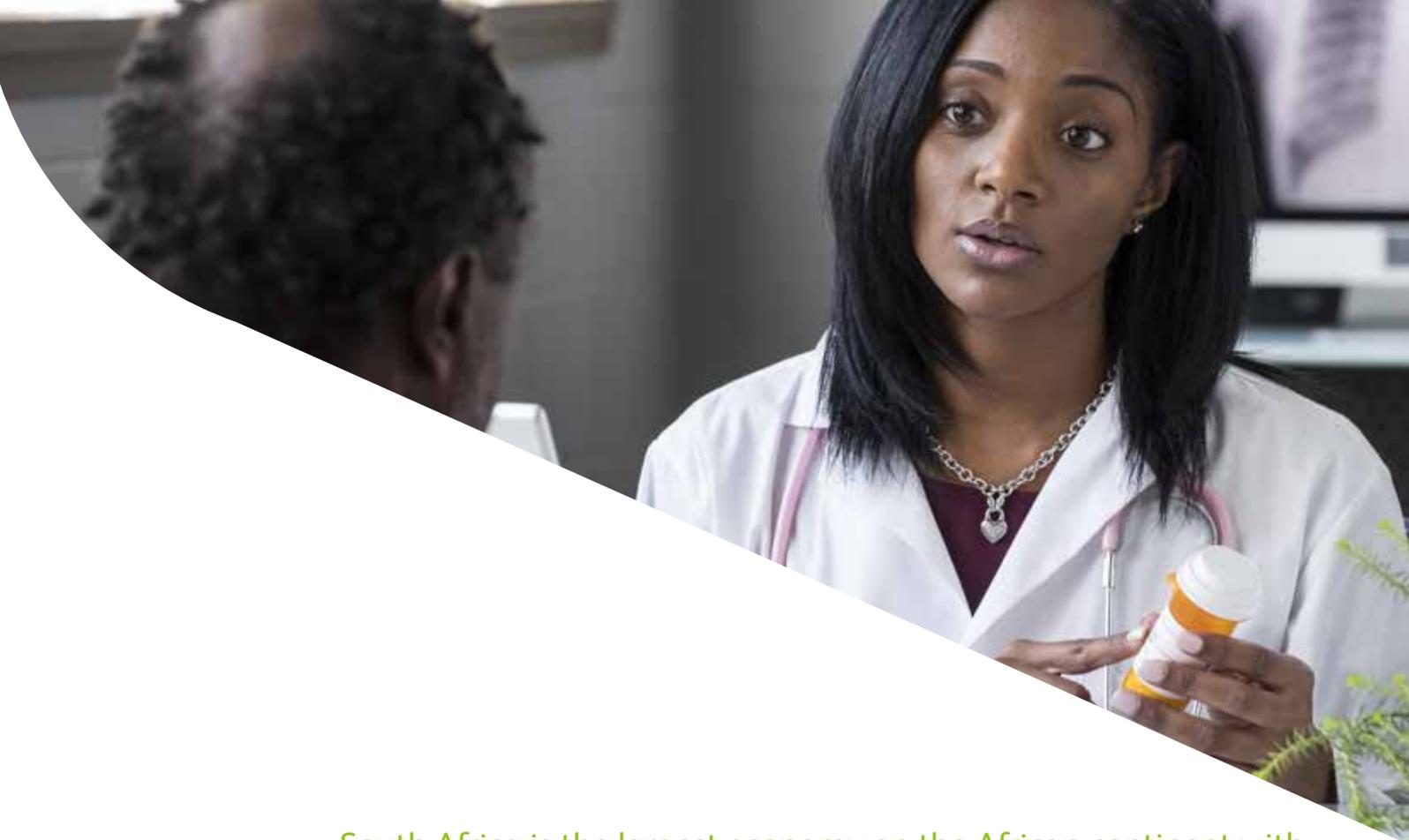


Industry Insights: **South Africa Healthcare Market Overview**



South Africa is the largest economy on the African continent with a population of 56.4mn in the emerging world markets. However, economic growth has slowed in recent times due to low global commodity prices and the wavering mining sector. Nevertheless, the economy is showing some signs of regaining traction and this will improve the outlook for the healthcare sector.

Achieving universal health coverage remains a government priority. The implementation of the National Health Insurance will be gradual and will boost the public sector's contribution. Delivery challenges will necessitate effective private sector engagement and the establishment of PPPs for healthcare.

Healthcare Sector

South Africa currently runs a two-tiered healthcare system, comprising of the public and the smaller, rapidly -growing private sector. The country spent 9% of its GDP on healthcare in 2017, which is 4% higher than the WHO's recommended spending for a country of its socioeconomic status. Despite this high expenditure, health outcomes are still trailing in comparison with similar middle-income countries, mostly due to the inequities between the public and private sectors. To eliminate this inequality, the government is in the process of implementing National Health Insurance (NHI) to establish universal healthcare. This coverage will provide the population with required healthcare and financial protection to all citizens.

The NHI seeks to establish a fund – the National Health Insurance Fund – to act as a public entity governed by the Public Finance Management

Act. The fund will be a single public purchaser and financier of health services in the country, to ensure “equitable and fair distribution” and will be a mandatory pre-payment health services system.

Government Healthcare Provision

Provision of healthcare infrastructure and services by the state is largely skewed towards provinces with weak economies and the lesser gross state product per capita - such as those of the Eastern Cape, Limpopo, KwaZulu-Natal and Mpumalanga. The national health insurance project remains a priority. The NHI is being reformed to establish a compulsory medical scheme for the nation that will be rolled out in three phases by 2025 across each district.

