

POLICY BRIEF

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Canada's medication spending has been relatively low; may need to be reconsidered because of US "most-favored nation" pharma pricing policy

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ABSTRACT

Background: Public discourse often frames innovative medicines as unsustainably costly. However, the latest National Health Expenditure Trends (NHEX) data from the Canadian Institute for Health Information (CIHI) show a decades-long decline in medication's share of total health care spending and consistently moderate growth rates in both government programs and total (public and private) spending, even as hundreds of innovative medicines have been developed and commercialized during the past decade.

Objective: To use CIHI's 2025 NHEX estimates to demonstrate that (1) there is capacity within Canada's health system for higher medication spending and (2) despite the emergence of many more specialized and higher-cost therapies, public spending on medications has been growing moderately. We interpret these findings in light of the United States' proposed most favored nation (MFN) pharmaceutical pricing policy, which increases pressure on Canada's pricing and access environment.

Findings: Medicines are projected to account for 13.3% of total health care spending – now the fourth-largest category – down from a peak 16.8% share in 2010–11. Growth in total medicines spending (3.3% in 2025–26) is expected to trail overall health care spending growth (4.4%). Public medication spending is anticipated to represent only 6.6% of public health expenditure in 2025–26 – its lowest share since 1997–98 – and is expected to grow just 1.4% year-over-year. Provincial/territorial (PT) prescription medicine spending growth averaged 3.3% annually during the past decade and it is estimated that will rank no higher than fourth among PT health categories in 2025–26, with several provinces allocating <5% of their health care budgets to medications. Per-capita trends are similarly moderate.

Conclusions: Canada's medication spending is proportionately smaller and growing more slowly than most other health care sectors, indicating capacity to invest in medicines that improve outcomes and efficiency. Given the US government's MFN policy – which proposes to benchmark US medication prices against lower-priced countries including Canada – Canada should consider investing more to deliver more timely and optimal access for patients. This would be an important shift from the past twenty years, which has seen payers focused largely on cost containment and aggressive price negotiations.

CITATION

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KEY MESSAGES

- **Low and stable spending on medicines:** Medications now represent a historically low share of total and public health care spending. Despite more specialized and higher-cost innovations, medication spending growth has been consistently moderate and below overall health care spending growth across most of the last decade.
- **Budget room for targeted increases:** Given the low and stable spending growth on medicines, there is fiscal space for targeted increases to accelerate and optimize access for medicines.
- **Pressures of MFN policy:** If Canadian prices are used as a reference in the context of the US government's MFN pharmaceutical pricing policy, this could have negatively affect Canadians' access to medicines, by delaying or restricting the launch of new therapies. Canada should therefore reassess its funding approach to remain competitive and attractive, while improving timely and equitable access for patients

INTRODUCTION

The narrative that "drug costs are crowding out health care" is not supported by current Canadian expenditure data. CIHI's 2025 NHEX estimates show the opposite: the relative share of medication spending has trended downward for more than a decade, falling to levels last seen in the mid-1990s. In 2025–26, medicines (13.3%) are projected to rank fourth among health care spending categories behind hospitals (26%), physicians (13.8%) and other institutions (13.4%). The "drugs"¹ category – the second-highest spending category between 1997–98 through 2023–24 – is expected to drop to third in 2024–25 and fourth in 2025–26. This downward trend has occurred despite the introduction of many higher-cost specialty and precision therapies.

METHODS AND DATA

This analysis uses CIHI's National Health Expenditure Trends (NHEX) 2025 data and projections² to demonstrate the trends. It contextualizes system capacity by examining (1) relative shares across categories, (2) nominal growth rates across total, public, and provincial/territorial (PT) government spending, (3) rankings within PT budgets, and (4) per-capita trends. All figures refer to fiscal years as denoted in the source material.

RESULTS

1) Medicines' share of Canadian health care spending has reached a 30-year low

- **Total health care spending share:** The share represented by medicines peaked at 16.8% in 2010–11 and is projected to be 13.3% in 2025–26 – a multi-decade low.
- **Rank order:** After nearly three decades in the #2 position, the medicines category fell to #3 in 2024–25 and is projected to be #4 in 2025–26, behind hospitals, physicians, and other institutions.
- **Sectoral mix shift:** While shares for hospitals, physicians, medicines and administration have fallen over time, categories like other institutions, other health professionals, public health, other health services, and capital have grown. In 2025–26, other institutions and other health professionals are at their highest shares in decades.
- **Interpretation:** The "payer pie" has diversified toward areas such as long-term care, community-based care and public health. Medicines are projected to represent less of the total health spending envelope in 2025–26 than at any time since the mid-1990s.

