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Market evolución

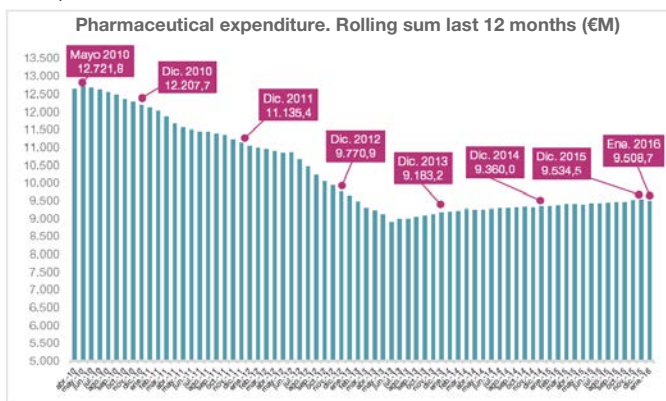
Public Pharmaceutical Expenditure (pharmacies)

	Feb. 2015- Ene. 2016	Feb. 2014- Ene. 2015	% var. 2016/15
Exp. (€ Mill.) *	9.508,7	9.352,1	1,67%
Prescrip. (Millions)	876,9	868,7	0,95%
Av. Exp. per. prescription (€) *	10,84	10,77	0,72%

*VAT Included

Data from the Ministry of Health, Social Services and Equality shows that in January, public pharmaceutical expenditure at pharmacies experienced a growth of +1.67%, compared to the registered accumulated figure of January 2015. This variation in expenditure is due to a rise in the number of prescriptions (+0.95%) and an increase in the average price of prescriptions (+0.72%).

The accumulated expenditure to 12-months in January was - 3,213M€ lower than the recorded high in May 2010 (a -25.3% lower), as shown in the below chart.¹



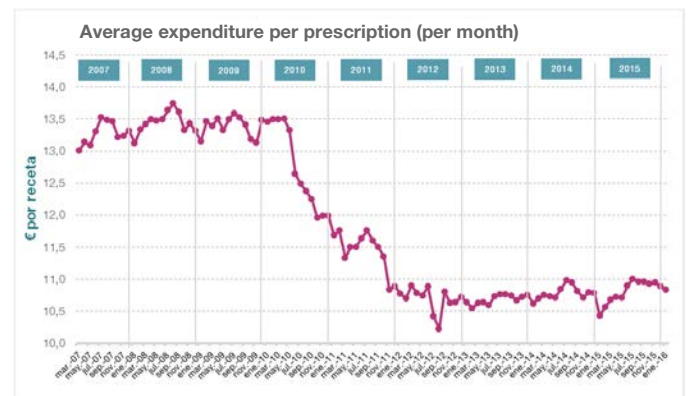
Fuente: Farmaindustria a partir de MSSSI

In annual terms, pharmaceutical expenditure fell -1.03% in January in comparison to January 2015. The drop was primarily brought about by the significant reduction on the demand side of prescriptions (-4.6%) and the main reason behind this is that January 2016 has one working day less than Jan. 2015; this has an immediate impact on the turnover of prescriptions. Similarly, we expect to see a circumstantial increase on the demand side in February in comparison to Feb.2015, produced by the same fact, however this time it will be contrary to January as Feb 2016 was a leap-year and so it had one extra working day than in the previous year.

According to provisional data from the Ministry of Health, average expenditure per prescription has experienced an increase of +3.74% with respect to January 2015 and it is still showing signs of minor growth, albeit in a very controlled setting due fundamentally to the modulated impact of the average expenditure established in the Reference Pricing

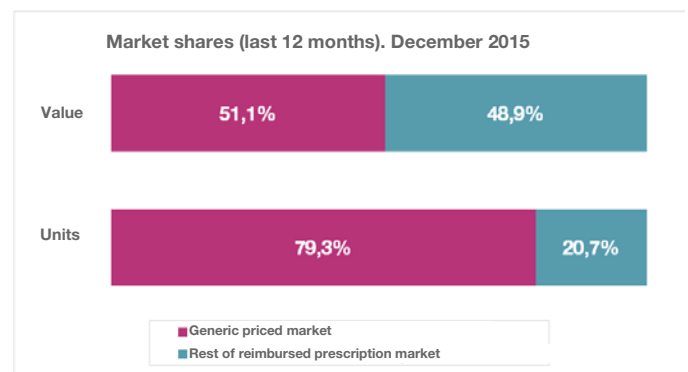
¹ The expenditure figure for January seems a little surprising given that, when calculating monthly data shown on the Ministry of Health's webpage, <http://www.msssi.gob.es/profesionales/farmacia/datos/home.htm>, the increase in pharmaceutical expenditure to 12-months in January 2016 would come from +1.85% and not the published figure of +1.67%. Adding up the monthly data, the accumulated data to 12-months (January 2016) would give us 9,535.6 M€ facing the 9,508.7M€ published figure; we would have to compare these with the 9,352.1 M€ corresponding to Jan. 2015 which gives us an increase of +1.85%. Notwithstanding, we are waiting to check if the provisional data if finally confirmed by the Ministry to be able to correct the Time Series.

