



Budgeting in Malaysia

What to Budget for and Why

by Hann Liew

The main problem with doing most budgets is that they don't often work! Budgets are typically done on a monthly basis in line with our income frequency, yet our spending patterns are far less predictable when it comes to daily lunches, weekly trips to the cinema, or yearly birthdays / family trips / festivities.

What is a Budget?

Very simply, a budget is a financial plan. But unlike paying lots of Ringgit to a financial expert with many acronyms after their name (e.g. CFP, CFA, CPA, MBA, PhD, etc.) to come up with one, a budget is a type of financial plan that you can actually do for yourself.

In the purest form, a personal budget is a summary of all your income and expenditure, done with the purpose of seeing whether one is larger than the other.

You basically put all your income on one side of a sheet and group your expenditure on the other.

What Do I Need for Preparing My Own Budget?

Budgeting involves more than just listing down what you think you spend. Effectively, it should be a thorough critical analysis of your actual spending. For this, you will need the following:

- bank statements, preferably for the last 3-6 months
- credit card bills for the last 3-6 months
- if possible, receipts for items paid for in cash (and card too)
- most recent payslips

Don't worry about not having all the details; just start filling in what you can and it will eventually get easier.

Why Should I Make a Budget?

1. Find out if you spend more or less than you earn.

Going along based on simple observation and your gut feeling are easy enough. If you notice the balance in your savings account decreasing or your debts (credit cards and personal loans) increasing every so often, you are probably overspending. Doing a budget helps you see exactly how much you are overspending by each month or year; it also gives you a more accurate idea of the size and scale of the problem, if you have one.

Overspending can lead to several problems, including a vicious debt cycle of taking out more loans and credit cards to service your overspending and the existing debt that you have.

2. Know what you spend and how much you spend.

By doing a budget, you can break down exactly where your expenditure goes and more accurately see if you're actually spending how much you think you are.

3. Plan your spending in the future.

If you are aware of your personal financial situation, you can more easily take control of your spending and actively manage your own personal 'profit-and-loss' statement, so you know what you can and cannot afford to spend. This allows you to prioritise your spending according to your means; you can then plan your future spending by setting spending targets and sticking to them.

Even if you are not the type to 'stick to a budget', doing a personal budget is a useful way to have an overview of your financial situation as well as your types of expenditure.



Should I Make a Joint Budget with My Spouse / Family?

This depends on whether you want to combine your incomes and expenditures - and whether you can! Quite often, joint expenses are difficult to separate, so you may have to create a budget together anyway.

The SaveMoney Style of Budgeting

Budgets typically don't work not because people don't stick to them, but because they are wrongly put together from the start. How does one account for everyday snacks, one-off purchases of clothes or home furniture, the biannual trip to the car service centre, or even the annual family holiday or *balik kampung* exodus? Moreover, people are usually too general when it comes to budgeting: for instance, 'car expenses' include fuel, parking, maintenance, tolls, insurance, road taxes, etc. While this is fine overall, you do lose some information about where you could be saving your money and where you could think about cutting down.

Available online at savemoney.my, our nerdy web team has created a budget tool which accounts for this problem, allowing you to enter expenditure based on the time period considered, as well as categorise expenses with sufficient sub-categories. But first, some quick FAQs and tips:

Be Specific

Some budgets fail because the categories are too general. For example, 'household spending' can encompass the daily necessities of food and cleaning products to monthly household bills like electricity and water, as well as more long-term spending items like TVs and computers. However, if you are specific, you will be able to see the breakdown between more categories and identify any spending habits you wish to change.

Average Your Spending

Your spending could vary quite significantly from month to month. For example, if you do most of your grocery shopping on weekends, the months with 4 weekends will have a lower 'household groceries' figure than the months with 5 weekends. By taking an average of your spending over several months (3 or more would be ideal), you can get an accurate assessment of your monthly spending. Alternatively, you can take an average of spending over several weeks and fill in an average weekly amount.