Faculty of
Finance and Banking

The art of personal budgeting



Institutional project

Improving financial knowledge and skills among young people in Romania

2026

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About *homo economicus*

Every day we have to make choices about the money we have. Whether we are meeting basic needs (e.g., food), paying financial obligations to other parties (e.g., utilities, maintenance fees or rent, subscriptions, bank loan instalments), buying high-value items (e.g., a car, a home) or fulfilling wishes (e.g., a holiday on an exotic island), we all go through a decision-making process, perhaps without realising it, at the end of which we decide what to spend, save or invest. In practice, we decide how to allocate the financial resources available to us, and our choices direct money towards what we see as its best, most efficient or optimal use. In theory, this whole process turns us into homo economicus, a concept used in economics to describe a simplified model of human behaviour based on the following assumptions:

- Rationality – the decisions we make are logical and consistent;
- Self-interest – we act to maximise our personal satisfaction or benefit;
- Complete information – we have access to all relevant information when we make decisions;
- Stable preferences – our choices follow preferences that remain stable over time.

Thus, if homo economicus has to choose between two products, he will always choose the one that gives him the greatest utility at the lowest cost. In essence, homo economicus is the ideal economic and financial decision-maker, who makes optimal choices as classical economics understands them. Modern economics, psychology and the behavioural sciences draw attention to aspects that show our decisions can be influenced by human factors: we do not always act rationally, because we are subject to behavioural “biases”. One of these biases is overconfidence. If our choices rest on our own perception of our economic and financial knowledge and skills, we may introduce errors into the decision-making process. See the following example!



Our friend is a student at a prestigious university. His parents support him financially, paying his tuition fee, which is a substantial amount, as well as other living costs during his studies. He also receives a sum of money, not a very large one, as so-called “pocket money”.

Our friend likes to have fun with his friends and spend his free time with them, going on trips or travelling to unusual places. For these activities, he does not ask his parents for money; instead, he tries to multiply his pocket money quickly through gambling. In most cases he has turned out to be very lucky, and the amounts he lost were very small and did not significantly affect his finances. This time, his friends have planned a trip to an exotic island that costs as much as his tuition fee. His parents have just transferred the money for the fee to his account. The fee is due in one week. At the same time, he has to pay for the trip, which he wants very much. He has heard from his friends about cryptocurrencies and how some of them managed to double or triple the amounts they invested in just a few days. He has read several articles on the subject and follows a few experts who give investment advice. Confident in the knowledge he has gathered this way, and in his own ability to manage his money, he decides to invest the entire amount set aside for the tuition fee in a coin whose price is rising, as the recommendations are encouraging. His goal is to double the amount invested, which would allow him to pay both the tuition fee and the trip he so badly wants. His investment seems to pay off and the coin performs well, until the day he is due to withdraw his money. Exactly one day before the payments are due, the coin he invested in loses much of its value, and his investment is now worth only 10% of the initial amount. Although this example may describe situations that are rare in real life, it illustrates that overconfidence in our skills and knowledge can lead us to make decisions that, even if they seem rational to us, turn out to be disadvantageous or even disastrous.

Daniel Kahneman, winner of the 2002 Nobel Prize in Economics, said in an interview with The Guardian more than a decade ago that if he had a magic wand, of all the behavioural “biases” described by behavioural finance he would eliminate “overconfidence”, which is so deeply built into our mental structure that it cannot be changed unless other changes are made in our behaviour.

The decision-making process can also be affected by emotions or social norms, or limited by our cognitive capacity. We may live in a community that encourages a modest life in every respect, which limits us, even though we are surrounded by many opportunities that could give us an easy and prosperous life. If we are citizens of an Islamic country and want to save money in a savings account at a Sharia-compliant bank and benefit from compound interest at a fixed rate, we will find that this is not possible, because banks in that part of the world operate on a profit-and-loss-sharing model, and our return would be a share of the gains generated by tangible and ethical investments, gains that can fluctuate with the investment's profitability. This illustrates a limitation set by the social norms of the society we belong to. Or we struggle when we have to do maths, even simple calculations. We have always thought we were never good at maths, which has narrowed our cognitive capacity, and now we find it hard to understand how money grows when we save it in a savings account or invest it in shares or bonds. We often make impulse purchases under the influence of strong emotions, which we later regret. See the following example!



An acquaintance of ours is going through a difficult time after a romantic disappointment. He feels the need for validation and decides to buy a very expensive watch.

