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It's really about how old we are.

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In the recent IMF projections, it was difficult to ignore the fact that the UK was forecast to be one of the worst performing countries economically year. Interestingly, in contrast India, is experiencing the fastest rate of economic growth this and next year.

At Tacit we find this interesting. as whilst many focus on short term economic fads, the reason India is growing faster than the UK has nothing to do with Brexit, high taxes, poor infrastructure or productivity rates., but its demographics, or "demographic dividend".

A demographic dividend refers to the growth in an economy that is the result of a change in the age structure of a country's population. The change in age structure is typically brought on by a decline in fertility and mortality rates. A country that experiences low birth rates in conjunction with low death rates receives an economic dividend or benefit from the increase in productivity of the working population that ensues. As fewer births are registered, the number of young dependents grows smaller relative to the working population. With fewer people to support and more people in the labour force, an economy's resources are freed up and invested in other areas to accelerate a country's economic development and the future prosperity of its populace.

Whilst most countries have seen an improvement in child survival rates, birth rates remain high in many of them, particularly in lesser developed countries. These countries, therefore, rarely enjoy an economic benefit known as the demographic dividend.

To illustrate this point, the 'baby boomer' phase for the advanced economies of the US, UK, Germany and Japan was around 1950-64. Consequently, in 2022, the share of the old-age dependency ratio has risen to above 50%.

India on the other hand had its baby boom experience during the period between 1980-1994, which led to a gradual increase in its working-age population. The share of this population (aged 20-60 years) to the total was about 44 per cent in 1980, which will increase to about 55 per cent in 2022 and peak at around 58 per cent in 2032.

India entered its demographic dividend phase in 2010, when the share of its working-age population was about 51 per cent, and will continue to enjoy the benefit until 2056, with the ratio projected at 54 per cent. In fact, in a global context, for the 30 year period between 2021 and 2052, India is forecast to have the highest share it terms of working-age population.

The reason for comparing the advanced economies with India is not to say that one is bad whilst the other is good from an investment perspective. More importantly, it is to highlight that economic growth is driven by structural factors as well as short term microeconomic factors. The size of a country's working age population in proportion to its older population ultimately outweighs most other economic factors. It is no coincidence that the advanced economies experienced their best economic growth during the period of their demographic dividend.