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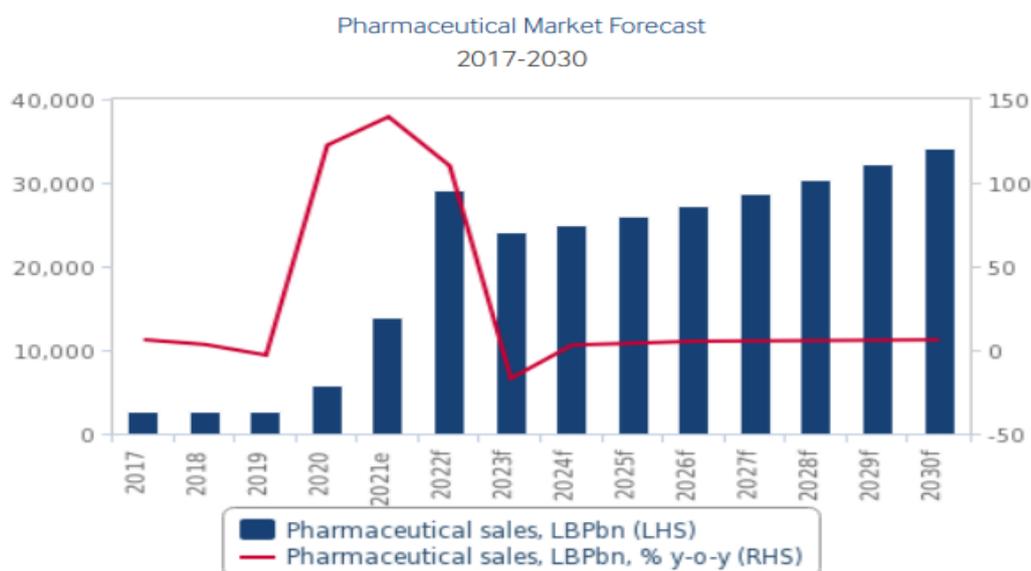
Note This spotlight is largely based on the following reports by Fitch:

- *Fitch Lebanon Pharmaceutical Market Forecast - 17 Nov 2021*
- *Fitch Cuts to Medicine Subsidies Will See Prices Soar In Lebanon - 06 Dec 2021*
- *Lebanon Pharmaceuticals & Healthcare Report*

The significant depreciation of the Lebanese pound over the last 2 years has impacted multi sectors in Lebanon; of which is the pharmaceutical market. The worsening economic conditions and drop in foreign currency reserves made it harder to sustain any subsidy on primary products or medicine after Central Bank had subsidised essential goods starting September 2019 from its FX reserves stock. In efforts to slow the depletion of foreign reserves, after it dropped from USD 31bn in August 2019 to USD 13.4 bn in mid-November 2021, BDL had to scale back the subsidy scheme on most products.

Pharmaceutical Market Forecast

Figure below depicts the sales of pharmaceuticals and its year on year change over past years and a forecast for the next 10 years.



The additional cuts to medical subsidies took place in November 2021, shrank from USD 120mn to only USD 35mn per month, leaving the highest share of subsidies for medication of chronic and terminal diseases. In addition to the depletion of foreign reserves, we observe a jump in inflation over years 2021 and 2022; which will most probably impact revenues negatively. In details, the ongoing depreciation of the currency on the parallel market will push prices of traded goods even higher, thus driving inflation to a triple digit average over the course of 2022; expecting an average inflation of 147% in 2021 and 167% by year 2022, according to Fitch. As such, revenue losses were expected to reach importers, and consequently lead to the depletion of medicine supplies across all pharmacies, and to push prices of non-subsidized medicines even higher, leaving Lebanon's healthcare system at risk.

In November 2021, Ministry of Health announced that subsidies for drugs used for chronic illnesses would be categorized in 3 different tiers, with the highest cost drugs retaining 65% of the subsidy.

It is worth mentioning that Lebanon's pharmaceutical sales represented 4.7% of GDP and 31.9% of healthcare expenditure in 2021; however, the rising inflationary pressures and further weaknesses in Lebanese pounds are adding pressure on the pharmaceutical sector; noting that pharmaceutical sales in 2020 measured LBP 2.42trn (USD 1.60bn) and forecast sales to further rise to LBP13.90trn (USD1.05bn) in 2021 and to LBP29.21trn (USD974mn) in 2022. Fitch forecasts total medicine consumption to reach LBP27.33trn (USD1.08bn) by year 2026 increasing by 14.5% in local currency and by 0.6% in US dollars. Moreover, it projects the per capita spending on pharmaceutical goods to increase from USD155 in 2021 to USD170 by 2026

following the covid-19 outbreak and fiscal and external pressures; however, expecting a total expenditure increase by year 2030, equating to a 19.3% increase in local currency and -9.9% in US terms. As such, per the forecast above, pharmaceutical sales will represent 23.6% of healthcare expenditure, equivalent to 1.46% of GDP by year 2030.