The salary he earns, his only source of income, would not allow this purchase. However, he has saved some money for unexpected situations, and it covers the price of the watch. The watch suits him perfectly and he receives many compliments. A week after the purchase, his car's engine suffers a major failure that requires replacing it or buying a new car. This is an unexpected expense for which our acquaintance no longer has any money available. Since the car is essential to him, because he lives outside the city and driving is the fastest way to get to work, you can imagine that he regrets the purchase he made a week earlier.

At the same time, not all of us are focused on our immediate self-interest; some of us show more altruism or a leaning towards social fairness. See the following example!



A friend of ours cares about the welfare of wild animals and, to support their cause, has decided to donate 10% of her salary, her only source of income, every month to an animal protection foundation. She manages her money using the 20-50-30 rule: she saves 20% of her monthly income, allocates 50% to current expenses and basic needs, and 30% to various wants.

Although her salary is slightly above the national average wage, she decided to donate 10% of the 20% set aside for saving to help the animals. She is saving for the down payment on an apartment. Her closest friends told her she is “not being rational” and that she should reconsider the donation: either give it up, give a smaller amount, or take it from the money set aside for wants, and make buying the apartment her number one priority. Even so, she explained to them that protecting wild animals is a very important project for her that brings her personal satisfaction, and that buying the apartment will simply take a little longer.

From the point of view of homo economicus, her choice may not match the principle of economic rationality. From a psychological or behavioural perspective, however, her decision follows a logic driven by the satisfaction she gets from being involved in wildlife protection.

Moreover, although we live in the information age and technological progress makes information easier to access, we may still fall short of the complete information that economic rationality requires. On the one hand, some information is available only for a fee, which limits access; on the other hand, disinformation seems to have reached quite alarming levels, and it is increasingly hard to tell truth from falsehood.

Under these conditions, the question arises whether we really are homo economicus and to what extent our economic and financial choices lead to an optimal result. We may not perfectly embody the traits of homo economicus, but one thing is certain: we make economic and financial decisions that reflect our own interest, fully or in part; that follow a certain logic, which may be dictated by our emotional state, personal goals or the social norms of the group we belong to; that rest on more or less complete information; and that reflect preferences which can change over time.

Are we financial managers?

Throughout our lives we face situations that, taken together, lead to decisions similar to those that companies' chief financial officers have to make. If we list their responsibilities, we will see that we tick off most of them. See the box below!

1. Financial and strategic planning – we set short-, medium- or long-term goals, such as buying a home, perhaps even starting a business, or securing a comfortable retirement, and we draw up financial plans to make sure our life goals will be achieved.

2. Budgeting and forecasting – we track the inflows and outflows that reflect our income and expenses, so that we can draw up the budget for the next period, anticipate certain major expenses and plan for them in good time to minimise their impact on our personal finances.

3. Treasury and cash flow management – every day we make sure we have the cash to make payments when they fall due, thus avoiding unnecessary debt.

4. Tax compliance – we make sure we pay on time the taxes and other obligations we owe the state: property tax, and the tax and social contributions on income from interest, dividends or sources other than salary.

5. Risk management – we aim to reduce our exposure to possible financial risks by setting up emergency funds for unexpected expenses, or we protect our income and assets by insuring them.

6. Financial reporting – if we have our own business, we will have to submit financial reports when the authorities request them, or file income tax returns so that the tax and social contributions we owe can be determined.

7. "Capital" management – we make decisions to save or invest the financial resources and assets we hold, or to use them to reach financial goals aimed at generating future benefits or value.

There is, however, one difference between us and companies' chief financial officers: education. Most financial managers have specialised training in economics or finance, which is why they make the most informed decisions about managing the finances of the company that employs them. Even so, we face similar problems with saving, investing, borrowing, spending, risk management and so on, even if on a smaller scale, and we have to make broadly similar choices, without having the knowledge and skills that their studies have given them.

This prospect can become overwhelming for many of us and may keep us from taking advantage of all the opportunities that could bring us financial well-being. Our advantage is that we live at a time when society is increasingly aware of the need for financial education from an early age, and more and more organisations offer ways to acquire and/or develop the knowledge and skills needed to make economic and financial decisions. Today, access to financial education programmes is much easier, and what is on offer covers the many needs of different age, social and professional groups. So all we have to do is sign up for such courses, read materials that explain specialist concepts in terms we can understand, and follow discussions and interviews with specialists, while being able to choose quality sources that provide accurate information, in line with economic and financial theory. So let's get started!