System and to the strict reference pricing of innovative medicines in our country.



As you can see in the previous chart, in practically all the months between 2012-2015, average expenditure moved between 10.50€ and 11€ per prescription, while between 2007 and 2010 the average expenditure was a lot higher, around 13.0 € - 13.5 € per prescription.

Finally, data from the IMS in December 2015 shows that the whole of the medicines market with generic prices reached 79.3% of the total prescription market in units in Spain, and 51.1% of said market value.



Source: Farmaindustria estimates from IMS

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

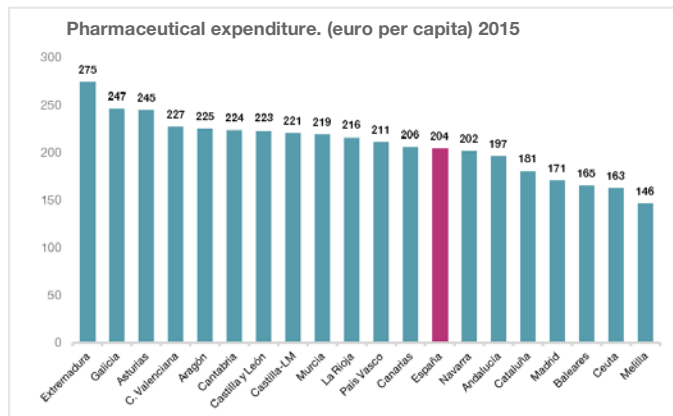
The regional pharmaceutical market in 2015

In all of Spain's regions, public pharmaceutical expenditure grew moderately in 2015 with only one exception, Galicia (-1.03%) where its accumulated 5 consecutive years expenditure fell (-257M€ since 2010, reflecting pharmaceutical expenditure for this autonomous region -27.6% lower than that of 2010.

In per capita terms, growth in public pharmaceutical expenditure has meant that average expenditure increased by 4€ per person and per year; from 200€ per capita in 2014 to 24€ per capita in 2015.

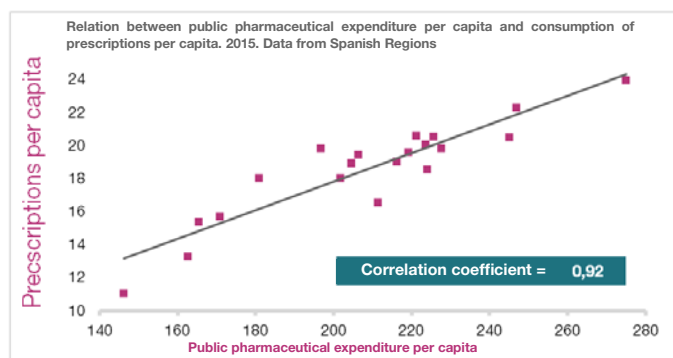
As shown in the following chart, the dispersion of public pharmaceutical expenditure per capita varies from 275€ per habitant in Extremadura to 165€ per capita in the Balearic Islands, without taking into account the exclaves of Ceuta and Melilla. We should highlight that the dispersion of public pharmaceutical expenditure per capita continued to decrease in Spain in 2014 given that the coefficient of variation has gone from 16.5% in 2013 to 15.7% in 2014 and from 15.1% in 2015 (or from 13.2% in 2013, to 12.7% in 2014, and from

