2020 period to be best years for Indian capital mkts

Mumbai: As a consequence of better youth 'employability' and increased earnings (and keeping aside external factors that affect equities market), years in and around 2020 could be some of the best years for the Indian capital market.

If analysts are to be believed, by year 2025, India will be one of the very few Asian countries that will have a young population to fuel its economic growth.

India's population will age over the coming 20 years, but the country will nevertheless be relatively youthful. Projections indicate that India's over 60-years-old population will be 166 million, says a United Nations report.

These elders will account for 11.5% of the overall population; the country's median age, then, will be just over 30. The population support ratio or PSR, a ratio of the working age population (15-64 years) to retired people, will be almost 9:1, a level last witnessed amongst our more developed countries before World War II.

A recent KPMG Investment Report states that only about 7% of total population (in India) will be above the age of 65 in 2025. At that level, India is very well-placed when compared to Japan (at 30%), Singapore (23%), Korea and Taiwan (at about 18%) and China (at over 13%).

“India is better placed than other Asian countries when age profile is considered,” says KPMG manager P S Deepa. Elaborating on the correlation between age and stock market, Ms Deepa says, “Age is one of the many factors that contribute to a rising economy and buoyant equities market. As the age profile comes down, there is increased tendency among investors to create more exposure to stock markets. As the age profile rises, the risk-taking ability of investors decreases and the consequent exposure to equities decrease. Older people will any day prefer comparatively safer investments in fixed and assured return-capital protected schemes.”

The inversely proportional ‘age and exposure to equities or debt schemes’ is very much evident from the investment profile of the ageing Japanese and Australian investors. Australia and Japan are the only markets where significant volumes of assets are managed by insurance companies and pension funds. Life insurance companies in Japan have more assets under management than their counterparts in other surveyed countries combined.

“From the wealth management point of view, there will be more capital protected schemes in countries that have an ageing population. But with respect to India and its young population, we would continue to see several sophisticated growth schemes. Equities will continue to attract investors for many years to come,” said independent wealth advisor Nipun Mehta.

Though India does not have a social security system for its elders, the country's economic growth rate (in 2025) would be able to support the 7% ageing population. Though consumption will rise at 44% of nominal GDP, savings, too, will grow at over 40% of nominal GDP in 2025, analysts maintain.

Says ICICI Prudential AMC's CIO Nilesh Shah: “Considering the progress it has made since the second World War, the ‘baby boomer theory’, for sure has worked well for US. They've benefited a lot from their young work force (just after the World War). They have had good spells of ‘more hands to work and less mouths to feed', more savings, more consumption and more jobs. But I doubt, if we'll ever have all these positive factors in our best times,” Mr Shah says.

According to Mr Shah, malnutrition, illiteracy and unskilled labour could still be a problem if it is not addressed in present times. Another problem could be gender gap and the income divide.

“Gender gap is surely widening. In 10 to 20 years, the gap will widen so much so that there will be a lot of unmarried men. But we're not there yet,” said UBS managing director and head of Asia Pacific economics Jonathan Anderson.

“As far as income gap goes, governments of emerging economies like India should facilitate rural constituents of their economies to participate in the growth story. The biggest challenge for India in the next ten years would be to develop as many unskilled jobs as possible to absorb the rural folks and help them to keep apace with growth,” Mr Anderson added.

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