreditation standards. Another well-respected hospital operating in Muscat is the Royal Hospital of Oman. Providing tertiary-level and acute care, the hospital offers state-of-the-art services within the specialities of medicine, surgery, pediatrics, obstetrics, gynecology, oncology and laboratory medicine. Most recently, the hospital has gained International Accreditation from Accreditation Canada, an institution tasked with approving standards of excellence in quality care and services in Canadian health institutions.

Due to the free nature of healthcare services for indigenous citizens, the private sector has played a minor role in the Omani healthcare sector thus far. However, the public healthcare system has become increasingly congested in recent years, prompting many wealthy Omanis to seek health services in private clinics, where the level of care is perceived as higher than that of public hospitals. According to MOH data, Omanis accounted for 46.8% of total private sector hospital visits in 2014. There are currently around 13 private hospitals and health centres operating in Oman. Badr Al Samaa Group is the largest private healthcare group in Oman, operating eight hospitals and polyclinics in the underserved regions of Sohar, Salalah, Al Khoud, Barka, Sur, and Nizwa. As demand for private healthcare services continues to rise, we expect to see increased outside investment, such as a recent investment of US$ 260 mn by Saudi-based Shifa Al Jazeera Group for the development of 13 medical centres in Oman over the coming years.

In response to rising demand for healthcare services, the government has embarked on an ambitious infrastructure development programme that will see the construction of a number of new medical cities, hospitals and health centres in the coming years. One of the most highly anticipated projects is the International Medical City (IMC). Developed under a PPP between the Oman ministries of tourism and health, Saudi Investor Apex Medical Group and US companies Methodist International and General Electric, the US$ 1 bn project is aimed at boosting Oman's profile as a medical tourism destination. Under the 866,000 square metre (sqm) development plan, the IMC will house a healthcare complex and health resort, and a medical education complex. While the project is still in the planning stages, the first development phase will see the construction of a 250-bed tertiary care hospital, while subsequent phases will see the construction of hotels, wellness centres, serviced apartments, a medical education campus and a convention centre.

Another large-scale healthcare city development in the pipeline is the Sultan Qaboos Medical City Complex, a massive medical city consisting of five major hospitals along with a dedicated imaging centre and laboratory centre at a cost of US$ 1.5 bn. Other projects slated for development in the medium-term include Muscat General Hospital, a US$ 364 mn hospital located across from the Muscat International Airport providing high-level medical treatment; Masirah Hospital Project, a US$ 35 mn 250-bed hospital to be built in the Al Sharqiyah region, and the US$ 18.1 mn 75-bed Duqm Multi-Specialty Hospital. Additionally, there are plan to construct three major hospitals within the Ruwi and Al Khuwair region, along with 13 medical centres in Barka, Duqm, Suqaiq, Khaboura, Buraimi, Ibri, and Falaj Al Kabal to be developed by Saudi-based Shifa Al Jazeera Group at an estimated cost of US$ 260 mn.

Medical Devices and Technology

Population growth, a changing epidemiological profile, a growing medical tourism industry, continuous healthcare infrastructure developments, an expanding health insurance and increasing health expenditures have all contributed to market growth in recent years despite declining global energy prices. The Directorate General of Pharmaceutical Affairs governs Oman's medical device market. Like much of the Middle East, Oman's manufacturing output is low, especially in the medical devices market, where almost all products, including everything from technological equipment to disposable apparatus, are imported.

A comparatively smaller market segment, valued at around US$ 300 mn, medical device imports in Oman are largely in the hands of a small number of firms catering to both the public and private sectors. Medical devices are freely imported, although in some cases, a classification committee must determine if a device is required to undergo full registration, while manufacturing companies involved in government tenders must go through a pre-qualification process before they are eligible to import to local markets.

As the Omani government embarks on healthcare development, it is likely that there are several contracts to be sought to supply new and refurbished hospitals and clinics that are in the pipeline, while the continued growth of the private sector is bound to add more impetus to demand. For example, few private hospitals and clinics contain intensive care units, and as the public system gets revamped and improved, it is likely that more private health providers will seek to distinguish their facilities by adding more services. Large diagnostic scanning devices are also likely to be in greater demand, while laboratory equipment is also likely to be further in demand, as private sector testing facilities become more common around the country.

Pharmaceuticals and Over-the-Counter Medicines

Oman spends around US$ 311 mn annually on pharmaceutical imports, with local production satisfying a mere 7% of total market demand.Currently limited to two local producers, the MOH is actively looking to curb imports and expand production as outlined in the country's Health Vision 2050. Over the next decade, the MOH seeks to boost production from 7% of market demand to 20-30% with a focus on the production of high-cost pharmaceuticals.The domestic pharmaceutical market is ripe with opportunity, as wealthy expatriates have demonstrated a preference for higher priced, branded pharmaceuticals, while the public sector will continue to fuel demand for generic drugs. While market demand for pharmaceuticals continues to rise, Oman will have to compete with more established manufacturers in the region, such as Egypt and Jordan.

In line with wider GCC trends, in recent years the MOH has initiated a series of price cuts on thousands of prescription drugs in order to make them more available to consumers, as drug prices in Oman are considered amongst the highest in the GCC region due to limited production capabilities. Since 2014, price cuts have been initiated on over 4,000 branded and generic pharmaceuticals. While these prices reductions have demonstrated a benefit to consumers, distributors have been negatively affected, signalling a need for increased local production. Over-the-counter (OTC) pharmaceuticals including general analgesics, digestive aids and topical creams and gels currently make up around 20% of the total pharmaceutical market, though the adoption of modern shopping concepts in retail pharmacies looks set to increase the market share for these products, as they are increasingly presented as impulse purchases. Furthermore, as people become more educated in preventative medicine and self-diagnosis, as well as the use of pharmaceutical products for cosmetic purposes, OTC sales are predicted to grow considerably.

Health Insurance

Under the current system, indigenous Omanis benefit from free healthcare at all government-run institutions, and the government typically reimburses citizens who seek care at private hospitals and specialty clinics. Expatriates residing in the country typically pay out-of-pocket for private care, only using public hospitals in the case of an emergency or when treatment is not available in the private sector. However, expatriates working in the government sector receive free public medical care, as do their dependents. Currently, only 9% of Omani citizens and 10% of expatriates use private insurance services.

Over the past decade the cost of public healthcare in Oman has risen steadily in response to strong population growth and a rising epidemiological disease profile. Per capita visits to public healthcare centres in Oman are considered high, due to in part to the free nature of the services, resulting in unnecessary hospital visits and increased costs to the government. Additionally, the healthcare sector continues to focus on treatment rather than preventative care, resulting in a rapid rise of preventable lifestyle diseases such as diabetes and hypertension, which has put further strain on the public healthcare system.

In an effort to curb healthcare expenditure while stimulating private sector participation, the government has announced intentions to roll out a mandatory health insurance scheme in 2018. Slated for implementation at the start of the new year, the new health insurance law will require all private sector companies to provide health insurance to their employees. While indigenous citizens will continue to benefit from free public healthcare, all private sector companies must offer suitable health insurance provisions to their employees, with potential financial penalties for companies failing to comply.

KEY PLAYERS

Ministry of Health

The Ministry of Health (MOH) oversees all aspects of the healthcare and pharmaceutical industries in Oman. Established in 1971, the MOH is tasked with ensuring quality healthcare to all Omani citizens and residents. Additionally, the MOH is responsible for the prevention and control of noncommunicable diseases, promotion of primary health care services, and the promotion of effective private sector participation. The MOH achieves its directives through five-year development plans that are aimed at shaping national health policy, along with Health Vision 2050, which focuses on achieving a number of missions covering health technologies, nutrition, primary care, and professional development.

General Directorate of Pharmaceutical Affairs

The General Directorate of Pharmaceutical Affairs & Drug Control, under the Office of Undersecretary of Health Affairs, develops and implements national drug policy. It ensures the availability of drugs and other pharmaceuticals with adequate quality at various levels of health care. Directorate of Rational drug use, Directorate of Treatment abroad and Directorate of Private Health establishment also follow Undersecretary of health affairs.

