



RESERVE BANK OF MALAWI

ANNUAL GLOBAL MONEY WEEK 10-17 MARCH 2014

BUDGETING YOUR MONEY

Using money wisely is a skill and a skill that will usually pay you off. Any skill, like being an engineer, a plumber, a doctor, or a dentist requires learning-what is important to know, how things work, how to do the work, what can go wrong, and what to do in certain circumstances. That is the case with money too. There are things to learn about money that can help you take better control, make better decisions, and have a better chance of achieving your goals.

Spending more than you make can be fun for a while, but in the end, it can be misery-making. There is nothing fun about paying interest on money you have already spent. The good news is that life doesn't have to be this way. If you have been spending more than you make, you can reverse the process and escape the misery. If you haven't been overspending and you are simply trying to be pro-active and make a plan to avoid misery, then you are steps ahead.

To help you take a better control of money in your life, let us cover a few of the "basics". These can help build your basic understanding as you get more and more involved with money and money decisions.

What is Budgeting?

It is imperative to firstly define budgeting. In simple terms, budgeting is the process of creating a plan to spend your money. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do. If you don't have enough money to do everything you would like to do, then you can use this planning process to prioritize your spending and focus your money on the things that are most important to you.

Why is Budgeting so Important?

Since budgeting allows you to create a spending plan for your money, it ensures that you will always have enough money for the things you need and the things that are important to you. Following a budget or spending plan will also keep you out of debt or help you work your way out of debt if you are currently in debt.

Budget Forecasting and Planning

Once you create your first budget, start to use it and get a good feel for how it can keep your finances on track, you may want to map out your spending plan or budget for 6 months to a year down the road. By doing this you can easily forecast which months your finances may be tight and which ones you'll have extra money. You can then look for ways to even out the highs and lows in your finances so that things can be more manageable and pleasant.

Extending your budget out into the future also allows you to forecast how much money you will be able to save for important things like your education, vacation, a new vehicle, your first home, an emergency savings account or your retirement. Using a realistic budget to forecast your spending for the year can really help you with your long term financial planning. You can then make realistic assumptions about your annual income and expense and plan for long term financial goals like starting your own business, buying an investment or recreation property or retiring.

How to budget in three steps

Step One: Figure out your income

Income is usually the money you receive regularly when working at a job. It can also come in other forms such as allowance from parents, interest from a savings account and monetary gifts, like on birthdays or holidays. Adding up all these sources according to a monthly or yearly intake will let you identify what your income is.

Step Two: Figure out your expenses

Expenses are the opposite of income. An expense is anything you spend *Your Money* on. Groceries, transport, your cell phone bill, utility bills and rent for an apartment are all examples of expenses.

As in Step One, you can figure out your expenses by adding them up. Save your receipts, use bank statements and look at bills and other documents to find the sum of what you spend monthly or yearly.

Step Three: Evaluate your budget

Now some simple mathematics: Subtract your expenses from your total income to see what money you have left.

If the expenses exceed income and you come up with a negative figure, you're in trouble. Spending in certain areas will have to be reduced to keep you financially healthy. Cut back wherever you can to ensure that your expenses are less than your income.

If you do happen to have money left over, that's great! Put this into a savings account or other investment. That way, you can save up to meet your goals, like attending college or university, buying a new gadget, planning for the purchase of your first house and many others. Keep your budget up to date as your income and goals change.

If you have some unanswered questions and you need additional tips on how to keep yourself financially healthy and take more control of your money, contact:

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