We also note that Fitch estimates that the Lebanese pharmaceutical market is 95% reliant on finished imported products. However, this sector experienced lately a slow in imports considering its geographical location and trade relations with border countries, thus reducing the growth rate of the medicine market. Despite that, Lebanon's health sector was regarded as the most prominent and efficient sector over the Middle East region, highlighting Lebanon's high expenditure on pharmaceutical and healthcare. The reasons behind this high expenditure are the following:

- 90% of Lebanon's hospitals and pharmacies are privately owned; driving the prescription of high value pharmaceuticals.
- Lebanon's 50 plus pharmaceutical importers, keep relatively high priced drugs resulting in reduced competitiveness among distributors.
- Medical tourism is considered an important factor in Lebanon's economy, people seeking medical treatment as the main purpose of their visit, especially that Lebanon's health sector promoted high quality hospitalization services.

In addition, vaccine purchases will also push pharmaceutical spending figures of 2021 despite the severe medicine shortages. The purchase of Covid-19 vaccines will positively impact the pharmaceutical spending in 2021 following the parliament's approval of the new law to import covid-19 vaccines.

Healthcare Market Forecast

The economic crisis led to the disturbance of Lebanon's healthcare system, many healthcare staff had left the country and many citizens no longer can afford the costs of private hospitalization.

In February 2022, the Public Health, Labor and Social Affairs Committee, agreed on a proposal to raise the budget of the Ministry of Health by LBP500bn, in order to maintain the supply of medicines for cancer and other serious illnesses and to boost the number of healthcare staff. In fact, the intensifying economic problems will worsen the government's inability to pay public and private hospitals, something that will negatively impact their ability to provide certain health services. As such, healthcare spending in Lebanon was valued at LBP43.63trn (USD3.29trn), accounting for 14.7% of GDP in year 2021. This followed the fact that during the pandemic, healthcare capacity diminished; private hospitals in Lebanon only allocated up to 20 beds each, in addition to the lack of medical equipment, with only 250 of the 850 ventilators available to treat Covid-19 patients.

Furthermore, Fitch forecasts the market to grow by 105.7% in local currency but decline by 9.0% in US dollars due to soaring inflation, reaching LBP89.74trn (USD2.99bn) by 2022. By 2026, spending on healthcare is expected to reach a value of LBP125.91trn (USD4.96bn), following a local currency compound annual growth rate (CAGR) of 23.6% in local currency terms and 8.6% in US dollar terms. Over the same period, healthcare expenditure will fall from USD486 in 2021 to USD784 in 2026, and USD987 by 2031.

The table below shows expenditure forecasts for the pharmaceuticals and healthcare for years 2020 till 2026.

PHARMACEUTICALS & HEALTHCARE FORECASTS (LEBANON 2020-2026)							
Indicator	2020	2021e	2022f	2023f	2024f	2025f	2026f
Pharmaceutical sales, LBPbn	5,806.908	13,904.160	29,213.099	24,246.872	24,974.278	25,973.249	27,332.240
Pharmaceutical sales, LBP per capita	850,773.5	2,054,049.4	4,370,046.2	3,682,074.9	3,850,880.7	4,060,066.1	4,320,169.5
Pharmaceutical sales, USDbn	1.604	1.048	0.974	0.970	0.994	1.029	1.077
Pharmaceutical sales, USD per capita	235.0	154.8	145.7	147.3	153.3	160.8	170.3
Health spending, LBPbn	15,085.090	43,627.195	89,744.777	98,349.999	111,359.866	119,975.534	125,907.159
Health spending, USDbn	4.167	3.288	2.991	3.934	4.432	4.752	4.962
Pharmaceutical sales, % of GDP	4.81	4.70	3.65	2.10	1.75	1.56	1.49
Pharmaceutical sales, % of health expenditure	38.5	31.9	32.6	24.7	22.4	21.6	21.7

e/f = Fitch Solutions estimate/forecast. Source: WHO, national sources, Fitch Solutions

Market Analysis

From an economic overview, the government is bound to reach an agreement with the IMF for a rescue package for the whole country. This is explained by the crisis mode taking over the country and banking sector specifically; as it is unclear how the government alone will solve all the difficult issues relating to the crisis.

