

## PHARMACEUTICAL EXPENDITURE

Pharmaceuticals play a vital role in the health system. After inpatient and outpatient care, pharmaceuticals (excluding those used in hospitals) represent the third largest item of health care spending, accounting for a sixth of health expenditure in the EU in 2016. The challenge for policymakers, acknowledging that health care budgets are limited, is to balance access for new medicines while providing the right incentives to industry.

The total retail pharmaceutical bill across the European Union was more than EUR 210 billion (adjusted for purchasing power parities) in 2016 and an increase of around 5% (in nominal terms) since 2010. The variations in per capita pharmaceutical spending across countries can reflect differences in pharmaceutical prices, consumption and dispensing practices, as well as the market penetration of generics (Figure 5.10). Among EU Member States, Germany spent the most on pharmaceuticals on a per capita basis (EUR 572), around 40% above the EU average. Ireland (EUR 498) and Belgium (EUR 491) spent nearly 20% more on medicines per capita than the EU average. At the other end of the scale, Denmark (EUR 203), Romania (EUR 255), Estonia (EUR 262) and Poland (EUR 267) had relatively low spending levels. Outside the EU, Switzerland (EUR 742) spent significantly more on medicines per capita than any other country in Europe.

Around four out of every five euros spent on retail pharmaceuticals goes on prescription medicines, with the rest on over-the-counter medicines (OTC). OTC medicines are pharmaceuticals that are generally bought without prescription with their costs, in most cases, fully borne by patients. However, it should be noted that pharmaceuticals classed as prescriptions in one country might be classed as an OTC medicine in another. The share of OTC medicines is particularly high in Poland, accounting for half of pharmaceutical spending, and stands at 30% or more in Spain (36%), Latvia (31%) and Cyprus (30%).

The cost of pharmaceuticals is predominantly covered by government or compulsory insurance schemes in Europe (Figure 5.11). In the EU, these schemes cover around 64% of all retail pharmaceutical spending, with out-of-pocket payments (34%) and voluntary private insurance (1%) financing the remaining part. Coverage is most generous in Germany and Luxembourg where government and compulsory insurance schemes pay for 80% or more of all pharmaceutical costs. By contrast, in around a quarter of EU Member States, public or mandatory schemes cover less than half the amount spent on medicines and coverage is particularly low in Bulgaria (19%) and Cyprus (18%).

During the financial crisis, average annual spending growth on retail pharmaceuticals in the EU was much lower compared to other health services (see indicator “Health expenditure by type of good and service”) and was negative in some years. Several countries took measures to reduce pharmaceutical spending during the

crisis – such as cutting manufacturer prices and margins for pharmacists and wholesalers, introducing compulsory rebates, de-listing some pharmaceuticals and incentivising the use of generics (Belloni, Morgan and Paris, 2016). Patent expiries for a number of blockbuster drugs also contributed to the fall in spending over this period. However, new high cost treatments such as for Hepatitis C and some oncological drugs help explain a return to positive growth rates in more recent years for some countries.

The retail pharmaceutical sector only tells part of the story, since spending on pharmaceuticals used during hospital care can typically add another 20% to a country’s pharmaceutical bill (Belloni et al., 2016). Available data in a number of European countries suggest that pharmaceutical spending growth in the hospital setting has outpaced that of retail pharmaceuticals (Figure 5.12). Average annual growth of pharmaceuticals consumed in hospitals was significantly higher in Iceland and Denmark than retail pharmaceutical spending between 2009 and 2016. Although on a smaller scale, the same is true for Germany, Finland, Estonia and Spain.

### Definition and comparability

Pharmaceutical expenditure covers spending on prescription medicines and self-medication, often referred to as over-the-counter products. Final expenditure on pharmaceuticals includes wholesale and retail margins and value-added tax. Total pharmaceutical spending refers in most countries to “net” spending, i.e. adjusted for possible rebates payable by manufacturers, wholesalers or pharmacies.

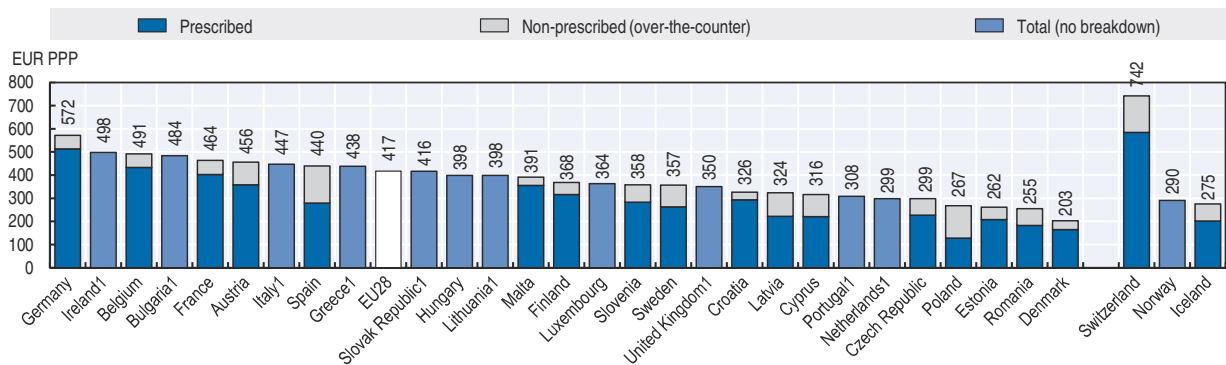
Pharmaceuticals consumed in hospitals and other health care settings as part of an inpatient or day case treatment are excluded (data available suggest that their inclusion would add another 30% to pharmaceutical spending on average). In some countries, expenditure associated with the administering and dispensing of pharmaceuticals for outpatients in hospitals may be incorrectly accounted for under curative care, affecting the comparability in retail pharmaceutical expenditure.