What is a budget?

In many cases, participants in a financial education programme are interested in growing their money through investments and want to learn everything about the most profitable investment strategies from the very start. In effect, they expect a one-size-fits-all recipe that works like magic and delivers quick results. Our general advice is to be patient and go through the whole process of understanding the concepts and building the skills. And the first step is to fully master the “art” of drawing up and managing a personal budget, meaning that we show skill, mastery and judgement when we prepare our budget, rather than simply applying various techniques or rules mechanically.

But what is a **budget**? Most of us would answer that it is the amount of money we have available and will spend on goods and services to meet our needs and/or fulfil our wishes.

The answer is correct, but a budget is more than that. It is also a tool we can use to manage our personal finances. It is the means by which we can organise our income and expenses, and we can use it for planning. Drawing up a budget systematically helps us become more aware of the decisions on spending, saving, investing or borrowing we have made over a given period. A budget helps us maintain discipline in our personal finances and stick to our plans. A budget can be revised if unexpected events affect us financially, but any revision must be justified. If you are wondering what the budget of a Romanian household looks like, you can find the answer in the boxes below.

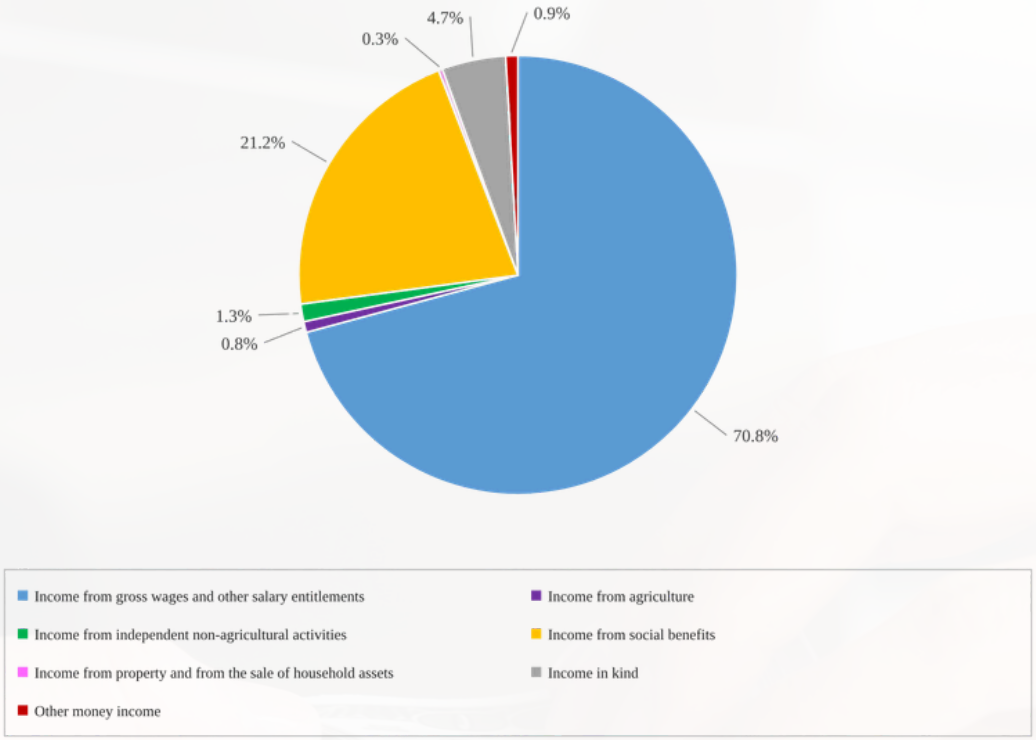


When we draw up a personal budget, the first step is to identify the income we have and where it comes from. To see the structure of household income in Romania (Figure 1), we can use the latest data published by the National Institute of Statistics for the first quarter of 2026.

In this period, average total monthly income was 9,444 lei per household. The most important source of income was gross wages and other salary entitlements, which averaged 6,682 lei per household per month and accounted for 70.8% of total income. In other words, about seven out of every ten lei of a household's total income come from wages.

The second most important category is social benefits, which amounted to 1,999 lei per household per month, or 21.2% of total income. This category includes income such as pensions and other social protection benefits. Most of households' total income is money income, a category that also includes wages and social benefits. Income in kind accounted for 4.7% of total income, or about 448 lei per household per month. This includes income in kind received by employees and recipients of social benefits, such as the value of food and non-food products consumed from own resources.