Badr Al Samaa Group

Badr Al Samaa is the largest private investment group operating in the Omani healthcare sector. Badr Al Samaa operates a large network of hospitals and polyclinics throughout the GCC region, including Al Hilal Hospital in Bahrain and Badr Al Samaa Medical Centres in Dubai, Qatar and Kuwait. In Oman, the group operates eight hospitals and polyclinics in the underserved regions of Sohar, Salalah, Al Khoud, Barka, Sur and Nizwa. Hospitals offer specialised and sub-specialised care and are equipped with state-of-the-art services and equipment including catheterisation laboratories, endoscopy, mammograms and MRI scans. All health centres are open 24 hours a day and offer emergency and ambulance services.

Starcare Health Systems

Established in 1985, Starcare Health Systems is a healthcare management and consultancy company based in the United Kingdom. Starcare specialises in healthcare facility planning and management in both eastern and western health systems. Currently operating in Oman and the UAE, Starcare has plans to expand to additional Middle Eastern and Indian markets in the coming years. Starcare operates a state-of-the-art facility in Seeb, Oman offering 24-hour emergency care, outpatient and inpatient services across 35 specialities, along with world class labour and delivery services.

Oman Pharmaceutical Products Company (OPP)

Established in 2001, OPP is one of two pharmaceutical manufacturers operating in Oman. OPP manufactures and markets high-quality branded generics to over 40 countries across the globe, including the United States, Saudi Arabia, Jordan, Nigeria and Yemen.

Al Borg Medical Laboratories

Al Borg Medical Laboratories is one of the largest private medical laboratory chains in the GCC. Al Borg has 53 laboratories across eight countries in the Gulf and Africa, offering medical laboratory testing services to hospitals, clinics, companies and individuals. Investcorp is the majority shareholder in the company. In 2017, Al Borg agreed to buy the lab business of Anglo Arabian Healthcare, majority owned by Waha Capital.

Jazeera Pharmaceutical Industries

Established in 1999, Saudi Arabian Jazeera Pharmaceutical Industries (JPI) was started as a joint venture between private investors and Jordanian drug giant Hikma, the biggest Middle Eastern pharmaceutical producer. In 2006, Hikma went on to wholly buy JPI, which now functions as its subsidiary. Producing generics for local consumption as well as export, the manufacturer produces over 100 registered drugs at its plant south of Riyadh. Thanks to Hikma's extensive network, JPI exports to 15 countries across the MENA region, while it was recently awarded an FDA certification meaning its products can be sold in the USA, although the company has not yet taken advantage of this. Hikma is listed on the London Stock Exchange.

GE Healthcare

A subsidiary of American technology giant General Electric which has been working in Oman in the oil extraction industry since 1973, GE Healthcare imports its products to provision Oman's healthcare industry. Providing medical technology for imaging and testing covering cardiology, orthopaedics, oncology, vascular care and women's health, GE Healthcare is expanding its operations to include the installation of medical administration software systems.

ECONOMIC OVERVIEW

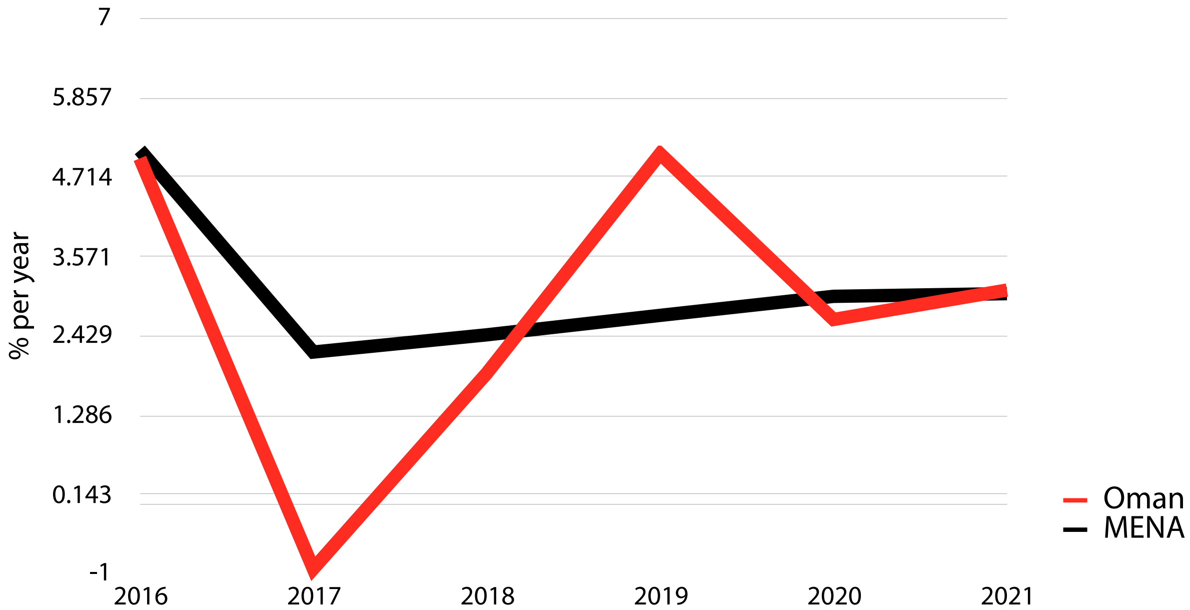
Economic Forecasts

Subject Descriptor	Units	2016	2017	2018	2019	2020	2021
GDP, constant prices	% change	5.0	-0.9	1.9	5.0	2.7	3.1
GDP, current prices	US dollars, billions	65.9	70.8	81.7	86.5	88.4	91.0
GDP per capita, current prices	US dollars	16,447	17,128	19,170	19,689	19,508	19,468
Total investment	%, GDP	29.3	31.3	31.5	31.8	32	32.2
Inflation, average consumer prices	% change	1.1	1.6	1.5	3.2	3.4	3.1
Volume of imports of goods and services	% change	-10.9	7.7	3.9	3.3	3.3	4.1
Volume of Imports of goods	% change	-15.9	9.2	4.0	3.2	3.7	4.5
Volume of exports of goods and services	% change	-9.8	2.1	8.3	8.3	3.2	5.1
Volume of exports of goods	% change	-12.6	2.9	10.2	8	2.1	4.0
Unemployment rate	%, total labour force	n/a	n/a	n/a	n/a	n/a	n/a
Population	Millions	4.0	4.1	4.3	4.4	4.5	4.7
General government net lending	%, GDP	-21.2	-12.9	-2.02	0.8	0.4	-0.6
General government gross debt	%, GDP	32.5	46.9	48.7	45.1	43.7	42.6
Current account balance	%, GDP	-18.6	-15.2	-3.3	-0.5	-1.5	-1.8

Source: IMF, World Economic Outlook database, October 2018

The Omani economy contracted by 5.1% in nominal terms in 2016, excluding the impact of inflation followed 14.1% negative growth in the previous year as a result of the sharp fall in oil prices. The International Monetary Fund cut its outlook for real growth in 2017, which includes inflation, to 0.4% in its April 2017 world economic outlook, down from 2.6% six months earlier. This appears more realistic than the government's projection of growth of 2% in 2017, according to the January 2017 Budget statement. While the IMF sees a robust recovery to 3.8% in 2018 it then foresees growth slipping back to mediocre levels of around 1.8% a year for the rest of the decade. The IMF completed an annual Article IV assessment in June 2016 but the authorities have still not sanctioned its release. In March 2017 Moody's Investors Services forecast real GDP growth in Oman of around 2.1% per year on average, significantly lower than the 3.8% average annual growth seen between 2011 and 2015. This forecast was based on Moody's expectation of only limited increases in oil and gas production and the dampening effect from ongoing fiscal consolidation on non-oil real GDP growth. Moody's retained its rating of Baa1 with a stable outlook. In May 2016 it cut its rating from A3.

