



10. PHARMACEUTICAL SECTOR

Pharmaceutical expenditure

Pharmaceuticals play a vital role in the health system and policy makers must balance the access of patients to new effective medicines with limited health care budgets, while providing the right incentives to manufacturers to develop new generations of drugs. After inpatient and outpatient care, pharmaceuticals represent the third largest expenditure item of health care spending and accounted for more than a sixth (17%) of health expenditure on average across OECD countries in 2013, not taking into account spending on pharmaceuticals in hospitals.

The total retail pharmaceutical bill across OECD countries was around USD 800 billion in 2013. However, there are wide variations in pharmaceutical spending per capita across countries, reflecting differences in volume, patterns of consumption and pharmaceutical prices (Figure 10.1). With more than USD 1 000 in 2013, the United States spent far more on pharmaceuticals than any other OECD country on a per capita basis, and double the OECD average. Japan (USD 752), Greece (USD 721) and Canada (USD 713) also spent significantly more on medicines than other OECD countries. At the other end of the scale, Denmark (USD 240) had relatively low spending levels, less than half the average across OECD countries. It is important to note that these figures refer only to retail pharmaceuticals, that is, pharmaceuticals dispensed directly to patients with a medical prescription or over-the-counter purchases. Pharmaceuticals can also be administered to patients when they are in hospital, but these are not taken into account here. Figures available for a small number of OECD countries suggest that this can add another 10-20% on average to the retail spending, but can vary according to different dispensing and budgetary practices (Belloni et al., forthcoming).

Around 80% of total retail pharmaceutical spending is for prescribed medicines; the rest being spent on over-the-counter (OTC) medicines. OTC medicines are pharmaceuticals that can be bought without prescription and their costs are generally borne by patients. In some cases, however, OTC drugs can also be reimbursed by public payers. Depending on country-specific legislation, OTC pharmaceuticals can be sold outside of pharmacies, for example, in supermarkets, other retail stores or via the internet. In Australia, Spain and Poland, the share of OTC medicines is relatively high – in the latter case accounting for half of pharmaceutical spending.

During the 1990s and early 2000s, increasing spending on retail pharmaceuticals acted as a major contributor in driv-

ing up overall health expenditure (Figure 10.2). Average real annual growth in pharmaceutical spending outpaced overall health spending growth – more than 5% on average each year between 1990 and 2004, compared with average health spending growth of less than 4% per year. However, in the second half of the 2000s there was a significant drop in average pharmaceutical spending growth which then intensified following the global economic crisis. In this period, policy makers in many OECD countries were concerned about reining in public pharmaceutical spending in an effort to limit total public spending (see Indicator “Financing of pharmaceutical expenditure”). Thus, a number of countries introduced a series of measures: price cuts (achieved through negotiations with the pharmaceutical manufacturers, introduction of reference pricing, application of compulsory rebates, decrease of pharmacy margins, reductions of the value added tax applicable for pharmaceuticals), promoting the use of generics, reduction of package sizes, reduction in coverage (excluding pharmaceuticals from reimbursement) and increases in co-payments by households.

