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*The latest Business Monitor International (BMI) report on Pharmaceuticals and Healthcare in Lebanon continues to portray a **steady and moderate growth** outlook for the market; the growing **chronic disease** burden and the **high per capita spending on healthcare** continue to offer **support to pharmaceutical sales** in Lebanon.*

Healthcare spending in Lebanon is substantial with BMI revising its forecasts upwards. BMI estimates that healthcare spending will rise from \$4.14 billion in 2017 to \$4.32 billion in 2018. By 2022, BMI forecasts healthcare spending to reach \$5.10 billion, experiencing a compounded annual growth rate (CAGR) of 4.2%. Per capita health care expenditure is expected to rise from \$681 in 2017 to \$868 in 2022.

Lebanon's pharmaceutical sales will continue to grow in 2018. According to BMI's estimates, pharmaceutical sales are forecast to rise by an annual 4.9% from \$1.82 billion in 2017 to \$1.91 billion in 2018. By 2022, BMI expects total pharmaceutical sales to amount to \$2.32 billion which corresponds to a compound annual growth rate (CAGR) of 5.0%. According to BMI, Lebanon's pharmaceutical sales are expected to account for 3.5% of GDP and 44% of healthcare expenditure in 2018, broadly in line with 2017 levels. BMI projects per capita pharmaceutical spending to increase from \$299 in 2017 to \$395 in 2022, still one of the highest in the region.

Evolution of Lebanon's Pharmaceutical Sales

HEADLINE PHARMACEUTICALS & HEALTHCARE FORECASTS (LEBANON 2016-2022)							
Indicator	2016	2017	2018f	2019f	2020f	2021f	2022f
Pharmaceutical sales, USDbn	1.721	1.820	1.913	2.002	2.103	2.211	2.320
Pharmaceutical sales, % of GDP	3.42	3.54	3.50	3.49	3.48	3.48	3.46
Pharmaceutical sales, % of health expenditure	43.6	44.0	44.3	44.6	44.9	45.2	45.5
Health spending, USDbn	3.943	4.140	4.319	4.488	4.681	4.889	5.097

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

Source: BMI

BMI details major reasons why the healthcare and pharmaceutical spending in Lebanon is high. First, 90% of Lebanon's hospitals and pharmacies are privately owned and that motivates prescription of high-value pharmaceuticals. Second, the lack of consolidation among Lebanon's 50+ pharmaceutical importers and the presence of fixed mark-ups prevent any competitive pricing and the realization of economies of scale. Third, Lebanon is heavily reliant on imported pharmaceuticals and is therefore a price-taker in that regard.

Given the chronic deficit of the National Social Security Fund (NSSF), BMI estimates the government will try to alleviate its healthcare spending. Government expenditure on healthcare accounts for a sizeable 49% of total health expenditure and is expected to increase from \$2.04 billion in 2017 to \$2.50 billion by 2022. This is a particularly problematic issue as the ageing population is synonymous with lower contributions and a higher NSSF deficit. BMI notes that the "recent move to increase private sector contributions to the scheme could also lead to some individuals switching to private insurance programs" In fact, effective February 2017, the Employees' contributions to sickness and maternity increased from 2% to 3%, and the employer's contribution increased from 7% to 8%.

Cost-containment and raising awareness towards generic drugs pave the way for wider health coverage. BMI notes that the Lebanese Ministry of Health reduced the prices¹ of some drugs by up to 70% following its annual review, with an average price decrease of 30%, allowing for wider health coverage. The Ministry of Health also regularly publishes a list of generic substitutes; however consumers remain wary towards the use of generic substitutes, especially if doctors directly prescribed the patented version of the medicine.

The influx of Syrian refugees adds significant strain to Lebanon's healthcare system. BMI quotes a UN report dated July 2018 which highlights that the Lebanese Ministry of Health (MoH) received \$29 million in support of hospitals and healthcare centers in 2017, up from \$14 million in 2016 under the Lebanon Crisis Response Plan (a UN plan to ensure a proper humanitarian response to the influx of Syrian refugees).

¹ The Ministry of Health announced in July 2018 that it now registers drug prices electronically, that being part of a wider e-government framework

Several factors limit the growth of the Lebanese Pharmaceuticals and Healthcare sector. BMI cites the low purchasing power of much of the population and the nature of the regulatory environment are factors limiting the sector's short-term growth. In fact, Lebanon ranks poorly in terms of intellectual property rights, and regulations in place are poorly enforced, both factors that deter foreign direct investment. Add to that the unstable political and security landscapes in the region and that means the international operators are unlikely to invest in direct manufacturing in Lebanon and will continue to negotiate licensing agreements with local drug makers.

The respect of intellectual property rights is a major factor considered by multinational drug makers looking to launch a new drug on the market. According to the BMI, deficiencies in the intellectual property regime will preclude the prescription drug market from reaching its full potential, with foreign firms often reluctant to launch the latest medicines on the market. Multinationals are critical of the fact that Lebanese companies are allowed to register and market unauthorized copies of original innovative products, owing to the lack of effective data exclusivity and patent linkage systems. Some improvements in this area are likely over the coming years, at the behest of multinational drug makers and also due to the country's bid to join the WHO, despite its slow progress to date."

Nonetheless, the Lebanese Pharmaceuticals and Healthcare sector can also benefit from some interesting opportunities according to BMI. The first major opportunity is "boosting local production, particularly for generic-based foreign firms willing to invest in Lebanon." Moreover, making medicine more affordable has the potential to "improve both drug market values and volume".

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