Figure 1. Structure of total household income in Romania – Q1 2026



Source: authors' own elaboration based on Press Release no. 244 / 25.09.2026 of the National Institute of Statistics (https://insse.ro/cms/sites/default/files/com_presa/com_pdf/abf_tr1r26.pdf)

The income structure thus highlights the dominant role of wages, followed by social benefits, in making up the income of Romanian households. The high share of wages shows that households' financial resources depend, to a large extent, on the continuity and stability of this source of income. From the standpoint of managing a personal budget, identifying sources of income and how stable they are is essential for sound decisions on spending, saving and investing.

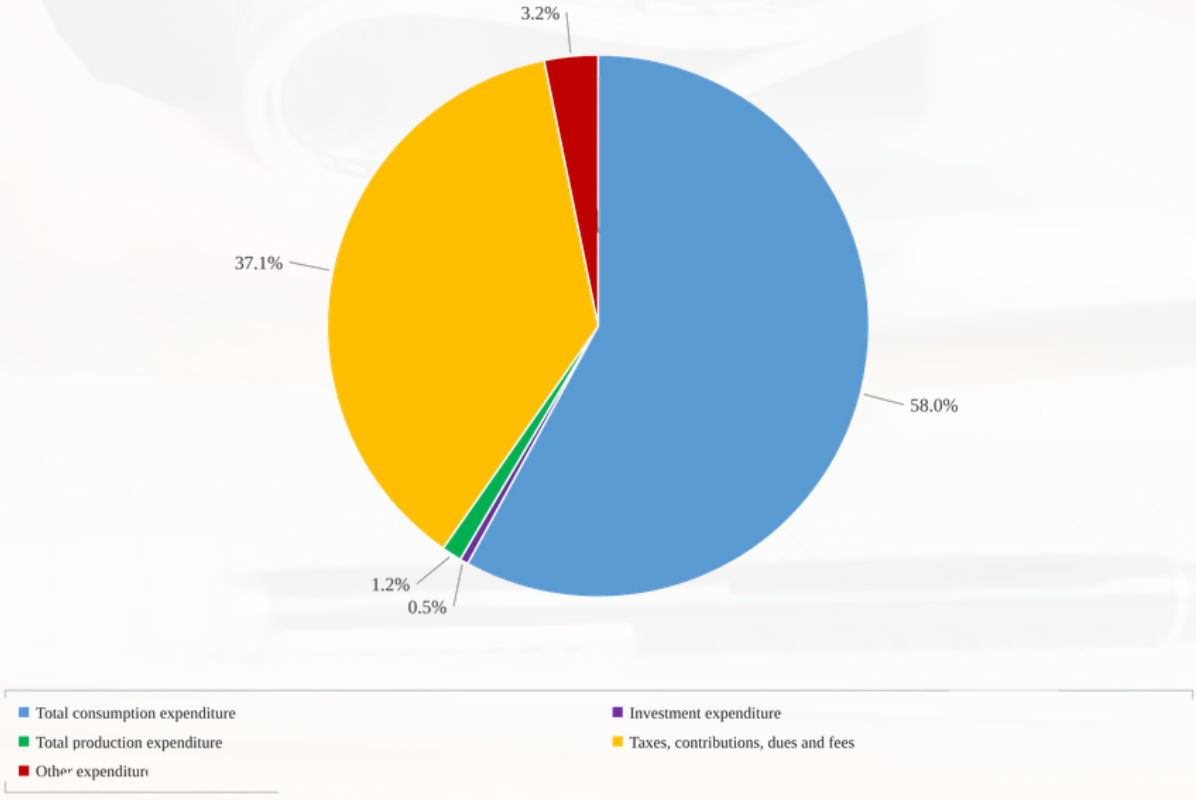
At the same time, in the structure of the main sources of income presented by the National Institute of Statistics, income from financial operations, such as interest and dividends, is not shown as a separate category. This indicates that these sources are relatively unimportant compared with wages and social benefits. From a financial education perspective, saving and investing part of our disposable income can, over time, help diversify our sources of income and partly reduce our dependence on wages.



Once we have identified our income, the next step in drawing up a personal budget is to analyse how the available resources are used (Figure 2). According to the latest data published by the National Institute of Statistics, in the first quarter of 2026 average total monthly expenditure was 8,015 lei per household, or 84.9% of total income.