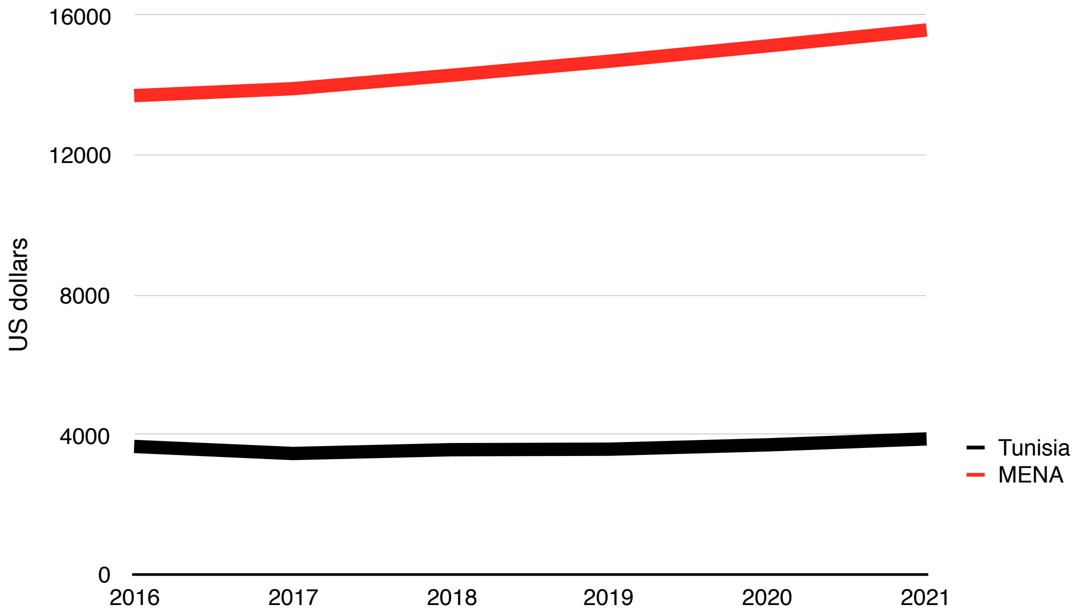
GDP growth



Source: IMF, World Economic Outlook database, October 2018

The decline in international oil prices has had a major impact on Oman, which derives half of its economic output from the sector and which enjoyed annual growth of 4%-5% between 2010 and 2013. The drop in oil prices in 2015 and 2016 fed through to a drop of more than 67% of oil revenues in 2016 despite high production, compared with oil revenues recorded in 2014. The data have highlighted the need for Oman to diversify away from hydrocarbons. The challenge for the authorities is to stimulate growth in the non-oil sector following the fall in nominal growth in 2015 and 2016. The economy will also benefit from the 40% rebound in the oil price since February 2016. March 2016 saw the release of the ninth five-year plan by the Supreme Council of Planning. The strategic plan, which looks ahead to the period 2016-2020, focuses on diversifying sources of economic growth, supporting the private sector and adapting the use of oil and gas resources to achieve sustainable growth. At the same time Oman is also investing in downstream infrastructure and new facilities in the Sohar and Salalah industrial regions that should help raise oil output. On a positive note, crude oil production broke through the 1m barrels per day mark in the final quarter of 2015 and has maintained that level through 2016, according to the International Energy Agency. Oman has been looking to ramp up production to offset the impact on revenues of falling prices. In 2016 S&P estimated that trend growth in real GDP per capita would average close to minus 2% over 2016-2019, which would be well below that in most economies at similar levels of development. According to the IMF GDP per capita in dollar terms has declined although mainly because of dollar appreciation, but will pick up between 2016 and 2019. However S&P forecasts that Oman's GDP per capita will rise to only US$ 17,000 by 2019 from US$ 15,300 in 2016 and compared with an average of US$ 20,600 in 2011-14.

GDP per capita, current prices



Source: IMF, World Economic Outlook database, October 2018

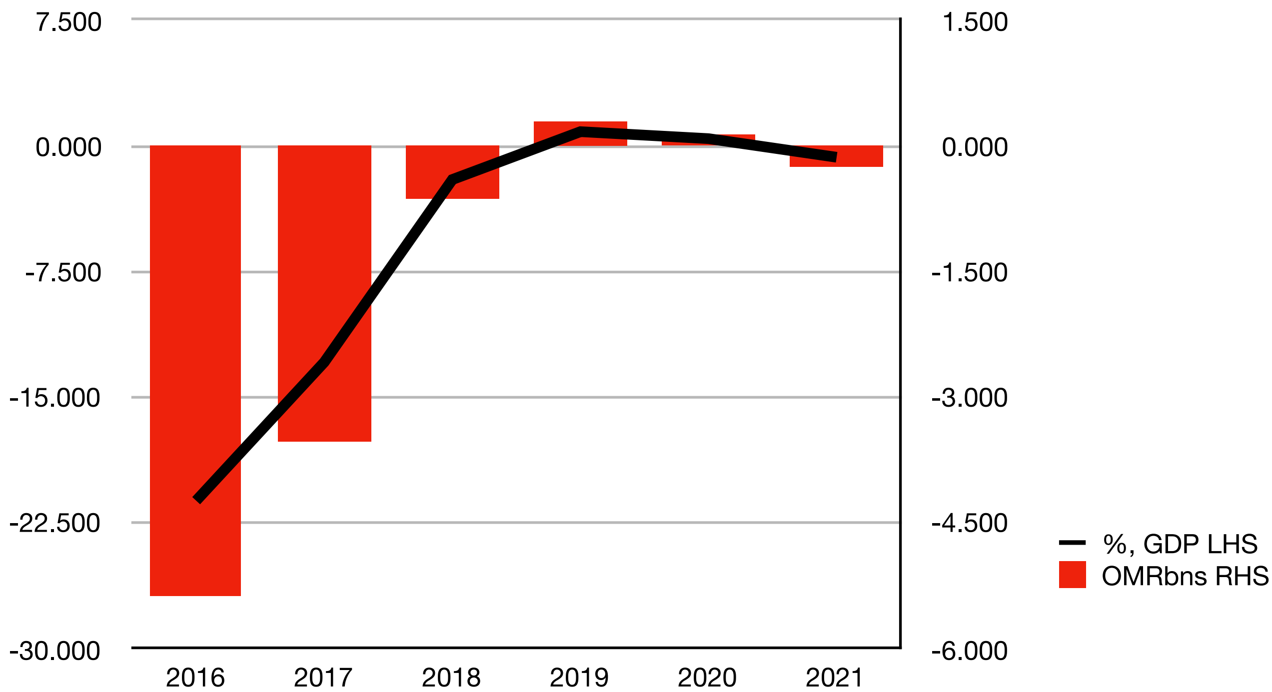
Oman had embarked on a surge of investment designed to boost the Sultanate's economy before oil prices fell. However the 2017 budget appeared to confirm that the spending would go ahead as planned but not be increased. The five-year National Programme for Enhancing Economic Diversification will go ahead. Overall government spending has been set at OMR 11.7 bn of which OMR 2.67 bn or 23% will be on investment. Oman is expected to invest US$ 50 bn on diversifying its economy away from hydrocarbons over the next 15 years, of which $20bn will be used on the transport sector, especially for developing infrastructure projects, according to a report published at the turn of 2017. Ventures Onsite said that as many as 49 road projects were planned, worth US$ 5.4 bn, in addition to roundabouts, flyovers and tunnels. According to the IMF total investment (public and private) will rise from 29.9% of GDP to 31.5% between 2016 and 2019. According to one estimate the construction industry, which makes up 8% of the economy, will grow by 10.1%% in 2016. Over the next years it envisages average annual growth of 10.6%.

