

## How do you create a budget?

- A. Compute your income (from salary, government allowances, bonuses, etc.).  
 B. Itemise your expenses by category (savings, home, transportation, loans, etc.).  
 C. Calculate your net income and put it to good use.

### A. Compute your income

Income	Amount (AED)
Salary	
Government allowances	
Bonuses	
Other <sup>1</sup>	
<b>Total income (A)</b>	<b>(A)</b>

### B. Itemise your expenses

Expenses	Amount (AED)
<b>1. Pay yourself first (B1)</b>	<b>(B1)</b>
SMART savings goal(s)	
<b>2. Home expenses</b>	
Home finance <sup>2</sup> / rent	
Association and/or maintenance fees	
Utility bills	
Home repairs	
Housekeeping staff	
Other	
<b>Total home expenses (B2)</b>	<b>(B2)</b>
<b>3. Transportation expenses</b>	
Car payments	
Petrol/fuel	
Transportation (taxi, bus)	
Auto repairs	
Other	
<b>Total transportation expenses (B3)</b>	<b>(B3)</b>
<b>4. Health expenses</b>	
Health insurance	
Medical emergencies	
Fitness (gym membership)	
Other	
<b>Total health expenses (B4)</b>	<b>(B4)</b>
<b>5. Loan/finance payments (other than home)<sup>3</sup></b>	
Credit cards	
Car loan/finance	
Personal loan/finance	
Other	
<b>Total loan/finance payments (B5)</b>	<b>(B5)</b>
<b>6. Other expenses</b>	
School fees	
Groceries	
Clothing	
Entertainment	
Beauty services	
Vacations	
Dining out	
Other	
<b>Total other expenses (B6)</b>	<b>(B6)</b>
<b>7. Financial planning expenses</b>	
Life insurance	
Higher education savings	
Retirement savings	
Other	
<b>Total financial planning expenses (B7)</b>	<b>(B7)</b>

**Total expenses (B = B1+B2+B3+B4+B5+B6+B7)**

**(B) (AED)**

### C. Calculate your net income

**Net income (C) = (Total A – Total B)**

**(C) (AED)**

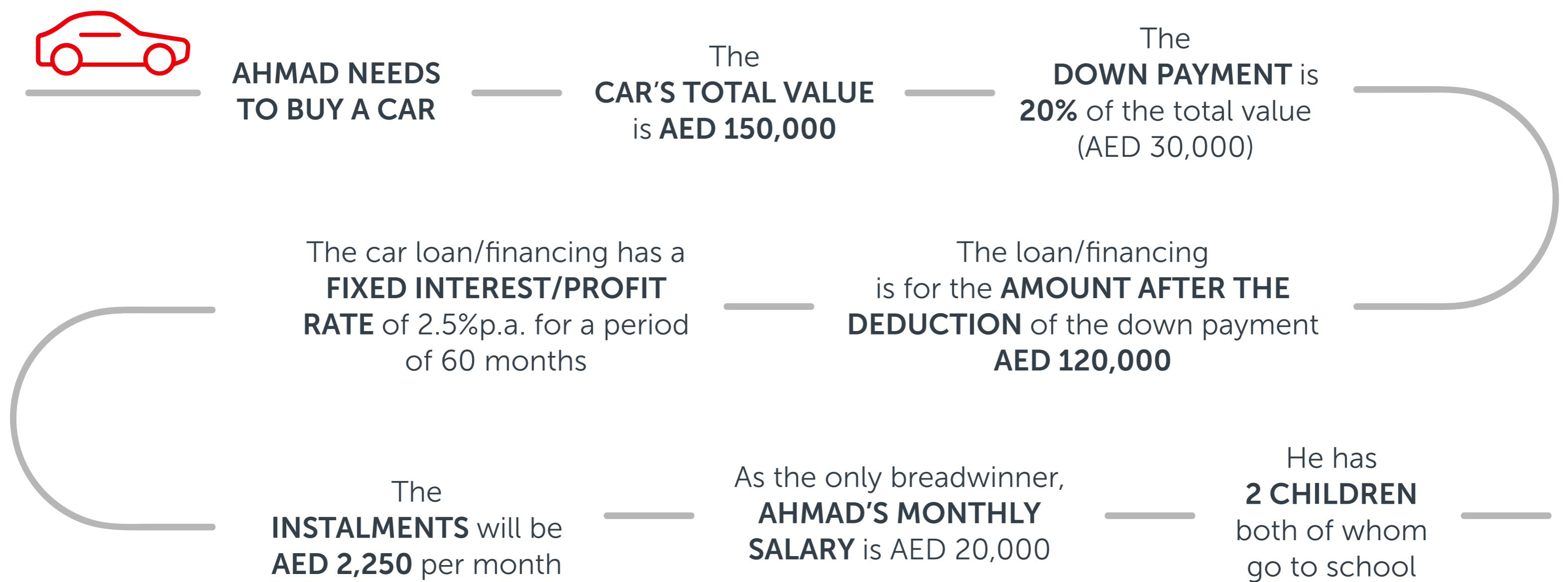
Net income/savings	Amount from (C) (AED)
Emergency fund	
Extra payments towards debts	
Other	

<sup>1</sup>Examples of other income include gifts, dividends or investment returns.

<sup>2/3</sup>Check your Debt-Burden-Ratio (DBR). This is your ability to repay a loan/finance by comparing your income and debt. For e.g. a person who earns AED 40,000/month, paying a monthly loan/finance installment of AED 10,000, will have a DBR of 25%. In the UAE, DBR is capped at 50% by the Central Bank.

## A SMART case study

Use the SMART strategy to determine if Ahmad's decision to buy a car is 'SMART'.