2) Medication spending growth is moderate and typically trails overall health care spending

- **Total spending growth (2025–26 vs 2024–25):** Medication spending is expected to be 3.3%, which is lower than the projected 4.4% growth in total health care spending. Among the nine major health care spending categories, capital

¹ CIHI's "drugs" category includes all non-hospital spending on prescription and non-prescription medications, consumer products with medicinal ingredients, plus associated pharmacy charges and distribution costs. . However, it does not include any drug spending by hospitals (which are captured within the "hospitals" category). It also does not account for rebates paid by pharmaceutical companies as part of product listing agreements negotiated with payers.

² CIHI, National Health Expenditure data tables, November 27, 2025: <https://www.cihi.ca/en/national-health-expenditure-trends>. Note that all figures and statistics addressed in this article are derived from this report unless otherwise specified.

(7.5%) and public health (5.8%) are identified as growing the fastest; while physicians (3.1%), medicines (3.3%) and administration (3.3%) are seen to be growing the slowest.

- *10-year pattern:* Average annual pharmaceutical spending growth was an expected 4.1% versus 5.8% for total health care spending between 2016-17 and 2025-26.
- *Interpretation:* Even with the emergence of many new specialized higher-cost therapies, system-level medication spending growth is contained and systematically lower than overall health care expenditure growth.

3) Public payer exposure to medication costs is historically low

- *Projected share of public health care spending (2025–26):* Hospitals 33.5%; Physicians 19.0%; Other institutions 12.8%; Other health spending 11.1%; Public health 7.8%; Medicines 6.6% –its lowest level since 1997–98.
- *Expected growth in public medication cost outlays:* 1.4% (to \$18.8B) in 2025–26; annual growth has been lower than 4.0% in seven of the past 10 years.
- *Interpretation:* From a budgetary risk perspective, public medication spending is a relatively small and stable component of public health budgets.

4) PT medication spending ranks low within health care budgets—and is flat to modest in growth

- *Category ranking:* In 2025–26, medications are projected to rank no higher than fourth in terms of health care spending categories in any province, and as low as sixth in British Columbia (3.6%) and seventh in two other provinces.
- *Current shares:* In 2023–24, medicines represented 6.3% of PT health care spending; projected to be 6.0% in 2025–26, the lowest level since 1994–95.
- *Growth:* PT prescription medicine spending was anticipated to grow by just 1.0% annually in 2025–26, below the expected 3.3% increase in total medication spending and the projected 4.2% increase in total health care spending. During the past decade, PT prescription spending was estimated to grow 3.3% annually on average, exceeding PT health program growth only once in 2022-23 (4.0% versus 3.1%).
- *Interpretation:* Across jurisdictions, prescription budgets are relatively small and have grown much more slowly than governments and some commentators have argued. However, it should be noted that this view is not shared by all commentators.³

5) Per-capita spending trends are modest and stable

- *National per-capita spending on prescriptions:* A projected \$1,276 in 2025–26 (+2.9% year over year).
- *10-year averages:* Per-capita growth was expected to averaged 2.5% for medications and 2.6% for prescribed medicines versus 4.2% for total per-capita health care spending.
- *Public per-capita:* An anticipated \$455 per person on medicines in 2025–26 versus \$449 in 2023–24 (~0.7% annual growth). Of note, private per-capita spending growth outpaced public in seven of the past 10 years (indicating a growing reliance on private payers to support innovative medicines).
- *PT per-capita:* Prescription spending was estimated at \$377 per person in 2025–26 (+0.7%), with growth that was higher than 4% only once since 2009–10 (4.6% in 2023–24).
- *Provincial range:* Per capita forecasted PT spending on medicines ranges in 2025-26 from a high of \$460 in Manitoba to \$256 in BC (which is the only jurisdiction that planned to spend less than \$300 per person on medicines).
- *Interpretation:* On a population basis, medication spending has grown more slowly than overall health care spending, suggesting these costs are sustainable. underscoring the sustainability of the category.

³ A January 2024 study by University of Toronto policy researchers found evidence of accelerated growth in estimated medicine purchases in Canada (relying on IQVIA data) and concluded that continued growth was likely. The authors stated that “there may be a need to reallocate funds from other public sectors or shift costs to private industry and patients.”