October will see the launch of Infra Oman 2017, the seventh exhibition for infrastructure and industrial projects. In November 2016 Oman agreed to South Korea's participation in building a refinery in Duqm, a petrochemical plant in Sohar, the Oman-Iran underwater gas pipeline, a national railway network, and other related facilities. The Oman Power and Water Procurement Company received bids from four consortiums for the US$ 272 mn Salalah and Sharqiyah water projects. In February 2016 state-owned Petroleum Development Oman announced plans to invest US$ 10 bn into three onshore projects over the next five to 10 years. In May 2015 the Public Authority for Electricity and Water set out projected capital expenditure of around US$ 6.5 bn in the expansion and modernisation of the country's water infrastructure over the 25 years to 2040. This also includes a 2,244 km US$ 16.5 bn national rail project. The government has also outlined a number of major highway development and refurbishment initiatives including the 715 km Adam-Thumrait highway. It plans to increase spending on tourism-related initiatives, including the development of the Oman Convention and Exhibition Centre, the first phase of which opened in August 2016. It has the potential to play a major role in Oman outlined a number of major highway development and refurbishment initiatives international hub for the business community. The Sultanate is also planning to expand its main airport and develop the Mina Sultan Qaboos Waterfront Project to attract tourists.

The Omani government has indicated it is looking at privatising parts of the state-owned energy infrastructure network. The move in April, which would be seen as a method of bolstering the public finances, came after January's budget unveiled a squeeze on public spending as it pledged to cut the deficit to OMR 3 bn in 2017 following the austerity in 2016 that aimed to cut the deficit from OMR 4.5 bn in 2015 to OMR 3 bn. According to media reports the Sultanate will look to sell assets in small companies such as petrochemicals rather than its upstream operation. Moody's expects Oman's 2017 fiscal deficit to narrow substantially to US$ 8.1 bn, 11.4% of GDP, from an estimated US$ 13 bn, 20.1% of GDP in 2016, and fiscal deficits will continue to decline gradually over the following years. The slump in the oil price has sapped the sultanate of revenues. OMR1.1 bn was wiped off oil and gas sales in 2016 as the average price of oil achieved in 2016 reached about US$ 39 per barrel, down by 63% compared with 2014 price. The measures include a squeeze on public sector recruitment, continued austerity measures, and a review of subsidies, while funding will only be channelled into projects essential for Oman's non-oil future.

The first half of 2016 saw a budget deficit of OMR 3.5 bn compared with a deficit of OMR 1.92 bn a year earlier. The government took austerity measures to respond to the impact of the recent retreat in oil prices that has put the public finances under renewed pressure. Oil and gas revenues constituted 87% of total government revenues over the five years to 2015. Oman's dependence on oil and gas exports will remain high, above 50% of total exports. Oman's budget deficit for 2016 stood at OMR 5 bn as falling crude oil export revenues affected fiscal balance, according latest monthly statistics from the Central Bank of Oman. This was slightly lower than an initial OMR 5.3 bn estimated by the government at the time of announcing the latest state state budget, but much higher than the budget proposal of OMR 3.3 bn for 2016. In June 2016 the Sultanate moved into the foreign debt markets to raise US$ 2.5 bn in bonds. It sold US$ 1 bn of five-year notes and US$ 1.5 bn of 10-year bonds. In its October 2016 forecasts, the IMF said that the budget balance would shift from a surplus in 2013 to a deficit of 10% of GDP in 2017 but then narrow to 6.2% by 2020.

Government net lending/borrowing

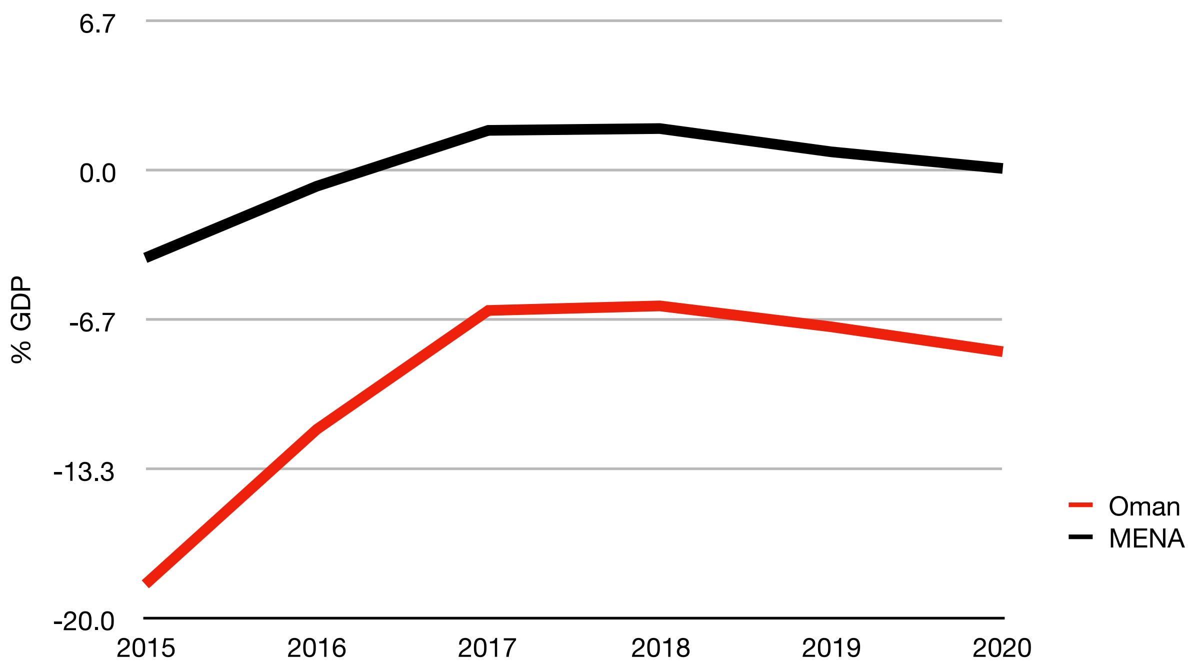


Source: IMF, World Economic Outlook database, October 2018

Ratings agency S&P downgraded its outlook for Oman for the second time in six months in May 2017, demoting the sovereign debt to junk status. The agency cut its rating from the Sultanate to 'BB+/B' from BBB-/A-3 on weaker external buffers. In November 2016 its cut its outlook to negative from stable. It retained the negative outlook, indicating that there may be further downgrades to come. It said the government's heightened external financing needs had resulted in the economy's large net external asset position — external assets exceeding external liabilities — declining to a level insufficient to mitigate the risk from its volatile export revenue base. Based on projections for continued sizable current account deficits, S&P expects Oman to be in a narrow net external debtor position of 12% in

2020. Over the past five years, hydrocarbon exports accounted for 67% of total merchandise exports and 62% of total current account receipts. The decline in the oil price will depress inflows of capital and eliminate the current account surplus that was posted in 2013 and 2014. As a result, the IMF now expects Oman's current account balance to post large deficits of 12.3% of GDP in 2017, narrowing to 9.2% in 2020. In May 2016 Moody's downgraded Oman's long-term issuer ratings to Baa1 from A3 and assigned a stable outlook following its cut from an A1 rating in February. It forecasts that the deficit will reach almost 25% of GDP in 2016 and improve only slowly to a deficit of 15% by the end of 2019. Moody's expects Oman's external vulnerability indicator — a measure of short-term external payment obligations relative to gross official reserves — to cross the 100% critical threshold in 2017. However Oman is active in raising finance from other sources. In June 2016 the sultanate moved into the foreign debt markets to raise US$ 2.5 bn in bonds. It sold US$ 1 bn of five-year notes and $1.5bn of 10-year bonds. The central bank has reserves of $16bn while US$ 13 bn is held by the Oman Investment Fund, according to the Sovereign Wealth Institute. However even taken together they only represent 37% of GDP. By comparison Saudi Arabia holds reserves equivalent to 100% of its GDP.

