SAVING RATIO AND LIQUIDITY RATIO

Have you ever heard about the savings ratio and liquidity ratio??If no then,

Now here I am going to share my views on these terms which are “savings and liquidity ratio” in Micro level.

First we start with savings ratio,

What is saving Ratio???In fact we all have an idea about the savings.

It is a very simple concept and stands for the amount of money that one saves at the end of every month expressed as a percentage of the monthly earnings.

And it is just as the measure of our blood pressure gives us an idea about our health in the same manner “saving ratio” gives us an indication about our financial health.

How much should our saving ratio be?

The Percentage of savings ratio depends upon one’s age .For the young person of 30years,who has a rich life style and kind of EMI expenses, saving ratio of 10% would be good enough,

And as one’s grows older and as salary grows/goes up, the saving ratio of 25% would be reasonable.

However after 50years old, when one would have finished the EMI cycle/expenses, a saving ratio of more than 30% would be healthy.

Now the next thing, what is Liquidity Ratio.

What is Liquidity Ratio??

Liquidity ratio (also known as Acid Test Ratio) gives us an idea about how well prepared we are to meet our emergency needs or short term obligation.

It indicates the number of months you can manage your expenses when income stops.

****Liquidity Ratio = Liquid Asset / Immediate monthly expenses**

Where, Liquid Assets include any cash that you may have stashed away in your savings bank accounts or saving in fixed deposits or liquid funds (cash).

Equities and Mutual Funds investments are usually not seen as liquid assets.

While Immediate Monthly Expenses include rent, EMI (if any).In other words expenses that cannot be delayed.

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