The Department of Health (DoH) will oversee the distribution of healthcare resources and personnel. The public sector's contribution is expected to increase from 44% of total health

Healthcare Resources (South Africa 2012-2016)	2012	2013	2014	2015	2016
Total Hospitals	687	694	701	708	715
Public Hospitals	418	422	426	430	435
Private Hospitals	269	272	274	277	280
Hospitals beds	131,929	133,246	134,575	135,918	137,274

Healthcare Personnel (South Africa 2012-2016)	2012	2013	2014	2015	2016
Total Physicians	38,444	39,445	41,132	42,323	43,425
Total Dentists	5,613	5,667	5,824	5,998	6,147
Total Pharmacists	12,998	13,401	13,364	13,479	13,878
Total Nurses	248,736	260,698	270,437	278,617	287,458

Healthcare Activity (South Africa 2012-2016)	2012	2013	2014	2015	2016
Public inpatient admissions, '000	4,861.40	4,987.70	5,117.28	5,250.23	5,386.63
Hospitals, average length of stay, days	4.0	4.0	4.0	4.0	4.0
Surgical procedures, '000	1,458.42	1,496.31	1,535.18	1,575.07	1,615.99
Outpatient visits, '000	162,046.74	166,256.72	170,576.07	175,007.63	179,554.33

spending at ZAR175bn (USD13.1bn) in 2017 to 52% at ZAR418.2bn (USD24.4bn) by 2027. There are concerns over the private healthcare sector. Allocations for implementing South Africa's NHIS are set to rise from ZAR700mn (USD60.3mn) in FY2018-19 to ZAR1.4bn (USD0.1bn) in FY2019-20. These will be funded through an amendment to the medical tax credit. The extra funding will finance increased personnel costs, including contracting with GPs and providing school optometry and audiology services, as well as an expansion of the chronic disease medication distribution programme.

Private Healthcare Provision

The three provinces with the highest gross state product - Gauteng, KwaZulu-Natal and the Western Cape - boast the highest number of private hospitals and have attracted the most investment from private healthcare providers. KwaZulu-Natal continues to attract high levels of public healthcare investment to combat the rise of HIV/ AIDS, cholera and malaria. Gauteng, the wealthiest province, on the other hand has one of the lowest numbers of public hospitals.

There are around 215 private hospitals in South Africa, with the three main private hospital operators all listed on the JSE South African Securities exchange: Life Healthcare, Mediclinic and Netcare. According to the Competition Commission's Healthcare Market Inquiry released in July 2018, South Africa's private healthcare sector is characterised by high and rising healthcare

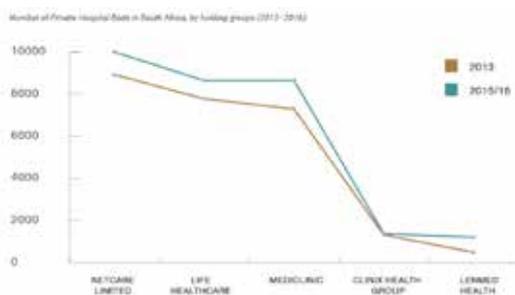
costs, a general absence of value-based purchasing, ineffective constraints on rising volumes of care, and limited regulation at many levels.

Market Forecast

South Africa continues to pursue universal healthcare coverage, with the implementation of its new intellectual property policy covering public healthcare. While efforts are being made to improve the health of the population, South Africa's healthcare system is still emerging in key aspects that will limit commercial rewards for pharmaceutical companies and private healthcare providers over the coming years. This is especially so as the government focuses on addressing basic services, while containing costs.

Latest Updates

- In August 2018, South Africa's Department of Health announced that the new National Health Insurance (NHI) plan will guarantee the provision of quality healthcare for more than 60% of the population unable to afford medical coverage.
- South Africa's Department of Trade and Industry (DTI) recently published its Intellectual Property Policy (IP) of the Republic of South Africa, Phase I, covering intellectual property and public healthcare.



f = Fitch Solutions' forecast. Source: World Health Organization (WHO), Fitch Solutions

Structural Trends

In 2017, healthcare spending was valued at ZAR 414.5bn (USD 31.1bn), rising by 7.5% in local currency terms (22.5% in USD terms) to ZAR 392.0bn (USD 29.5bn) in 2018. This equates to USD 519 per capita and 8.4% of GDP. Over a five-year period, market to increase by a compound annual growth rate (CAGR) of 7.4% in local currency terms (4.7% in USD terms) to reach a value of ZAR 560.6bn (USD 37.0bn) by 2022.

Market Overview

South Africa's pharmaceutical market is the single largest on the African continent. Its pharmaceutical spending per capita is high for an African country - at USD 57 in 2017. South Africa's total pharmaceutical expenditure is set to increase from

ZAR 43.3bn (USD 3.2bn) in 2017 to ZAR 45.4bn (USD 3.4bn) in 2018, equating to growth of 4.8% and 5.6% in local currency and US dollar terms respectively. Total pharmaceutical expenditure was equivalent to 0.9% of GDP and 11.1% of total healthcare expenditure in 2017.

South Africa's pharmaceutical market is dominated by prescription drug spending, including patented and generic drug expenditure, which accounts for approximately 88.3% of the total market. Over-the-counter (OTC) medicine spending represents the remainder of 11.5%. Of the three sub-divisions, patented medicines represent the largest single segment of the total market by value, at approximately 52.8% in 2017, followed by generic drug spending with 35.5% of total medicines spending.

