

The Economic Bulletin

THE PHARMACEUTICAL
MARKET IN SPAIN

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Market evolution

Public Pharmaceutical Expenditure (pharmacies)

	Ago. 2013- Jul. 2014	Ago. 2012- Jul. 2013	% var. 2014/13
Exp. (€ Mill.) *	9.289,8	8.994,1	3,29%
Prescrip. (Millions)	864,5	846,0	2,19%
Av. Exp. per. prescription (€) *	10,75	10,63	1,08%

*VAT included)

As published in our last bulletin, the variation rate of public pharmaceutical expenditure in pharmacies accumulated to 12-months experienced a noticeable fall in July; it differed from a +4.2% in June, to +3.3% in July, a fall of almost 1% in just one month.

The reason behind this significant fall was not because of a contraction in the public market, but rather a statistical effect that brought about a change in the 12-month series ending July 2014; this grew in annual terms by +2.4% (as did the previous month), whereas, in the 12-month series on expenditure to July 2013, pharmaceutical expenditure grew by +13.7% in annual terms, hence this statistical effect causing a reduction in the 12-month rate by almost one percent in just one month.

Likewise, we should mention that pharmaceutical spending in August will probably suffer the same phenomenon, although to a lot lesser degree, and in another direction given that there are various factors indicating this.

Firstly, August (2014) is the month prior to the new Price Reference Order coming into force. Traditionally in the months prior to this happening, there is a temporary increase in expenditure whereby higher priced medicines are dispensed as much as possible before the new lower prices ones are fully established.

Secondly, in August 2013, pharmaceutical expenditure fell by -0.04% in annual variation rate. Therefore if August 2014 produces just a slight increase in annual expenditure terms, the statistical effect will be one of increase (albeit small and temporary) in the accumulated 12-month expenditure variation rate.

From September on, the new Reference Price Order will have a negative effect on the average price of prescriptions and for the last quarter, there will be continual falls in the public pharmaceutical expenditure rate, and, according to our latest estimates, we could see the year ending with a slight increase of less than +1%.

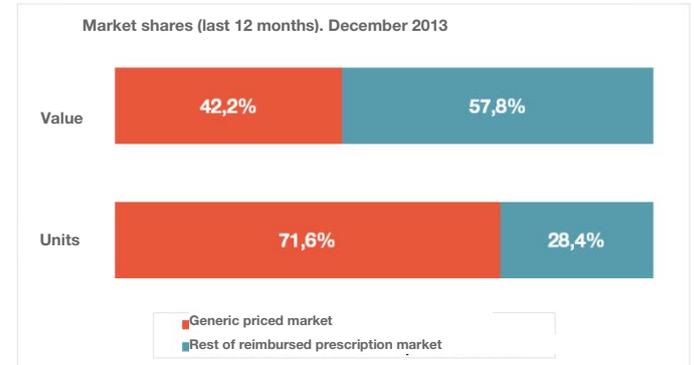


Fuente: MSSSI

When going into further detail regarding growth factors on expenditure in July, we can see that the variation of +3.3% on expenditure to 12-months is a consequence of an increase in the number of prescriptions by +2.2% and of an increase in the average cost per prescription of +1.1%.

Expenditure accumulated to 12-months in July was 3,432M€ lower than the highest recorded in May 2010, which reflects a fall in the market of -27.0%. (See previous chart.)

Finally, data from the IMS covering the 12-month period ending March 2014 shows the whole of the medicines market with generic prices reached 71.6% of the total prescription market in units in Spain, and 42.2% of said market value.



Source: Farmaindustria estimates from IMS

Note: prescription market net from rebates established in RDLs 8/2010 and 9/2011

Annual savings from the new Reference Pricing Order are close to 140M€, added to the 420M€ of savings made by the AAHH system over the last two years.

On 15th July the ministerial order SSI/1225/2014 came into force updating the Reference Price System. However, although pharma Co's were supplying the NHS with medicines with the new (lower) prices since the Price Reference Order (PRO) became effective, the pharmacies were still invoicing the NHS with the previous higher up until 31st August. Looking at it from this perspective, the "date" the RPO came into force where public pharmaceutical spending reductions are concerned is 1st September.

However, following the implementation of the Homogenous Groups System (AAHH in its Spanish acronyms) and the lower/lowest price in operation on all AAHH products, it is almost automatic that a drop in price of those products already belonging in the AAHH will occur when new generics come on the market.

This way, savings generated in the expired patent segment will be continuous over time as the effects of the reductions will spread to all products included in each homogenous group on a monthly basis.

Nevertheless, the updating of the Reference Pricing System will carry on its fundamental role of unifying the price by Defined Daily Dose (DDD) and extend it (via administrative channels) to all products included in each reference group. This RPS update will be carried out on a yearly basis.

To work out the savings generated by this pharmaceutical economic regulation on products no longer holding a patent, dispensed at chemists, it is necessary to account not only the savings made by the new PRO, but also the savings made continually by the operative system of the AAHH.

According to Farmaindustria's estimates, the new PRO will have an annual impact -in terms of public pharmaceutical expenditure at pharmacies- (Ex-factory price, VAT included) of around 140 M€, therefore, the effective savings on public pharmaceutical expenditure carried out by NHS during this last quarter of 2014 will exceed 45 M€.

These are net impacts for the NHS, once the corresponding savings losses on rebates (RDL 8/2010) have been discounted, they will be generated by the incorporation of medicines subject to rebates (of 4%, 7,5% or 15% on ex-factory price) to the RPS, considering the rebates will then stop being applied.