Current account balance

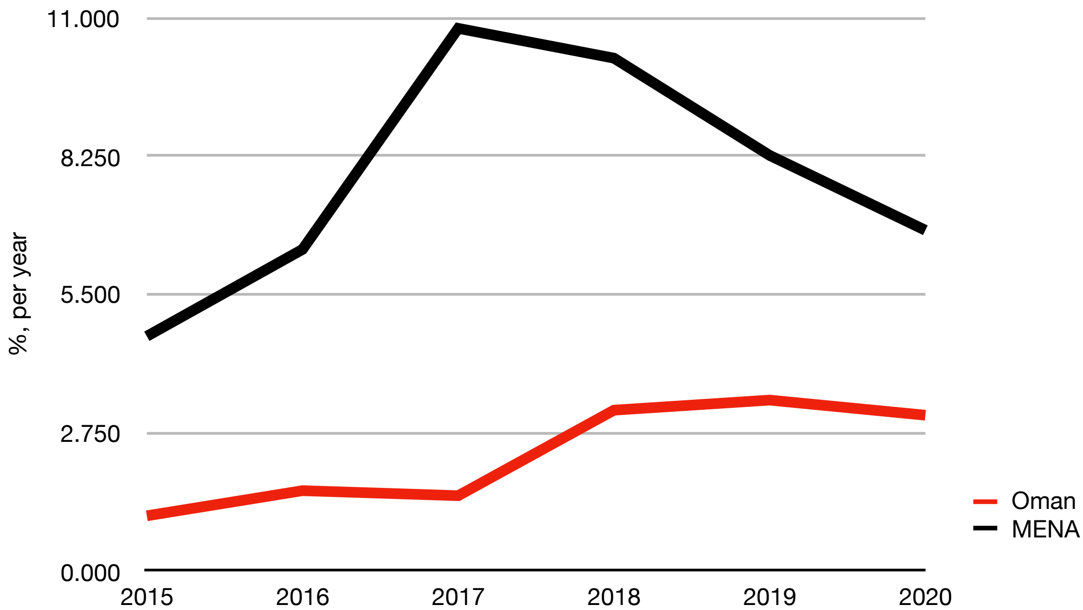


Source: IMF, World Economic Outlook database, October 2018

Inflation fell back in April 2017 after seeing a spike in the previous two months. The annual rate of consumer price rises s in Oman increased 1.8% year-on-year in April, after posting increases of 2.5% in February and 2.8% in March. It is back to the level at which it started 2017 but above the levels seen for much of the previous year. The main upward pressure came from a rise of 6.7% in the transport sector and 1.57% in the housing, water, electricity, gas and other fuels sectors, according to data from the National Centre for Statistics and Information. Prices of foods and non-alcoholic beverages, which makes up a large share of the inflation measuring basket, fell 0.16% in April compared with prices for the same month last year although tobacco products saw a price hike of 24.3%. The IMF expected the index would hit 4.0% in 2017 before slowing slightly to 3.1% by 2020. This is a slightly more negative forecast than in October 2016 when the funds expected inflation to fall to 2.8%. Consumers have been protected from inflation by government subsidies but the 2016 and 2017 budget reduced subsidies in the wake of the surprise move by the United Arab Emirates in late July 2015 to scrap subsidies on petrol and diesel effective from 1 August.

Oman is the only member of the six-nation Gulf Cooperation Council not to announce an official interest rate rise in the wake of the Fed's 0.25 percentage point increase in March 2017. However because the Omani riyal is pegged to the US dollar increases in rates are passed through by LIBOR. The Omani central bank will monitor interest rates offered by local banks and will not "blindly follow the Federal Reserve's decision", governor Hamood Sangour al-Zadjali said. Oman's monetary policy is anchored to a peg with the US dollar. As the United States is an important source of imports for Oman, it protects prices from some of the pressures of imported inflation from the US. The peg has provided a stable nominal anchor for the economy, particularly as contracts for oil, its main export, are typically priced in US dollars. However the appreciation in the dollar has meant that Oman's real effective exchange rate has appreciated by 12% since early 2014. This represents a deterioration in international competitiveness of the country's modest non-oil export sector, which is likely to dampen non-oil GDP growth. The central bank uses monetary management to temper strong rises in bank liquidity. Analysts see no expectation of any change in the currency peg over the coming years. In December 2015 it specifically ruled out raise interest rates from the 1% they have been since 2012 following a decision by the US Federal Reserve to raise its key interest rate. In July 2016 the Omani central bank said it had taken measures to manage liquidity in the banking system after what it described as an abundance of liquidity over the course of 2014.

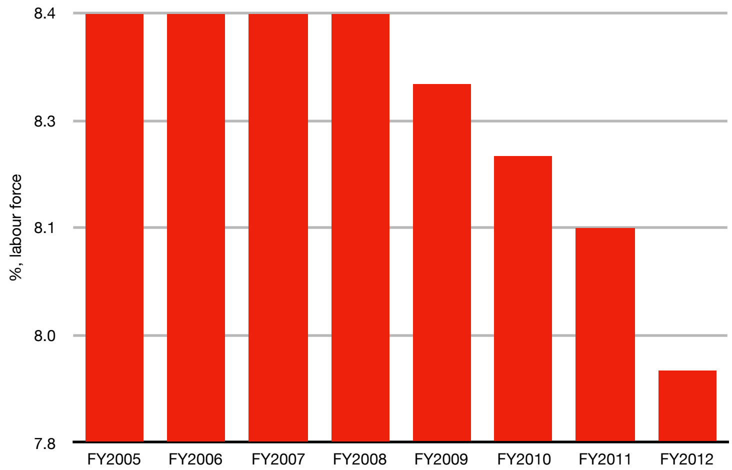
CPI inflation



Source: IMF, World Economic Outlook database, October 2018

The unemployment rate in Oman increased to 17.5% in 2016 from 17.3% in 2015. Unofficial estimates put the rate among Omani nationals at 15%-20% and at more than 25% among 18- to 29-year-olds (chart 8). The contraction in oil output is likely to lead to job losses among oil rig workers. The government has set out a policy of "Omanisation" to ensure nationals secure jobs currently being taken by expatriate workers. Its economic development plan to 2020 has set a target of Omanisation at 95% in the public sector and 75% in the private sector. However the latest figures from the National Centre for Statistics and Information show that while Omanisation in the public sector was 85% in 2015 it was just 13% in the private sector. There were protests over unemployment in the aftermath of the 2011 Arab Spring protests and there will be concerns that a failure to address the problem will raise risks of a repeat.

Unemployment rate



Source: IMF, World Economic Outlook database, October 2018

The outlook will be determined by Oman's ability to respond to the fall in oil prices, in common with other Gulf oil-producing countries. The economy posted a sharp slowdown from around 3.3% to 1.8% between 2015 and 2016. That is likely to flow into 2017 as the government cuts spending and raises taxes. The outlook is for weaker growth rates through to 2019 as the economy adjusts from its reliance on oil-related activity and focuses on diversification. The austerity that is necessary to reduce its deficits and restore its credit rating will also crimp growth in the immediate period. The latest IMF forecasts show that while oil-based growth will slow to below 2% by 2020 from recent averages of 4%-5%, growth in non-hydrocarbon activities is forecast to slow slightly from 6.5% to 5.0%. Overall the economy is set for only mediocre growth. The government has set out an ambitious investment programme aimed at improving transport and logistical hubs as well as underpinning growth in tourism and other service sectors. While there are risks associated with the oil price fall and the government's response, the economy has considerable strengths. Oman has relatively low levels of government indebtedness, which was less than 5% of GDP in 2014, at the onset of the oil price shock. Even if the debt burden to rise to 26% of GDP by the end of 2016 and reaches 42% of GDP by 2020, Moody's believes this will be a manageable level relative to similarly rated peers. In addition, the government has access to financial buffers in the form of sovereign wealth fund assets. Continuing to build on current efforts to enhance the business climate could improve future growth prospects further. The low level of debt will allow the government to deal with the scale of the deficits incurred since 2014.