### STEP 1: Calculate Ahmad's Budget

Using the information above we can determine what effect his purchase will have on his budget. To begin, let's calculate his budget.

Calculate budget

### STEP 2: Run the 'SMART' test

Is Ahmad's goal to buy this car 'SMART'? Is the goal,

<b>Specific?</b>	<b>Measurable?</b>	<b>Achievable?</b>	<b>Realistic?</b>	<b>Time-bound?</b>
(yes/no)	(yes/no)	(yes/no)	(yes/no)	(yes/no)
A goal is specific if it answers the five 'W' questions: Who is involved? What do you want to accomplish? Why are you pursuing these goals? Where will it be done? Which requirements and constraints exist?	Measurable goals can answer these questions: How much? How many? How will I know when it is accomplished?	Achievable goals can answer these questions: How can the goal be accomplished? How realistic is the goal based on existing limitations?	A realistic goal must answer these questions: Does this effort seem worthwhile? Is this the right time? Does this match my other "needs"? Can I afford it?	A time-bound goal can define these questions: When? What can I do six months from now? What can I do six weeks from now? What can I do today?

### STEP 3: Ask if a 'SMART' goal is a "NEED" or a "WANT".

"Needs" come first.

**What did you find?**

## Where can you save?

Here are few easy ways for you to reduce your expenses and increase savings by:

- Listing recent expenses
- Considering which ones you can realistically reduce or eliminate
- Estimating revised expenses
- Calculating the total possible savings: savings equals (Total A) – (Total B)

Expense item	Expense amount (AED)	How can you reduce this?	Revised amount? (AED)
Dinner	AED 650	Eat out less	AED 300

Total A

Total B

Total possible savings = Total A – Total B = AED \_\_\_\_\_

## **How to handle external pressures**

Social media has created an “envy spiral effect” which influences people to beef up their profiles, and in turn, affects money management.<sup>4</sup> Scroll through the newsfeed of any of your social media accounts and ask yourself:

### **Your newsfeed**

- 1. What kind of images do you see?**
- 2. What kind of images are friends and followers posting?**
- 3. What messages do the images and ads send?**
- 4. What feelings are produced by these images and ads?**
- 5. Do they make you want to spend?**
- 6. Is this something that you “need” or “want”?**
- 7. Regarding ads, what product information is given or missing?**
- 8. Is this purchase a ‘SMART’ goal?**
- 9. What are the financial implications of buying?**
- 10. Have you budgeted for this?**

### **Your social media accounts**

- 1. Which social media accounts do you have and what kind do you follow?**
- 2. Has a friend ever posted a photo from a new restaurant? How did it make you feel? Did you feel like trying the same dish or going to the same restaurant?**
- 3. How would you feel if the post was pictures of a new house, designer handbag, new car or vacation?**

These questions are designed to help you self-assess your reaction to external influences and keep on track with your money goals.

<sup>4</sup>Study by Dr. Hanna Krasnova, Humboldt University, Berlin, Germany.

## Saving for long-term goals

Use the goal generator below to make note of your long-term goals, and help you track the total amount you need to save, how long you'll need to save for and frequency. We've started you off with an example.

Remember to record this in your budget sheet.

Goal	Total amount	Saving frequency	Savings per period	Duration
Kid's college fund	AED 120,000	Monthly	AED 1,000	10 years

## Know your borrowing options

Before you borrow, consider your options by understanding the difference between the type of loans/financing, and the benefits and drawbacks of each.

Borrowing product	Advantages	Disadvantages
Credit cards		
Car loans/financing		
Personal loans /financing		
Educational loans/financing		
Home loans/financing		
Overdraft		

To find out more about any of these products, get in touch with us at [adcb.com](https://adcb.com) or speak with an ADCB representative on **800 2030**.

## Reducing expenses

Many expenses can be easily reduced with some creative thinking.

Review your expenses and use the chart below to calculate which ones can be reduced and how.

We've started you off with an example.

Item	Monthly cost (AED)	Reduction strategy	New cost (AED)	Savings
ADDC	400-500	Water filter, low energy light bulbs	300-400	100-200

## **Understanding home ownership**

---

To help you recognise if you're ready for home ownership, we've set out a few questions that can help you determine whether buying or renting best meets your personal goals.

### **Sample Questions:**

1. Would you rather...

A. Stay in a fixed location for years to come

OR

B. Prefer flexibility to relocate

2. Would you rather...

A. Apply a large down-payment to build an asset

OR

B. Use the deposit for other goals

3. Would you rather...

A. Enjoy the lifestyle of villa living

OR

B. Enjoy the lifestyle of apartment living?

4. Would you rather...

A. Manage monthly home finance along with maintenance, furnishing and other costs?

OR

B. Pay a regular rental amount and have someone take care of the rest for you?

5. Would you rather...

A. Enjoy furnishing and designing your house as you like?

OR

B. Prefer living in pre-furnished and equipped place?

6. Would you rather...

A. Sell or rent out your property as per market value?

OR

B. Not worry about facing the real estate marketing?

7. Would you rather...

A. Set roots for your future generations?

OR

B. Enjoy discovering new places and opportunities?

8. Would you rather...

A. Settle down or start a family?

OR

B. Prefer living alone or with only few people?

### **YOUR RESULT**

**If you have more A answers,**

you are ready to own a home. Review your other expenses by using the budget sheet and try to save more by reducing expenses to pay off the cost of home ownership without difficulty.

**If you have more B answers,**

looks like your financial goals and lifestyle do not favour you owning a home right now.

It might be a good idea to revisit this decision in a while and consider purchasing a house at a later time.