Pharmaceutical expenditure per capita is adjusted to take account of differences in purchasing power.

### Reference

Belloni, A., D. Morgan and V. Paris (2016), “Pharmaceutical Expenditure and Policies: Past Trends and Future Challenges”, *OECD Health Working Papers*, No. 87, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jm0q1f4cdq7-en>.

### 5.10. Expenditure on retail pharmaceuticals per capita, 2016

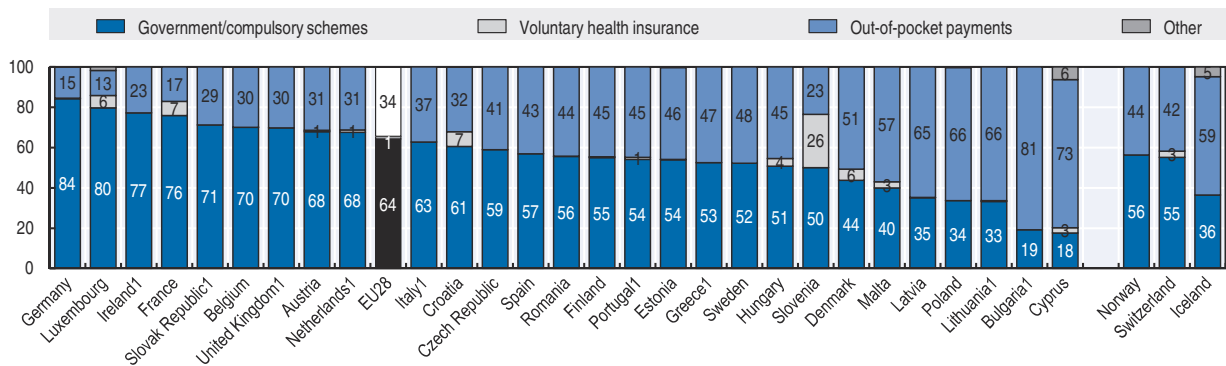


1. Includes medical non-durables (resulting in an overestimation of around 5-10%).

Source: OECD Health Statistics 2018, <https://doi.org/10.1787/health-data-en>; Eurostat Database.

StatLink <http://dx.doi.org/10.1787/888933835516>

### 5.11. Expenditure on retail pharmaceuticals by type of financing, 2016



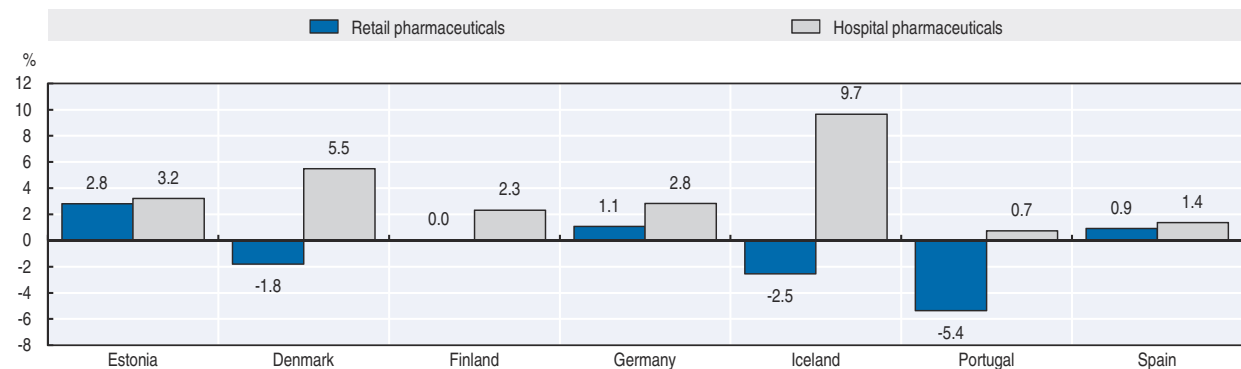
1. Includes expenditure on medical non-durables.

Note: "Other" includes non-profit-schemes, enterprises and rest of world.

Source: OECD Health Statistics 2018, <https://doi.org/10.1787/health-data-en>; Eurostat Database.

StatLink <http://dx.doi.org/10.1787/888933835535>

### 5.12. Annual average growth in retail and hospital pharmaceutical expenditure, in real terms, 2009 to 2016 (or nearest year)



Note: OECD estimates for Portugal exclude expenditure on other medical products from retail spending.

Source: OECD Health Statistics 2018, <https://doi.org/10.1787/health-data-en>.

StatLink <http://dx.doi.org/10.1787/888933835554>



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