

African Bank Ltd press release

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Take control of overspending with a budget

Minister of Finance Tito Mboweni would certainly have had his work cut out for him in finalising the 2020/21 budget in favour of stricter spending and boosting the economy. It is no small feat to be in charge of this large financial plan which an entire nation is depending on to pull South Africa out of a recession.

Neil Thompson, Head of Product and Customer Value Proposition at African Bank, says that while consumers celebrate the small national budget wins, like personal tax relief and no increase in VAT, they should also consider the value of applying a budget to their personal finances.

He explains that while the concept of building wealth and financial independence is very simple - spend less than you earn - it is something many people find very difficult to execute.

“South Africans are notoriously bad savers and good spenders, with more than half of credit-active consumers handing over 70% of their salaries to debt every month,” says Thompson.

“People live beyond their means for many reasons. To remedy this and get onto a better financial path, the first step is to identify the emotional and psychological reasons you spend too much money. Once you understand this, you are better equipped to rehabilitate your bad money habits.”

5 common reasons people overspend:

1. **FOMO (Fear of Missing Out):** Thanks to social media, the desire for everything money can (or can't) buy is through the roof. Friends' lives look glamorous and carefree as they flit around from holidays to events, shopping and more. If you are green with envy and simply have to burn up your credit card to get the gadget or book the ticket, rather turn your envy into aspiration and save to buy the things you really want.
2. **Impulse buying:** If you find yourself making the majority of your shopping decisions in the grocery aisle, you are an impulse buyer. Plan ahead by making a list and setting a budget, then get into the store, get what you need and get out.
3. **Credit is easy:** Handing over a credit card is far less “painful” than handing over cash, which leads to easy overspending. When you budget you will likely only have as much money on you as you need. Weaning yourself off credit will soon show you how dependent you actually are! Deal with the withdrawals by sticking to your budget and saving some money on the side to pay your credit card off sooner.
4. **No budget:** If you do not know what you earn, spend and owe, there will be no limit to your bad spending habits. When you use a budget to plan how to spend, you will know whether you have the money to do the things you want to do or need to do.

- 5. No savings:** Crises are a fact of life. If you haven't saved for an emergency you are likely to swipe your credit card or even take out more credit. You should be saving at least 10% of your salary every month for emergencies, like medical bills or car repairs.

“It is not impossible to spend less than you earn. Identify what makes you overspend money and use the simple concept of budgeting to help you pave a brighter path to financial freedom,” Thompson concludes.

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