The main destination of spending was consumption, which amounted to 4,644 lei per household per month, or 58% of total expenditure. Transfers to the public administration and to public and private social insurance funds, in the form of taxes, contributions, dues and fees, also had a large share, at 2,972 lei per household per month, or 37.1%. Expenditure related to household production accounted for 1.2% of the total, or 99 lei per household per month.

Figure 2. Structure of total household expenditure in Romania – Q1 2026

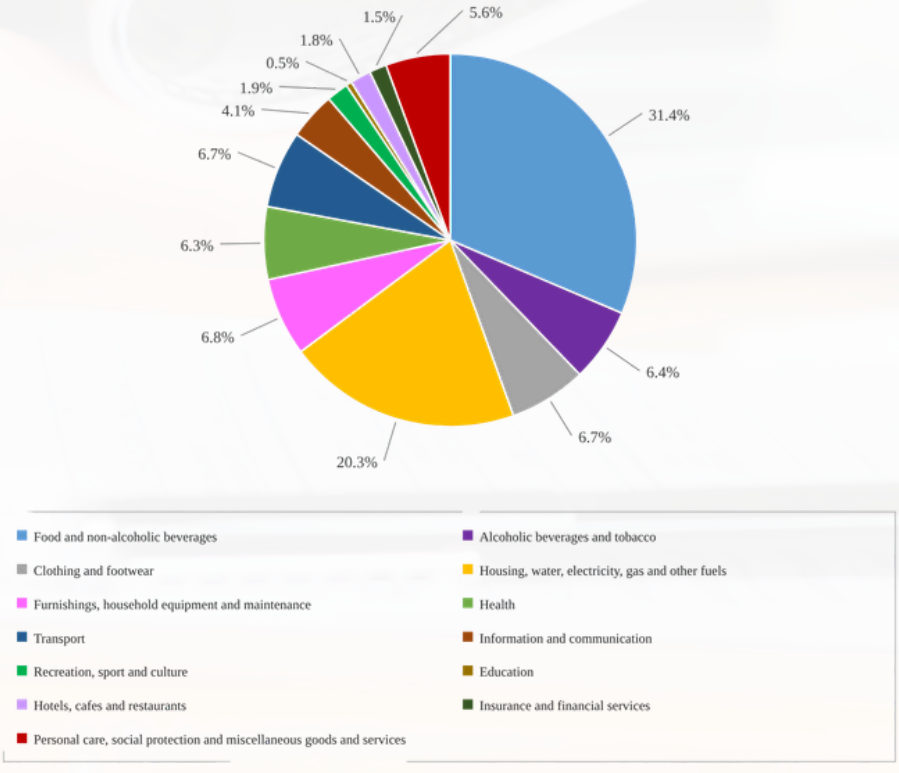


Source: authors' own elaboration based on Press Release no. 244 / 25.09.2026 of the National Institute of Statistics (https://insse.ro/cms/sites/default/files/com_presa/com_pdf/abf_tr1r26.pdf)

The structure of total expenditure shows that most resources go to current consumption (Figure 3), while a large share consists of taxes, contributions, dues and fees. From the standpoint of managing a personal budget, however, what matters is not only the total level of spending but also where the money spent on consumption goes.

Within consumption expenditure, the largest share went to food and non-alcoholic beverages, for which households spent an average of 1,456 lei per month, or 31.4% of total consumption expenditure. Next came spending on housing, water, electricity, gas and other fuels, at 943 lei per household per month, or 20.3% of consumption expenditure. Other important categories of consumption expenditure were furnishings, household equipment and home maintenance, with a share of 6.8%, clothing and footwear and transport, each with 6.7%, alcoholic beverages and tobacco, with 6.4%, and health, with 6.3%. The differences between these shares are very small, which shows that Romanian households allocate comparable resources to consumption categories with very different purposes.

Figure 3. Structure of total household consumption expenditure in Romania – Q1 2026



Source: authors' own elaboration based on Press Release no. 244 / 25.09.2026 of the National Institute of Statistics (https://insse.ro/cms/sites/default/files/com_presa/com_pdf/abf_tr1r26.pdf)

The structure of consumption expenditure gives useful information about households' spending priorities. A large share goes to basic needs, especially food and housing.

From the standpoint of managing a personal budget, this structure can be a starting point for analysing our spending priorities and for assessing how well they match our current needs and our medium- and long-term financial goals.