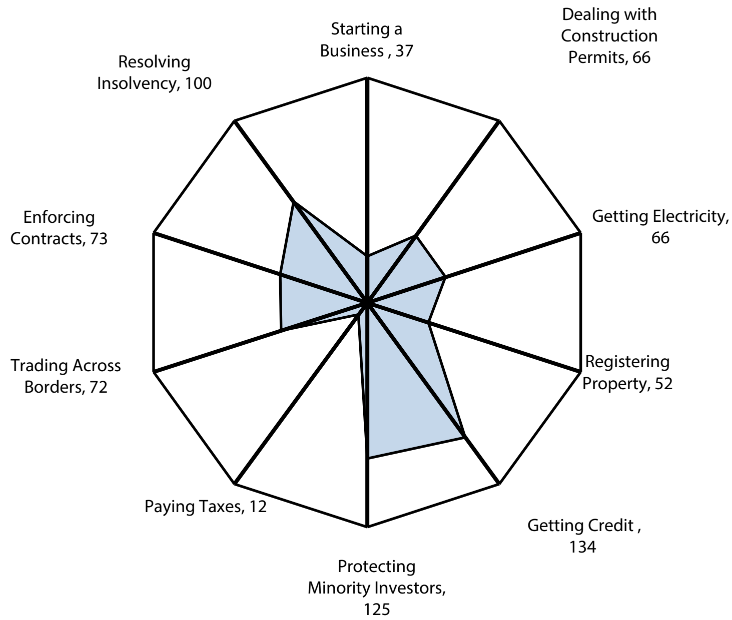
The primary risk from the fall in oil prices is to Oman's budgetary and external position in the wake of a 67% fall in oil revenues in 2016. The downgrade to junk status of its sovereign bonds by S&P was a harsh reminder of the economic realities facing the Sultanate. It is more exposed than many GCC neighbours because of its high breakeven price. The concern is that external buffers have weakened to the extent that they are no longer large enough to offset the risk from the volatile export revenue base. While it has adequate reserves to cope with a decline in tax and export revenues, its 2016 budget was based on an assumption of an oil price of US$ 45 a barrel compared with a low of US$ 27 seen in January 2016. However the subsequent recovery to US$ 50 a barrel has put the public finances on a firmer footing and the 2016 and 2017 budget were based on US$ 45 a barrel. If prices fall back, Oman will certainly rack up large fiscal deficits over the coming years as it presses ahead with its investment programme. However further oil price rises are more likely. The shortfall in external revenues will also turn a former current account surplus into a deficit. While Oman is likely to narrow its deficits from around 10% in 2017 to 6% by 2020, the shortfalls will lead to an accumulation of debt of close to 50% of GDP by 2020. Declining net asset position could turn into a deficit by that year. Oman has accepted the need to cut subsidies, trim its burgeoning public wage bill and make cuts in expenditure to avoid eating further into financial reserves. The risk is that the challenge of implementing the reforms will turn out harder than perceived when the authorities embarked on the plan. However if they stick to the plan, the sustained impact of these measures, combined with the planned increase in corporate income tax from 2017 and the introduction of VAT in 2018, should narrow the fiscal deficit over the medium-term. Oman suffers from high unemployment, especially among the young. Slow progress on the government's Omanisation programme may be due to a skills mismatch between many Omani workers in the private sector, and the more attractive pay and conditions that Omanis enjoy working in the public sector. Sultan Qabous remains the only ruler of a Gulf state without children or a designated heir, which raises a risk of unrest during any succession process.

Oman is a stable country, albeit run in a highly authoritarian and centralised fashion. In the very short term, the austerity programme will impact businesses seeking government contracts within Oman but planned privatisation of certain government activities may result in increased business opportunities. Generally, a non-Omani national who wants to set up a business in Oman or take a stake in an Omani company must obtain a licence from the Ministry of Commerce and Industry. A non-Omani cannot generally own more than 70% of a company. However the US-Omani Free Trade Agreement allows companies to own 100% of a business in Oman without a local partner. The government has pressed ahead with an increase in Corporation Tax to 15% from 12% but has spared manufacturing and some free trade zones from the abolition of almost all tax exemptions. A reform of the Foreign Capital Investment Law will enshrine the right of foreign investors but also addresses various shortcomings.

Doing business can be difficult as the business climate is marked by significant administrative obstacles, while bureaucracy can be complex and lead to delays. The World Bank's 2017 Doing Business Report ranks it at 66 out of its 190 countries. This was an improvement from its adjusted ranking of 69 in the 2016 report. It scores worst on measures such as starting a business (159, down from 149) and protecting minority interests (112). There are substantial delays for entrepreneurs wishing to obtain official approvals. Oman ranked 64 out of 176 countries in Transparency International's 2016 Corruption Perceptions Index, slightly down from 60 out of 175 in 2015 putting just ahead of UAE as the best performer in the MENA region. In January 2014, Oman joined over 120 other countries by acceding to the United Nations Convention Against Corruption.

- Start a business: 6.0 days (0.5)
- Obtain construction permits: 157 days (93)
- Gain electricity supply: 62 days (58)

Doing business in Oman



Source: World Bank, Doing Business Report, 2019
Rank 190 bottom, Rank 1 top of scale

CHALLENGES TO INDUSTRY

While both the public and private healthcare and pharmaceutical sectors have demonstrated considerable growth and opportunities for future expansion, there are some challenges facing the industry moving forward.

With no national health insurance plan, the expenses of the public healthcare system lie almost completely in the hands of the government, perpetuating reliance on state provisions and straining the government budget. This dominance has slowed the development of the private sector, putting a sense of pressure and urgency into attracting healthcare and pharmaceutical investors in the medium term. PPPs have become an attractive option for the industry, however, with domestic financial institutions still in relative turmoil due to ongoing economic tension as a result of low oil prices, investors may find it hard to achieve loans and funding for new projects in the near term.

The lack of local pharmaceutical production facilities may offer some opportunities to both manufacturers and importers; but with the government being the single biggest buyer, its preference for generics will prevent multi-nationals from fully capitalising on the market. Furthermore, the reliance on imports has pushed up prices for expatriate consumers, who are not eligible for free prescriptions, or those with a preference for branded products. Bahrain's easy accessibility from nearby drug production facilities in Egypt, Jordan, Saudi Arabia and India and its historical preference for importing consumable goods may deter any potential investors, especially given Oman's small population whose levels of demand may not warrant large scale investments.

The lack of indigenous human resources in the healthcare and pharmaceutical fields also hinder growth in the industry as both government-owned and private facilities find it difficult to secure a strong and stable staff. Though expatriate physicians may be preferred for their level of expertise, healthcare establishments incur high salary costs, as well as having to dedicate time and resources to engage in international recruitment. A deficit in indigenous pharmacy graduates will also make it difficult for pharmaceutical investors to set up high-tech plants and their research and development capabilities will be limited.

Finally, Oman's political climate could pose as a deterrent for potential investors and multinationals in the medium-term. Oman's well-loved ruler, Sultan Qaboos bin Said al Said, is 77 and rumoured to be ill. As he has not publicly named an heir upon his death, the question of succession could weigh heavily on investors when it comes to embarking on large-scale, long-term projects.

SWOT CHART

Strengths	Weaknesses
• Significant government investments to the sector in recent decades has resulted in a strong and dynamic healthcare industry and infrastructure network. • Oman's business environment is highly favourable, attracting both foreign direct investment and expatriate professionals to the country. • Due to increasing life expectancy rates and a relatively large elderly population, demand for healthcare services is expected to increase dramatically in the near-term. • The country's large and growing urban and youth populations are relatively well educated and informed when it comes to personal health care practices and products.	• The healthcare industry is dominated by the government, which offers free services to the indigenous majority, limiting private participation in the field. • Oman's low level of domestic manufacturing has made both the pharmaceutical and medical devices industries wholly reliant on imports. This has driven up prices for consumers, limiting demand. • The healthcare system lacks indigenous medical human resources. Physicians from abroad often mean higher salaries must be paid and generate higher rates of turnover. • The opportunity for prescriptions to be filled free-of-charge when patients choose generic versions of drugs has limited growth in the pharmaceuticals sector.