12.5% in 2015 if we exclude Ceuta and Melilla from this study).²



Fuente: Farmaindustria a partir de MSSSI e INE

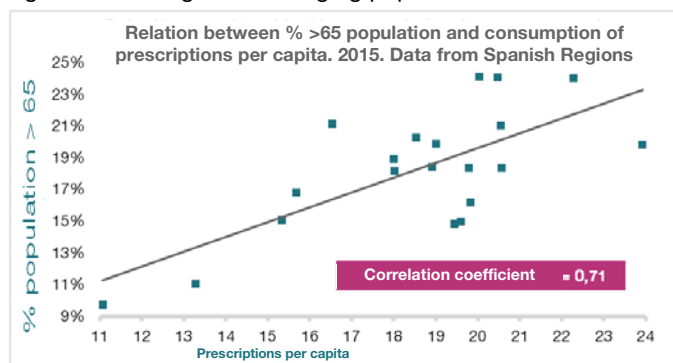
The correlation between public pharmaceutical expenditure per capita and prescription demand per capita is very high (correlation coefficient of +0.92), as shown in the following chart.



Fuente: Análisis Farmaindustria a partir de información de MSSSI e INE

This indicates that the main variables defining the differences in pharmaceutical expenditure between autonomous regions and those defining the differences between interregional where prescription demand per capita is concerned, are essentially the same.

In fact, one of the most important variables that make pharmaceutical expenditure per capita differ between autonomous regions is the degree of the aging population.



Fuente: Análisis Farmaindustria a partir de información de MSSSI e INE

As shown in the previous chart, the correlation between the elderly population (+65 years) and the prescription demand per capita is positive and high (+0.71), which indicates that one of the main factors responsible for the differences between autonomous regions in terms of pharmaceutical expenditure per capita or prescription demand per capita are the

different interregional structures, like the percentage of elderly people (65+) and actually not such a variation in the average expenditure or innovative prescription demand.

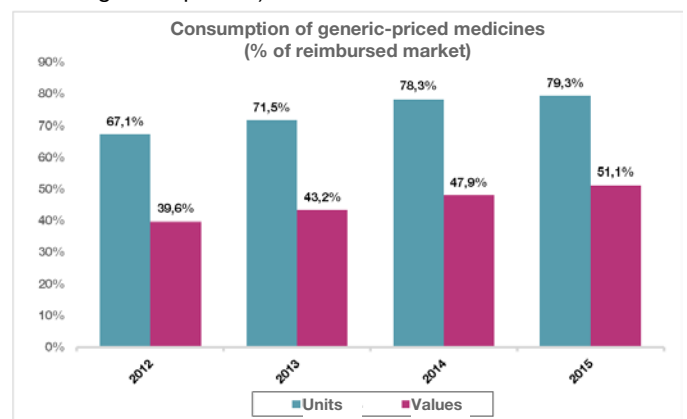
Sales of Medicines at generic prices exceeded 50% of the prescription market in terms of value at the end of 2015

Once the industrial property rights of original medicines have expired, generic copies can be produced and these copies are usually commercialised with significant price reductions compared to the original. From that moment on, national regulations play an important role in the development of these products (patent expired and generics) on the market. Consequently, in Spain, once the first generic appears from an original medicine, both products are incorporated into the Homogenous Grouping System (HGS) -if it is a substitutable medicine-, following that, all medicines with a generic or biosimilar (substitutable or not) are incorporated into the Reference Pricing System (RPS) once the annual update is carried out.

However, the incorporation of these products to the HGS or the RPS means it is mandatory to align all products of each group in either system to the lowest price to be able to be eligible for public financing. That is to say, a medicine that does not lower its price to the lowest price in its homogenous group in the RPS will not be admitted to public financing.

This ruling, in practice means that all bio-equivalent or biosimilars have the same price in Spain, therefore the distinction between generic consumption or original brand consumption in the HGS or in the RPS lacks relevance in economic terms

What is important, where savings are concerned, is the share of the market of all products included in the HGS and the RPS (what Farmaindustria refers to as “the market of all medicines at generic prices”) and its evolution over time.



Source: Farmaindustria estimates from IMS


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


Hence, as reflected in the above chart, at the end of 2015, medicines with generic prices reached 80% of all the prescription market financed in pharmacies in Spain in terms of units (the number of units dispensed) and these exceeded 50% of the total prescription turnover in pharmacies.

Furthermore, the evolution of both ratios is one clearly of growth and the perspectives in the short and medium term do not indicate significant changes in this particular trend.

² The coefficient of variation is defined as the coefficient between the standard deviation of a variable and its average. The higher the value, the higher the heterogeneity exists in the values of a series.

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