

Tips on Spending Wisely

We hear phrases or words about this subject all the time. *“There is a budget deficit”, “The budget was balanced”, “The financial goals of this next year are ...”*. They all sound quite formal and you may think they are only related to businesses. I am sure you even assumed that it is rocket science and not for you, but in fact you have been studying this area of finance since you were in short pants or wearing a skirt.

Remember when your parent, aunt, uncle or older cousin from overseas gave you some pocket money. Most of you treated yourself immediately to some good stuff, such as, corn curls, chewing gum, sugar cakes, lollipops etc. I am willing to bet that some of you also decided to keep a bit of change to help buy that toy or doll for Christmas or on your birthday. So if we follow the process, you formed a plan for your money, spent some and saved some. This shows that you have been practicing these techniques for a long time.

Let’s turn our attention to some words you hear often and will come across when you discuss any form of borrowing facility with a bank. They are a **goal** and a **budget**. Your goal is a financial objective set by you. For example, your financial goal might be to save enough money to make a down payment on a piece of land or a house or a car, or perhaps to pay for a vacation, invest in a personal retirement savings plan or send your child to university.

Your budget is your estimate of income and expenses over a specified period of time. This sounds very formal. The good news is that once again you do this all the time. Each of us earns income or a salary of some sort. You might be paid weekly, bi-weekly or monthly. Each payday you automatically refer to your budget whether it is formally written or not. You will have standard expenses to be paid e.g. utilities, rent or a mortgage, food and so on. You will also have tailored your life to ensure that your expenses are less than your income. This is a positive result.

A common thread running through all of these things is that you have to make some decisions about your finances. You did some financial planning. The more thought you put in to it and planning you do, the less likely it is that you will run in to problems. By now you will also

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realize that while you can ask someone for help in this process you need to be involved. The activities being discussed, your income and expenses are specific to you; you know the details. And that's why only you can devise goals and the associated plan to achieve them that are realistic and achievable. For example, do not plan to save \$400 a week if you earn \$450. \$50 for all of your expenses seems unrealistic.

If you review the examples above you will see that some key points run through them. You need to have goals (what is the result you want to achieve), a plan (your budget), you plan your activities over a specified period of time (from pay day to pay day), there is a fixed resource (your income is fixed), and you ensure that your expenses are less than your income (positive result).

So there you have it the secrets behind spending wisely is to adopt all of these things.

1. Be prepared to spend some time making decisions about your financial future. It is important.
2. Develop your financial goals - both long term and short term.
3. Develop a budget to match your goals. Plan for a positive result.
4. Test your goals and budget to ensure that they are realistic and achievable.
5. Review your spending against your budget over your pay day periods.

Finally, remember there is no magic formula. Your approach and solution is specific to your situation. So why not take the time to prepare your goals and budget. Invest the time in yourself, no one else can.

Submitted by K. Campbell, Country Head, FirstCaribbean International Bank, St Kitts and Nevis, as part of the Eastern Caribbean Currency Union's Financial Literacy Month Programme Oct. 2003 - "Building Strong Economies Depends on You and Me".