Politically, as elections are almost here in May, Fitch expects a rise in protests due to the elevating sectarian tension and political unrest. This review pushes down Lebanon's social stability score.

Worth mentioning that Fitch has conducted a SWOT analysis pointing out major strengths and weaknesses of the pharmaceutical sector.

➤ Strengths:

- Strong private healthcare sector, which could provide a firm foundation for overall market growth in the future.
- Relatively high drug prices, given that most generic drugs are of different brand varieties. This is also due to high retail margins.
- Promotion of generic substitution through continuous provider and patient education.

➤ Weaknesses:

- Lack of universal healthcare coverage, with the 'national insurance' heavily in debt.
- Healthcare infrastructure damaged by civil unrest and political stand-offs
- Intensifying inflationary pressures and currency weakness will impact multinational drugmaker revenues.
- The partial end to medicine subsidies will exacerbate extreme medicine shortages and increase prices.

➤ Opportunities:

- Potential for patented product sector growth, as healthcare system modernisation continues, but subject to a patient purchasing power increase.
- Government's desire to boost local production as a point of entry, especially for generic-based foreign firms willing to invest in Lebanon.
- More affordable drugs to boost volume consumption.
- Rising deployment of eHealth technologies is boosting healthcare efficiency in times of rising structural problems and increasing resource scarcity.
- Healthcare aid from China has provided much-needed medical equipment and supplies to assist with the country's Covid-19 response.
- Humanitarian interventions by international organizations will ensure adequate access to Covid-19 vaccines for most of the population

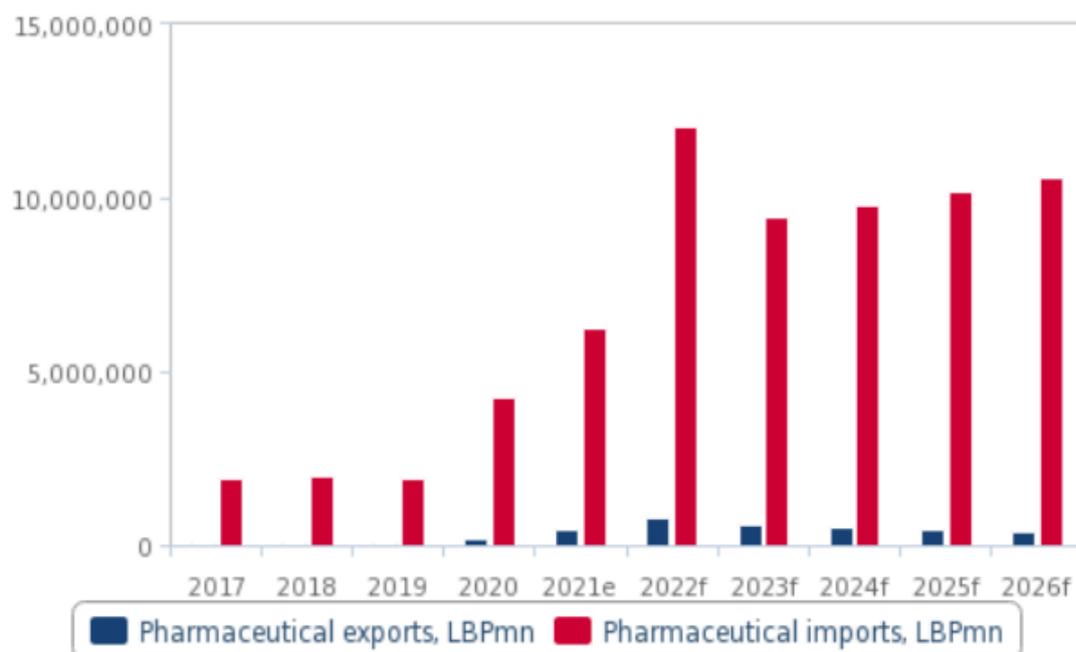
➤ Threats:

- Regional unrest negatively affecting revenues from medical tourism
- Extreme dollar shortages, soaring inflation and Covid-related lockdown measures have deeply impacted business activity and private consumption.
- Escalating economic crisis poses a risk to Lebanon's pharmaceutical market.
- Unstable political situation to continue deterring foreign company involvement.

