

The Economic Bulletin

**THE PHARMACEUTICAL
MARKET IN SPAIN**

Number 113

Market evolution

Public Pharmaceutical Expenditure (pharmacies)

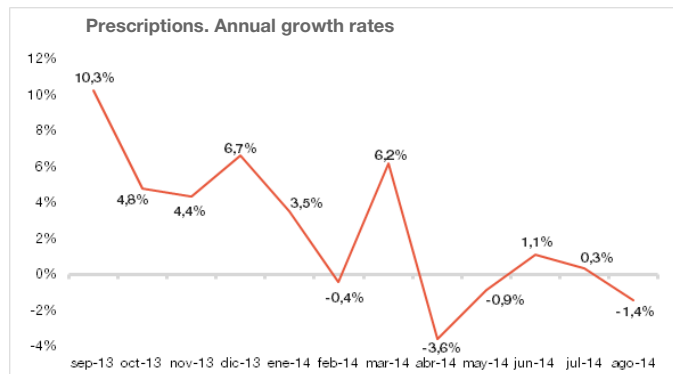
	Sep. 2013- Ago. 2014	Sep. 2012- Ago. 2013	% var. 2014/13
Exp. (€ Mill.) *	9.291,5	8.993,8	3,31%
Prescrip. (Millions)	863,6	842,4	2,51%
Av. Exp. per. prescription (€) *	10,76	10,68	0,78%

*VAT included

As shown in the above table, public pharmaceutical expenditure accumulated to 12 months at pharmacies shows a growth of +3.3% in August, compared to the registered figure in August 2013. However, the Reference Price Order that will come into force in September will bring this figure down to levels lower than 1% by the end of 2014.

On the other hand, the volume of accumulated expenditure to 12 months is -3,420 M€ lower than its record high registered in May 2010, which means a fall in the public pharma market from this highest figure of -27.0%.

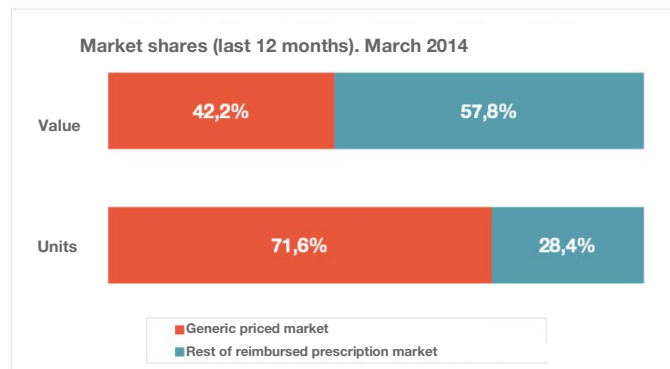
As you can appreciate from the chart below, the number of prescriptions invoiced in Aug. 2014 was lower than prescriptions invoiced during the same month in 2013; a -1.4% lower to be precise, reinforcing the trend of moderation where the growth on prescription dispensing is concerned.



In fact, in our previous Bulletin, we advised of a possible increase in the amount of prescriptions dispensed as a consequence of it being the month prior to the Reference Price Order coming into effective, causing price reductions on expenditure affecting products in the RPS. Said reductions did not finally happen, however, it should be mentioned that the number of working days in August was less (25) than the number of working days in Aug. 2013 (26), and this fact usually influences the performance on the prescription series in the short term. If we compare the number of prescriptions per working day in both months, we find that the variation result is a positive one, +2.5% to be precise.

We should advise that in the coming month of September, the opposite phenomenon will occur: the number of working days will be 26, while in September 2013 there were 25 working days and we should expect that this difference in days has a positive impact in the annual variation rate of prescriptions dispensed.

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

Although pharmaceutical R&D is affected by the sharp drop in the domestic market, it maintains a certain inertia.

The pharmaceutical industry in Spain invested 928 M€ in Research and Development in 2013, as we have seen in the results of the R&D¹ activities survey conducted by Farmaindustria on its members each year.

The abovementioned survey allows us to know the investment made in R&D by the Spanish pharmaceutical industry in advance of the official figures published by the INE (National Institute of Statistics) and before the reports from Profarma, the Ministry of Industry, Energy and Tourism. At the same time, the R&D survey carried out by Farmaindustria provides detailed analysis on many characteristics of pharmaceutical R&D carried out in Spain.

In line with current biomedical research requirements, the R&D phase where most pharmaceutical companies' resources are invested in in Spain was clinical trials; C.T. received almost half of the total spending in R&D, i.e. 457M€. Following this is basic research, the phase where new substances with potential therapeutic value are originated and new action mechanisms and new therapeutic targets are identified; more than 121 M€ were allocated to this basic research.

Similarly, it is worth highlighting that close to 200 M€ (a 21.5% of the total spendings) was invested in biotechnology that includes expenditure in R&D for the development of biotechnological medicines, as well as attributable expenses in the research of non-biological molecules.

On the other hand, the number of employees in R&D activities in pharmaceutical companies in Spain reached a sum 4,250 people in 2013, of which 84% of them are highly qualified professionals.

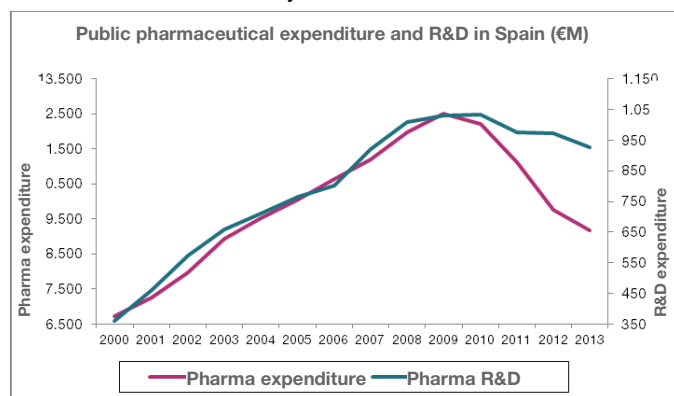
The above data clearly shows what the current pharmaceutical R&D situation is like in Spain; the industry that leads in the Research sector according to figures from INE. However, this study should be completed with a further dynamic analysis.