Opportunities	Threats
• Low levels of local production of medical devices (both electronic and consumable) will continue to provide opportunities for manufacturers and importers of such products, especially given the planned growth of both public and private facilities. • The Omani government is eager to encourage private investment in the healthcare and pharmaceuticals industry. Medical tourism is on the increase, with a large project initiated by the government to be split between private and public services. • Increased instances of chronic and non-communicable lifestyle diseases within the domestic population signals opportunities for private-sector speciality clinics specializing in long-term treatment for chronic issues such as diabetes and heart disease. • Generic pharmaceutical manufacturers will find opportunities to work with public healthcare providers given the government's preference for these products.	• Economic stagnation in response to years of low oil prices has limited available government investment to the sector, resulting in a number of large-scale projects on hold. • The prominence of existing large-scale branded and multi-national pharmaceutical production facilities in the region may deter the creation of any in Oman, given its small market size and its easy accessibility for exporters. • Skyrocketing government health expenditures as a result of a rise in population and chronic disease diagnosis has further limited available government investment to the sector. • The question of political succession could deter private sector investors looking to invest in more stable markets in the medium-term.

PROJECTIONS

Economic Projections

	2019	2020	2021	2022	2023
Nominal GDP (US $ bn)	76.5	78.5	81.0	83.8	85.7
Real GDP growth (%)	2.7	3.1	3.5	3.7	3.8
GDP per capita (US$)	18,554	19,055	19,646	20,867	22,027
Population (mn)	4.74	4.83	4.90	5.29	5.70

Source: Noozz

Industry Projections

	2019	2020	2021	2022	2023
Public Healthcare Spending (% of GDP)	2.9	3.2	3.5	4.0	4.2
Healthcare Spending (US$ bn)	3.1	3.4	3.8	4.2	4.5
Pharmaceutical Import Spending (US$ mn)	322.4	327.8	335.4	344.2	356.7

Source: Noozz

NEEDS ASSESSMENT

• The Omani government should actively implement a more comprehensive and enforceable national health insurance policy to help reduce the burden of healthcare costs, while encouraging the growth of the private sector without limiting the state-provided services that the population has become accustomed to.

• Healthcare establishments should be aware of the low levels of indigenous human resources and the costs associated with foreign recruitment.

• Pharmaceutical companies should assess their chances of success in competition against generic manufacturers, especially if a proposed free trade agreement between the GCC and India is implemented.

• In an effort to curb rising health expenditure, the government should continue to educate the population on the value of preventative care and the risks associated with inter-familial and inter-tribal marriages.

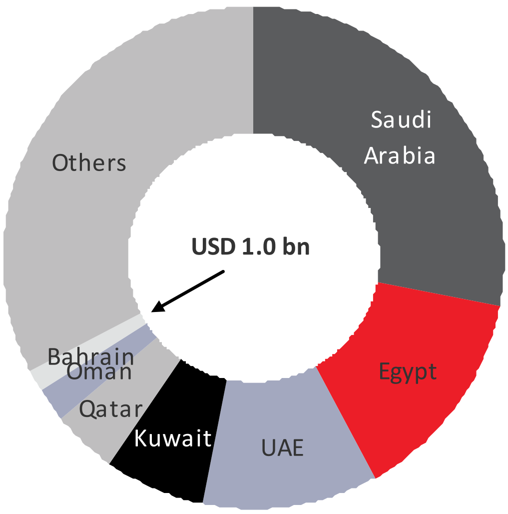
• Both multinational and domestic manufacturers should consider entry into the medical device market. With little regional competition, increasing demand for medical devices of all kinds, and relaxed foreign participation laws, Oman has the potential to be a medical device production hub for both the GCC and MENA regions.

• While the population is already relatively well educated on issues related to personal health, campaigns touting the benefits of pharmaceuticals and OTC medications over herbal pseudo-pharmaceuticals would further increase awareness and demand for branded and generic pharmaceuticals and OTC drugs.

MENA-WIDE OVERVIEW

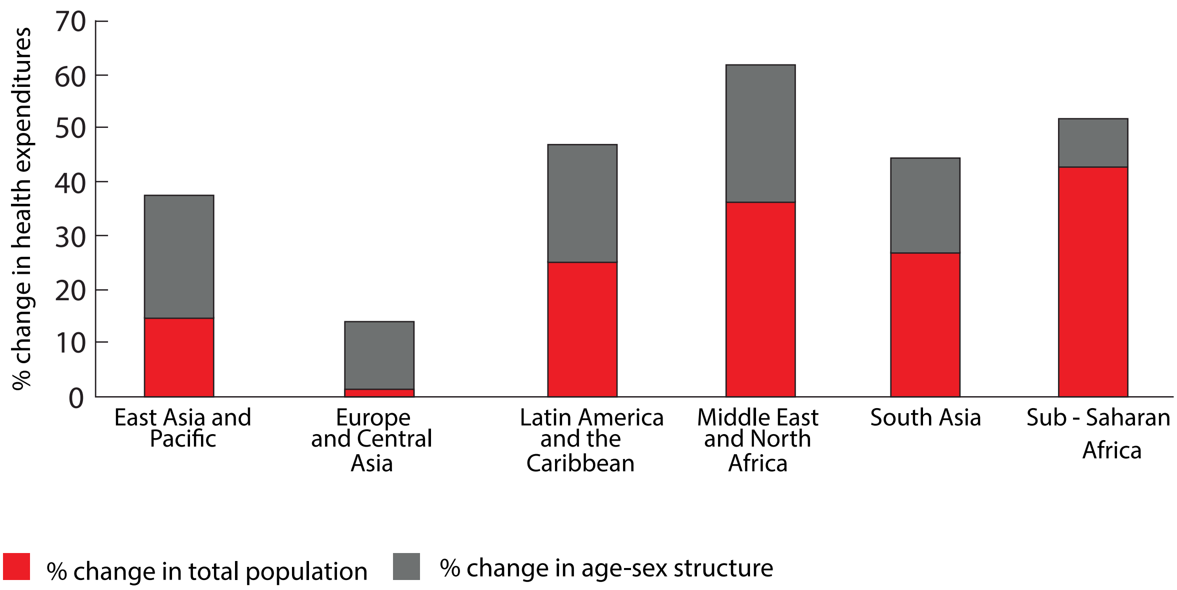
The value of the GCC's healthcare market has grown steadily in recent years and there is little sign that any slowdown is on the horizon. The industry is forecast to be worth US$ 71.3 bn by 2020, and the GCC healthcare sector is expected to record a 12.1% compound annual growth rate (CAGR) between 2015 and 2020, on the back of a 10.3% CAGR between 2008 and 2013. The trend towards universal healthcare is likely to be a growth driver in numerous markets. However, the pressure to reduce costs, increase efficiency, and demonstrate value will continue to intensify.

Healthcare Market



Source : WHO

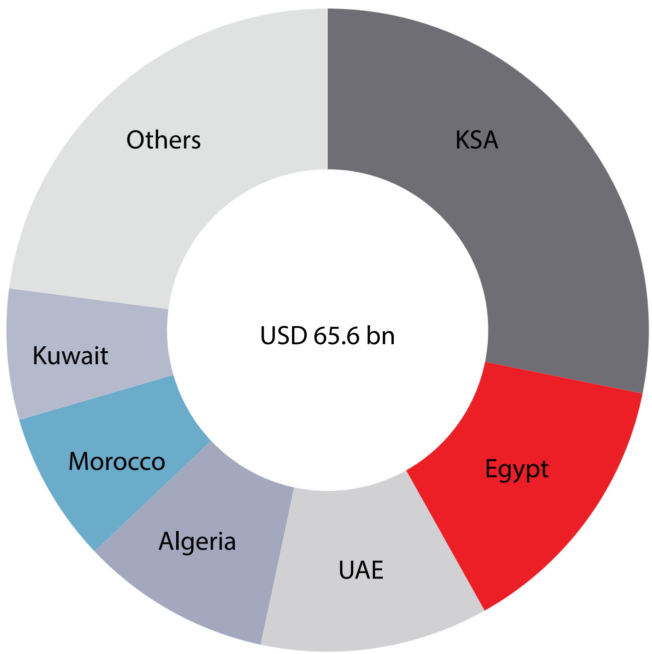
Impact of Demographic Change on Health Spending



Source : World Bank

The healthcare needs in the region are likely to increase significantly in the medium and long-term, led by a growing and ageing population. GCC population growth (4.4 percent per annum on average over the last ten years) and rising costs are key factors driving growth in investment. As per the World Bank estimates for the 10-year period between 2010–2020, the elderly population (defined as people over 65 years of age) in the MENA region is likely to witness the quickest growth of 4.1% annually, much higher than that in Asia and the Pacific (3.9%), Latin America and the Caribbean (3.3%), Sub-Saharan Africa (3.1%), and Europe and Central Asia (1.4%). The rise in the elderly population translates into more business for healthcare providers, as the elderly generally have more costly health profiles. The average life expectancy in the GCC states is now approaching 77 years, above the global average and in line with other affluent countries.