International Trade in Pharmaceuticals

The outlook for Lebanon’s Pharmaceutical Trade Performance to 2025 maintains a moderate outlook for export growth, reflected by a widening trade balance, according to Fitch. However, as suppliers face difficulties in securing foreign currency and as the government fails to reimburse public and private hospitals, pharmaceutical imports have declined by 47.8% y-o-y in 2021. In 2022, imports are expected to rise by 92.0% in local currency terms to LBP12.04trn but decline 15.1% in US dollar terms to USD401.5mn. Furthermore, following a worsening inflation, we predict the trade deficit in US dollar terms to decline from USD439mn in 2021, to USD403mn by 2026. In local currency terms, this amounts to a trade deficit widening of LBP5.82trn in 2021, to LBP10.22trn by 2026. Noting that combined impact of the fiscal crisis and Covid-19, Lebanon's diminished capacity for pharmaceutical trade has automatically increased its reliance on regional partners for emergency aid relief.

Pharmaceutical Trade Forecast
2017-2026



In details, Lebanese customs show that Germany followed by France, US and Switzerland are the largest source of imports to the country. As such future import growth will be shaped by demand for modern, patent medicine and more generic products.

Moreover, Lebanon’s largest export partners include Iraq, the UAE, Saudi Arabia and Kuwait. Pharmaceutical exports reached a value of LBP452.34trn (USD34.1mn) in 2021 and we expect a rise of 80.4% in local currency terms (drop of 20.2% in US dollar terms), almost recording a value of LBP411.02trn (USD16.2mn) by year 2026. In fact, despite the health minister's position on expanding production and encourage local pharmaceutical production to improve the trade balance, it is worth noting that the operational pharmaceutical firms in Lebanon only cater for

about 6% of local demand. Moreover, there are few local producers and each operates under full capacity. Worse still, importers and pharmacists compete for the highest priced drug and not the lowest, so that they can sell them at higher margins. So local demand and sales are relatively low, standing in the way of diversification as Lebanon-made generic medicines are less capable of competing. We conclude that Lebanon is in need of government planning and endorsing financial incentives to promote the use of generic drugs, in addition to licensing or joint ventures with multinational firms for financial assistance, and improved trading relations with its neighbors.

Market Overview and Concluding Remarks

Lebanon's pharmaceutical market size is small, and calculated to have been worth LBP13.90trn (USD1.05bn) in 2021, This is equivalent to per capita spending of USD155 - substantially higher than regional spending for Arab Gulf Levant countries. Most of the market is accounted for by prescription medicines, which represent 85.4% of the total value.

Medical services are dominated by the private sector, which account for 80% of healthcare provision. However, the government subsidizes private medical bills, but plays a limited role in regulating healthcare. In fact, the Lebanese primary healthcare system is perceived to be failing to meet its full potential, and according to the WHO, this has resulted in an oversupply of beds and specialized doctors, but an undersupply of nurses. Below are interesting developments in 2021-2022:

Healthcare Sector Developments 2021

- In July 2021, the government of Lebanon announced it had received a shipment of medical aid from the French Ministry of Health, including 3 million face masks, 36 ventilators, and medicines, to help the Lebanese authorities combat Covid-19.
- In January 2021, the Ministry of Health announced the delivery of medical equipment, medicines, and sanitary supplies, from the Kuwait Red Crescent Society to assist with emergency Covid-19 relief.
- In January 2021, the head of the Lebanese Syndicate of Private Hospitals announced that oxygen supplies across several major health centres were close to depletion.

Healthcare Sector Developments 2022

- In February 2022, it was announced that the Alice Ramez Chagoury School of Nursing (ARCSON) had signed an agreement with UK-Med to provide training on health emergency preparedness for medical and paramedical students.
- In February 2022, the Public Health, Labor and Social Affairs Committee, agreed on a proposal to raise the budget of the Ministry of Health by LBP500bn, in order to maintain the supply of medicines for cancer and other serious illnesses and to boost the numbers healthcare staff.

- In January 2022, Health Minister, Firas Abiad, announced that Lebanon's health system collapsed due to the economic crisis leading to an exodus of thousands of healthcare staff and many citizens no longer able to afford private healthcare costs.

Moreover, other than the private funds -healthcare systems, the National Social Security Fund (NSSF) is Lebanon's national social insurance system, which provides employees with health insurance cover and retirement pensions. In addition to other public agencies and Ministry of public health.

Over the past years, the NSSF has been experiencing a deficit, translated to high expenditure and low contribution scheme, partly due to an ageing population. Some reforms have been proposed but significant change is needed to secure sustainable provision of healthcare.

In addition to domestic upheavals, political and social unrest across the Middle East is likely to have had a negative impact on the market's performance. In the future, the government has to increase its efforts towards improving Lebanon's medical situation, such as encouraging medical tourism given the country's experienced medical doctors, tourist friendly environment, and professional surgical operations.

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