In turn, and as mentioned before, it is important to calculate how much the AAHH System has generated in savings during the time elapsed between the coming into force of the previous Price Reference Resolution (April 2012) and just before the Price Reference Order, published (July 2014). According to Farmaindustria's calculations, savings on public pharmaceutical expenditure in pharmacies stemming from the AAHH System in this two year period have exceeded 420M€.

As with the estimates of impact on the Price Reference Order, the savings –due to the continual action of AAHH- is also a net figure once savings losses have been deducted.

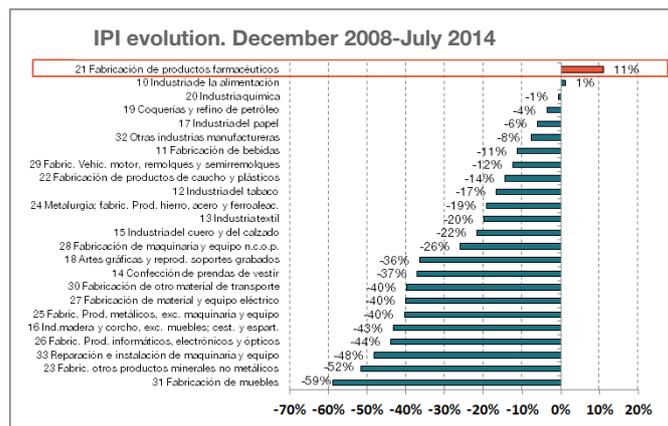
Finally, many price (lowering) reassessments have taken place since January 2013 on products not affected by the RPS nor the AAHH System, not only in pharmacies but also at hospital dispensing points. These abovementioned price reassessments should be taken into account when calculating savings on public pharmaceutical expenditure over the last few years via pricing. According to Farmaindustria's estimates, savings made on these products –that are still under patent- will have exceeded 250M€ in accumulated terms; around 170M€ annually.

Therefore, in accumulated terms, public pharmaceutical expenditure savings by means of price cuts over the last 2-years have surpassed 670M€, by means of i) the permanent reassessment of prices on those products included in the AAHH (420M€) and ii) occasional price cuts on patented products (250M€). In turn, we have to add a future annual savings to this figure of i) 140M€ for the PRO, and ii) 170M€ for the price cuts made on patented products that have permanent effects on volume of expenditure.

Industrial Pharmaceutical production has suffered as a consequence of sharp falls in the national market, although the sector itself has increased its production the most since the crisis began.

The industrial production index (IPI) is one of the most important current situation indicators available to understand economic cycles and to anticipate possible changes in economic trends of a country. This index measures the evolution of productive activity for those sectors that are critical for their national economy and for foreign trade.

In the case of Spain, when analysing the industrial production index by economic sectors, one can see the vast scope of the crisis the Spanish industry has gone through over the last few years.



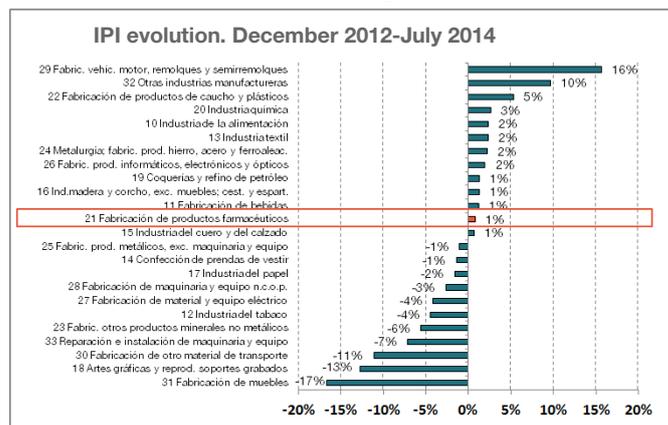
Fuente: Farmaindustria, a partir de INE. Indices de Producción Industrial corregidos de efectos estacionales y de calendario. Medias anuales

As shown in the above chart, all the industrial sectors in our country, except the pharmaceutical –and marginally the food industry- have experienced falls in production during the economic crisis.

Registering a total production of +11% since the end of 2008 to date, the pharma industry is an exception to the industry as a whole in Spain given that many important and traditional sectors have suffered falls of more than -30% during the crisis, for e.g., tailoring/dressmaking -37%, manufacturing of electrical equipment and material -40% or manufacturing of computer goods, electronics and optical equipment – 44%.

However, in the last few years of the crisis, that pharmaceutical industry's evolution has not been so positive.

As shown in the following chart, when analysing the IPI performance between the end of 2012 up till now, we can see how the pharma industry –although registering a positive growth of +1%- is far from standing out amongst the rest of the industrial sectors and ranks a middle position in the Spanish industry in terms of production growth.



Fuente: Farmaindustria, a partir de INE. Indices de Producción Industrial corregidos de efectos estacionales y de calendario. Medias anuales

The reason behind this recent worsening should be contemplated in the context of pharmacies in a public national market which have fallen by almost -30% in the last 4-years, and although it looks like it is compensated with a high export growth in the first few years of said period, this has actually slowed down sharply since 2012.

If the national market does not pick up on a growth track again, pharmaceutical production will lose its dynamism and drive which has always been a characteristic of this economic sector, leader in R&D investment of the Spanish industry.

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