Size of MENA Healthcare Markets



Source : WHO, IMF, PRB, World Bank, Al Masah Capital Research

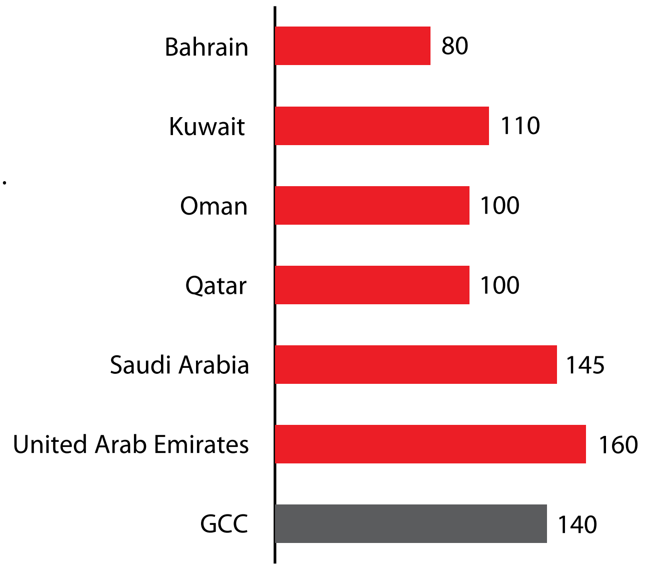
A rise in conditions linked to sedentary lifestyles and modern diets, particularly cardiovascular disease and diabetes, is boosting demand for healthcare services, while pushing up costs. Incidence of Type 2 diabetes, particularly within GCC region, has been found to be unusually high relative to the rest of the world. According to the WHO, one in three adults in Saudi Arabia is obese, and one out of five people live with diabetes.

As a result of this positive outlook for growth, investors are active in the sector and there has been an increase in investment activity. Recent deals include Aster DM Healthcare's purchase of a 57 percent stake in Sanad Hospital in Riyadh for US$ 245.1 mn; South Africa-based Mediclinic International's acquisition of Al Noor Hospitals Group for US$ 2.2 bn in 2016; NMC Health's acquisition of four healthcare companies in the UAE since 2015, including the fertility clinic Fakih IVF, which it acquired for US$ 189.5 mn. Private equity firms also are taking the sector seriously. Dubai-based Amanat Holdings announced in 2017 that it had acquired a 13.18% stake in International Medical Company for US$ 96.97 mn, its second healthcare investment in Saudi Arabia following the purchase of a 35% beneficial interest in Sukoon International Holding for US$ 47.75 mn in August 2015.

The region's high projected growth rate is partly because of relatively low levels of investment currently. At just 4.9% of GDP, Bahrain's spending on healthcare is the highest in the GCC, with Saudi Arabia and the UAE spending only

3.2%. Globally, the average is 10% of GDP. Across the GCC, only Qatar spends more than US$ 2,000 per head annually on healthcare, with the average annual spend across the GCC at US$ 994 per head. Although this is close to the global average of US$ 1,038 annually, it is well behind the US average of US$ 8,803 per head. Significantly, GCC governments fund about 70.3% of total spending on healthcare in their countries, well above the global figure of 60%, It is this high proportion of government expenditure, at a time of lower oil prices, coupled with the projected growth in spending that is prompting governments to reassess how healthcare services are provided. The demand for hospital beds in the GCC region is projected to grow at a 2.3% CAGR, from an estimated 101,797 in 2015 to 113,925 in 2020

Growth in Demand for Hospital Beds



Source : McKinsey & Company

The GCC states have introduced initiatives such as soft loans and land grants to encourage private sector involvement. There are several mega projects under development, which, once completed, are likely to boost the region's health infrastructure. Mandatory health insurance for expatriates is expected to reduce healthcare costs, especially for governments. Dubai has been leading the way, introducing universal healthcare insurance for foreigner residents in January 2014. According to Dubai Health Authority, more than 98% of residents, or about 4 million people, are now registered under the mandatory health insurance scheme. Under the programme, sponsors of foreign workers earning less than US$ 1,090 per month are legally obliged to provide a minimum-standard insurance package dubbed the 'Essential Benefit Plan'. The benefit has now also been extended to include workers' family members. Mandatory health insurance is likely to add impetus to the healthcare industry's growth by ensuring at least basic cover for residents who previously may have avoided seeking treatment except in emergencies.

Saudi Arabia has the largest healthcare market in the MENA region but the Kuwaiti government is a regional leader when it comes to public spending, accounting for up to 82% of total expenditure. However, despite having the highest per capita incomes in the region, GCC government healthcare spending is generally high. The North African and Levantine states, with the exception of Lebanon, are plagued with a poorer quality of service, though generally, their provisions of hospital beds and physicians are at the top of the table while GCC state provisions remain mixed. Kuwait has one of the highest numbers of physicians per person in both the GCC and MENA region with 2.8 doctors per 1,000, whereas the UAE enjoys a relatively high rate of 2.5. The highest figure in the region is Qatar with over 6 doctors per 1,000, while Bahrain lags behind regional averages with just 1.7 doctors per 1,000.

Due to its high level of government spending, Kuwait's private healthcare sector has not developed as much as

Saudi Arabia and the UAE, where populations are higher and do not rely as heavily upon free healthcare provisions, despite similar or lower per capita wealth levels. The GCC governments as a whole provide an average of 70% of healthcare spending, though the UAE have led the way in terms of public-private partnerships to take the burden off of the state. In Egypt, more than 60% of patients opt for private treatment due to the poor standards of public hospitals. This has led to strong development across the spectrum of private facilities, from low-cost general practitioners, to expensive general hospitals, despite considerably lower numbers of expatriate residents.

While investment prospects are strong, particularly in the GCC market, the costs of construction and hiring pose an obstacle to rapid growth. In addition to the cost of acquiring and building, medical professionals are among some of the most highly paid employees. The small GCC talent pool also means experts are often brought in from abroad, adding expenses such as repatriation costs and school and housing allowances. However, Efforts are underway to create more training regionally, with Dubai recently announcing the establishment of the Mohammed Bin Rashid University of Medicine and Health Sciences. Nevertheless, expatriates account for the vast majority of physicians and are likely to do so for the long term. Competition to hire staff is only likely to intensify and drive up salaries, especially as new hospitals and clinics come online in the region.

Saudi Arabia's pharmaceutical market is the biggest in the MENA region thanks to its affluent population, while the United Arab Emirates ranks in second with its market estimated to reach nearly US$ 3 bn in 2015. Qatar's pharmaceutical market is comparatively small, due to its small population, and higher health statistics. However, in terms of manufacturing, Egypt is the largest pharmaceutical producer with a 30% share of the supply in regional markets. While Kuwait relies on imports of both high-value and generic drugs, Egypt's local production of both branded and generic drugs covers about 93% of the local market, meaning prices are often lower when compared to the rest of the region.

Built on a solid foundation, the Omani healthcare and pharmaceutical industry continues to operate at a high level despite challenges related to rising costs, diminished investment and a heavy reliance on foreign medical expertise and imported medicines and equipment. Exciting investment opportunities exist within the areas of local pharmaceutical and medical device production, human resource development and medical tourism, although investors should be aware of competition from other GCC countries looking to embark on similar economic diversification programmes. Looking ahead, so long as the government is able balance its ambitious infrastructure development schedule with rising healthcare costs while continuing to implement Health Vision 2050 initiatives, opportunities abound for private sector players looking to enter the market.