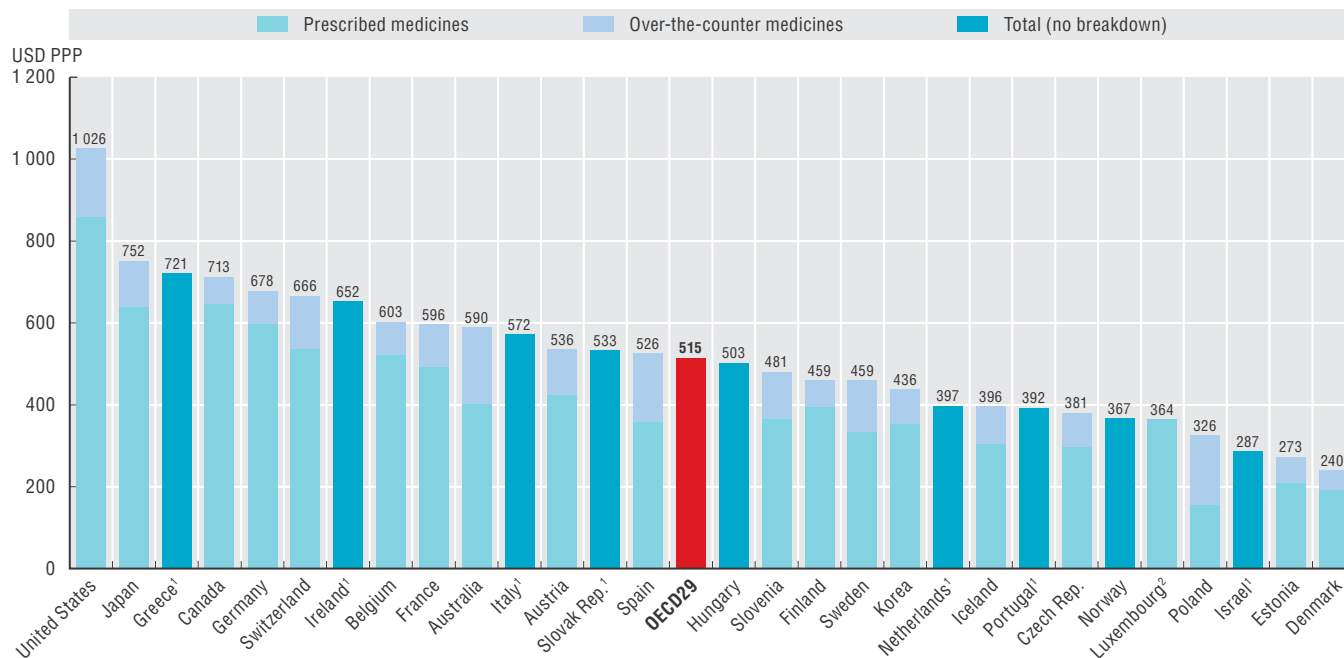
Definition and comparability

Pharmaceutical expenditure covers spending on prescription medicines and self-medication, often referred to as over-the-counter products. In some countries, other medical non-durable goods are also included. Pharmaceuticals consumed in hospitals and other health care settings are excluded. Final expenditure on pharmaceuticals includes wholesale and retail margins and value-added tax. It also includes pharmacists' remuneration when the latter is separate from the price of medicines. Total pharmaceutical spending refers in most countries to “net” spending, i.e. adjusted for possible rebates payable by manufacturers, wholesalers or pharmacies.

References

Belloni, A., D. Morgan and V. Paris (forthcoming), “Pharmaceutical Expenditure and Policies: Past Trends and Future Challenges”, *OECD Working Paper*, OECD Publishing, Paris.

10.1. Expenditure on pharmaceuticals per capita, 2013 (or nearest year)



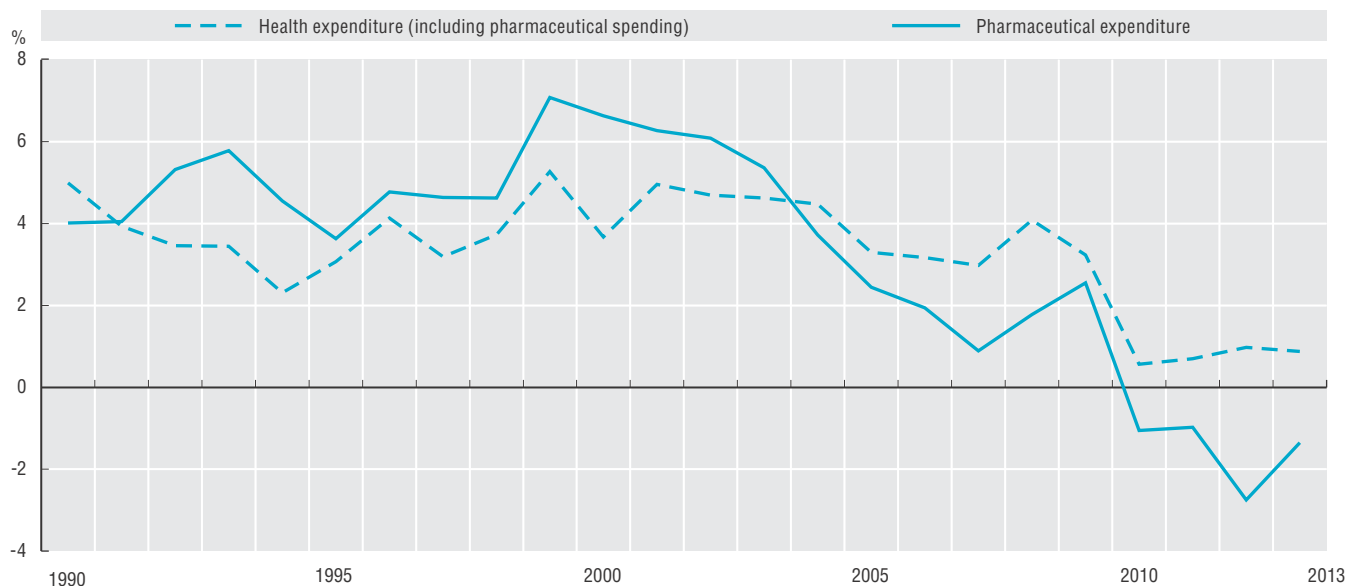
1. Includes medical non-durables (resulting in an over-estimation of around 5-10%).

2. Excludes spending on over-the-counter medicines.

Source: OECD Health Statistics 2015, <http://dx.doi.org/10.1787/health-data-en>.

StatLink <http://dx.doi.org/10.1787/888933281318>

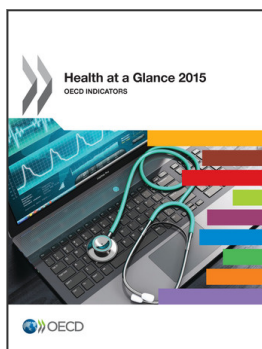
10.2. Average annual growth in pharmaceutical and total health expenditure per capita, in real terms, average across OECD countries, 1990 to 2013



Source: OECD Health Statistics 2015, <http://dx.doi.org/10.1787/health-data-en>.

StatLink <http://dx.doi.org/10.1787/888933281318>

Information on data for Israel: <http://oe.cd/israel-disclaimer>



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