In this sense, our attention is drawn to our survey conducted on Farmaindustria members where their R&D expenditure has registered small falls over four consecutive years.

These falls are largely due to losses in revenues from laboratory sales in Spain as a consequence of regulatory measures being enforced since 2010.

¹ Full results can be viewed at:
<http://www.farmaindustria.es/web/wp-content/uploads/sites/2/2014/09/Resultados-Encuesta-I+D-2013-D.pdf>

In this regard, as you can see from the following chart, there is a strong correlation between the public pharmaceutical expenditure series and pharmaceutical R&D expenditure, which, on the other hand is widely contrasted in economic literature.



Source: Farmaindustria from its own R&D survey and MoH (expenditure)

The correlation between expenditure and pharma R&D series supersedes 90% and reaches 96% when you take into account one year of delays in R&D. This delay aims to reflect the strong inertia in R&D expenditure given that a company immersed in a research program (in the medium-long term), normally continues with its development, even though its revenue base falls in the short term, with the aim of not losing the R&D carried out up until then. However, if loss in revenues remains in the long term, co's investments also end affecting R&D.

Hence, the noticeable fall in the Spanish market over the last few years, together with a lack of clear prospects for improvement causing Co's to make cost readjustments. Where R&D is concerned, this adjustment is moderate in the short-term but intense in the medium to long-term.

Similarly, at a time such as this where our country is getting back on the path of economical growth, it is important that policies are designed to allow to create an environment with more favorable expectations in the industrial sectors that carry out intensive research, that their contribution is not penalized in this area and that all its potential is suitably made the most of.

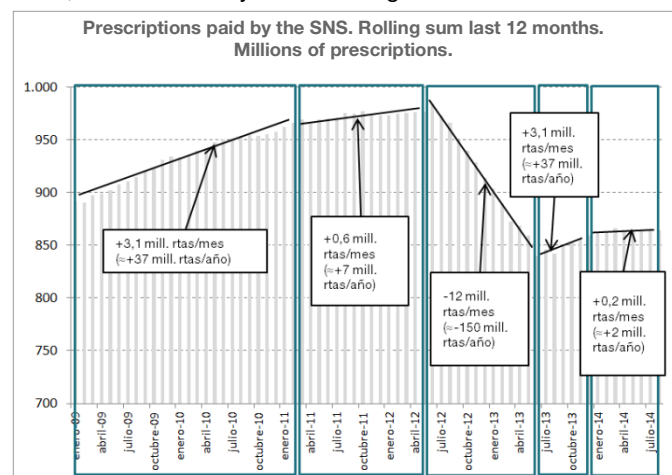
The adjustment made to the copayment regulations has had a contentious structural effect on NH prescriptions

In the last few years, the demographic evolution in our country, characterized by an important growth in population together with other factors such as increased prevalence of chronic diseases, a greater development in personalized medicines, some terminal diseases becoming chronic and more therapeutical products being available on the SNS have caused, as a consequence, a progressive increase in the demand of prescriptions which ended up being the main factor of public pharmaceutical expenditure growth in our country.

Figures from the MOH verify this: In the ten-year period before the new copayment system was in place (2002-2011), pharmaceutical expenditure grew at an average annual rate of +3.8%. This was due to an average increase in the number of prescriptions by +4.4% and of a reduction in the average expenditure per prescription of -0.6%

Facing this situation, one of the measures introduced in R.D. Law 16/2012 was a modification of the pharmaceutical copayment system which came into force on 1st July 2012. The objective of this measure was to reduce pharmaceutical spending by means of a double track: i) cutting costs on the average price of NH prescriptions by increasing the consumers' copayment and ii) given that the consumer will be paying more and is somewhat discouraged, the volume of prescriptions and its growth rates is naturally reduced.

A lot has been discussed regarding the effectiveness of this measure concerning prescription demand beyond the short-term. For that reason, it is interesting to analyse how trends in the numbers of NH prescriptions dispensed, have changed over the last few years; as you can appreciate in the following chart, there are clearly different stages.



Source: Farmaindustria from MoH data


The first identified stage (2009-2010) clearly shows prescription demand on an upward trend; somewhat higher than 3 million additional prescriptions per month. This trend diminishes noticeably in the second stage (2011 till mid 2012) in a period coinciding with stagnation and falls in the Spanish population for the first time.


The third identified stage shows a marked decline in prescription demand. This stage started in July 2012 –the month when the new pharmaceutical copayment system came into force up to the end of June 2013, 12-months later. In this third stage, the declining trend on prescription demand reached -12 million prescriptions per month.

Once the new copayment system has been applied for more than a year is when we can really verify its structural effects on prescription demand. However, before this, there is a transition period (July–December 2013) in which, probably due to a statistical effect stemming from a heavy initial impact from the change made to the copayment system; there is a transitoral rebound effect that masks the reality of the new trend.

From then on, in January 2014, prescription demand goes into a fifth and stable stage (+2 million prescriptions per month) which seems to indicate that beyond other influential factors (de-listing of certain medicines, a declining population etc) the modifying of the pharmaceutical copayment system has had a permanent effect on the demand of prescriptions in Spain, both at an absolute level where in two years, prescription demand has gone from close to 1,000 million prescriptions per year to just above 850 million, as a reduction in the growth rate trend in said series.

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