6) Composition within the medicines category

- *Prescription medicines dominate*: They are projected to represent \$45.2B (85.6%) of total medication spending in 2025–26 – the highest contribution on record—yet overall, medications’ share of total health care spending is still declining.
- *Expected growth*: Prescribed medicines +3.4% in 2025–26; the drug category overall +3.3%.
- *Interpretation*: Even as prescription medicines account for a larger share of medication outlays, system-level growth remains moderate – implying offsets from pricing, utilization management and plan design.

DISCUSSION

There is capacity for higher medication investment

Medication spending now accounts for a shrinking share of health care budgets, continues to grow more slowly than overall health care spending, ranks below several other spending categories, and shows only modest per-capita increases. Taken together, these trends suggest that targeted, value-focused increases in medication spending – particularly for therapies with proven outcomes and system-efficiency benefits – can be accommodated without threatening fiscal sustainability.

Public spending on medications is sustainable

The past decade saw the introduction of many specialty medicines, cell and gene therapies, rare disease treatments and targeted oncology therapies that all have relatively higher price points. Yet, PT medication spending growth generally did not exceed 4%, and public outlays were expected to grow by only 1.4% in 2025–26. This suggests that medication costs are sustainable.

Policy Context: The Implications of US Most-Favored Nation Pricing

The United States are planning to impose reference-style pharmaceutical pricing policies that would benchmark US prices to the lowest prices paid by peer countries, including Canadian prices (“most-favored nation” or MFN). While the implementation details are still unclear, any move by the US to benchmark its prices to Canadian levels could delay or limit the launch of new medicines in Canada and affect investment decisions.

POLICY RECOMMENDATIONS

- **Accelerate funding of medicines**: Reduce timelines for funding of medicines, including reimbursement reviews, pricing negotiations and reimbursement decisions by governments.
- **Strengthen pan-Canadian procurement processes**: Use more flexible, multi-year price negotiation frameworks with volume/indication guarantees to secure better net pricing without suppressing access and expand the use of managed access and outcomes-based contracts.
- **Reinvest savings from low-growth areas into high-value medicines**: Earmark a portion of efficiency gains (e.g., biosimilars, generics) to fund new medicines.
- **Improve Canada’s competitiveness given US MFN pressure**: Coordinate federal–PT policy signals to support early, predictable access to medicines, while closely tracking US policy shifts and adapting negotiation approaches to minimize cross-border pricing effects.

LIMITATIONS

The analysis relies on CIHI’s 2025 NHEX projections; realized values may differ due to macroeconomic shifts, exchange rates, pipeline mix and policy changes. Spending trends do not directly measure patient-level access or outcomes; complementary metrics (time to listing, formulary breadth, uptake speed) should inform future work.

The author acknowledges that there have been other studies published in recent years addressing Canadian medication spending which paint a very different picture, some of which report fast growth and warn of the need to control pharmaceutical expenditure. To be clear, those studies do not examine the same set of medicines (e.g. the Patented Medicine Prices Review Board’s annual report⁴

⁴ PMPRB, 2024 Annual Report, December 3, 2025: <https://www.canada.ca/en/patented-medicine-prices-review/services/annual-reports/annual-report-2024.html>.

- which look at patented medications only – and its annual CompassRx report⁵ which considers public drug plan spending on medicines) tend to be point-in-time analyses and, they sometimes rely on the different data. It is unclear why the results and conclusions they report are not consistent with the findings of this analysis. That suggest that further analysis and comparing of notes among analysts may be called for.

CONCLUSION

CIHI’s 2025 NHEX data show that Canada’s medication spending is both proportionately small and growing moderately, even with the introduction of specialized, higher-cost innovations. Medications’ share of total health care spending is at a multi-decade low, public exposure is the lowest since the late 1990s, and per-capita growth is modest. These trends demonstrate clear capacity within the health system to increase medication spending. The US government’s MFN pharmaceutical pricing policy requires proactive Canadian action to deliver more timely and predictable access to medicines. This will not only provide better outcomes for Canadians but also position Canada more advantageously in a shifting global policy and economic landscape.

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⁵ PMPRB, 2024 CompassRx report, October 21, 2025: <https://www.canada.ca/en/patented-medicine-prices-review/services/npduis/analytical-studies/compassrx-10th-edition.html>.