

African Bank Limited press release

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### **Budgeting is as easy as 50/20/30**

While most people know that a budget is necessary, many simply don't have the time to do the research and the leg-work that goes into actually creating one - or one that works, at least. According to African Bank, drawing up a budget isn't the intensive and confusing task a lot of people think it is and the application of a simple rule is one sure way of organising your finances for good.

"It's the 50/20/30 rule," explains Alfred Ramosedi, African Bank Group Executive: Sales and Marketing. "Basically, this rule states that 50% of your budget should go towards paying your fixed expenses, 20% towards your savings and investments and, finally, 30% should be reserved for any additional costs that vary from month to month, such as petrol, groceries, entertainment, eating out, etc."

A practical example is if, for instance, you earn R16 000 per month. This would mean that a maximum of R8 000 should be dedicated to paying your fixed expenses, R3 200 to your savings and investments and R4 800 to your additional, varying expenses. It is best to break this down even further, adding categories to these three separate portions of the budget, as indicated in the table below:

<b>FIXED EXPENSES</b>	<b>SAVINGS AND INVESTMENTS</b>	<b>ADDITIONAL EXPENDITURE</b>
Rent: R 4 500	Savings Account: R1 500	Groceries: R2 475
Medical Aid: R1 360	Fixed Deposit: R1 700	Petrol: R1 120
Water and Electricity: R 1 250		Entertainment: R960
Car Insurance: R750		Dining Out: R2 335
<b>TOTAL: R 7 860</b>	<b>TOTAL: R3 200</b>	<b>TOTAL: R6 890</b>

"Looking at this example of a budget, everything works out perfectly except the additional expenditure, which is R1 950 over budget," Ramosedi points out.

"This is where many South Africans make a fatal financial error. Instead of addressing their over-expenditure in this category of their budget, they're likely to use money meant for savings and investments or even rent and electricity money to fund entertainment and

other luxuries for the month.”

According to African Bank, the wiser choice is to cut down on spending in the additional expenditure category and this can be done in a number of ways, for example:

- Limit the number of times you eat out during the week.
- Eat at restaurants that have cheaper, better-value meals.
- When going shopping, take a certain amount of cash to cover the cost of items you intend to buy.
- Pay attention to the brands you buy when you grocery shop.
- Compare prices on different types of items with other stores before making purchases and take advantage of special offers.
- Don't buy items that on sale that you normally wouldn't buy.
- Restrain yourself from impulse spending.

“Anyone who has had to apply for debt consolidation will understand what it feels like to wish you'd been a little bit more budget-savvy and a little bit more credit-conscious. The key to financial freedom is being strict about recording all of your cash outlays throughout the month and sticking to the limits that you have set out for yourself. A budget is a lot of trial and error but once you find what works, you will be well on your way to safeguarding a worry-free financial future,” Ramosedi concludes.

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**ENDS**

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