At the other end of the scale, education had the smallest share of the consumption categories presented by the National Institute of Statistics, only 0.5%, which corresponds to an average of about 23 lei per household per month. This low share should, however, be interpreted with caution, since a large part of educational services is provided through the public system and is therefore not fully reflected in households' direct spending.

Drawing up a personal budget is not complicated, but it takes time, patience and perseverance. As we practise, we will become more skilled and better at it, and over time it can become a habit. Next, we will look at the steps to follow.

Cashflow statement

If we don't know where to start, the first step is to look at our cash inflows and outflows. This means keeping a record, over a set period, of the amounts we receive as income and the amounts we spend. We can use a notebook, a diary, or a computer program that lets us build tables, charts and calculations for a more detailed analysis. What matters is that we are the ones keeping the record. Mobile apps or artificial intelligence can make this easier: they can show us what we have received and paid, how it breaks down, and even offer an analysis. But monitoring itself is a conscious action that requires our active involvement, and it will help us understand various aspects of our financial behaviour.

We can keep a record of our inflows and outflows every day or every month. This will help us track how well we are executing our budget, that is, how much of what we planned to receive or spend actually happened. We will see whether we stuck to the plan, whether we exceeded the amount set aside for spending and why, whether we received more than we expected, and whether the extra money is permanent or one-off income. If we are just starting out and have no experience yet in managing our personal finances in an organised way, the monitoring period should be one calendar year. Even if it seems long, over a year we can observe seasonal fluctuations caused by holidays (Christmas, Easter, birthdays, etc.), vacations and other unexpected events. We can, however, choose another period, provided it is the most relevant one for our finances. Once we have set it, we can start recording our inflows and outflows, keeping in mind the points presented below.

Statement of cash inflows and outflows

To buy the goods and services we need, achieve our goals and meet our financial obligations, we need financial resources. In personal finance, these are all the funds that an individual or household can obtain from various sources.



They can be income from wages and pensions (we saw in the previous section that these are the main sources of income in Romania), from self-employment, savings and other available cash, income from financial operations (interest, dividends, etc.), from investments or from the sale of assets (e.g., real estate), resources obtained through loans, and transfers (e.g., money received from family members, friends, etc.). We would point out here that financial resources obtained through loans are not income, because they must be repaid and they come with costs.

The same is true of money we spend using a credit card. That is precisely why monitoring our cash inflows helps us distinguish between types of financial resources and organise our payments according to their nature.

Cash inflows are all the amounts of money received by a person or household, and they show the actual cash coming in. For example, we have been notified that we will receive 10,000 lei in dividends on the shares we hold in a company. This is income for us, of a financial nature. However, the dividends may be paid into our account late, which means we cannot use that income yet and therefore cannot commit to payments.

Cash received over a given period may be recurring income, which we receive regularly and systematically. The clearest examples are wages, pensions or rental income, and perhaps even interest income if we choose not to reinvest it but to collect it every month. Identifying recurring income is important for seeing which amounts we can count on and commit to recurring expenses. We can also establish how regularly we receive this income. For example, wages and pensions are paid monthly (in most cases); rent can be received monthly or weekly (depending on the agreement between landlord and tenant); interest can be received monthly, quarterly or annually. Knowing how often we receive money will help us later when we draw up our budget and plan our finances.

We may also receive **occasional income**, such as winning a prize in a competition, a lottery win, or money earned from taking part in a project. This income can be the basis for future savings, for investments or for buying high-value items (a home, a car, etc.). Occasional income arrives irregularly and is highly uncertain. For example, if we won a cash prize at an international competition this year, there is no guarantee we will win again next year. Perhaps the eligibility criteria will change and we will no longer meet them.

By tracking our cash inflows, we can also spot any changes in our income (pay rises after a promotion, pension increases after indexation to inflation, etc.).

Let's see how it works! A friend of ours has set himself the goal this year of recording his cash inflows over a 3-month period (T, T+1 and T+2). He bought a diary and wrote down every day the amounts of money he received.

MONTHLY PLANNER

MONTH: T YEAR: N GOAL FOR THE MONTH: Monitoring cash inflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
01	02	03	04	05	06	07
08	09	10	11	12	13	14
15 net salary 5,820 lei	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	—	—	—	—

MONTHLY PLANNER

MONTH: T+1 YEAR: N GOAL FOR THE MONTH: Monitoring cash inflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
—	—	—	01	02	03	04
05	06	07	08	09	10	11
12	13	14	15 net salary 5,820 lei	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	—	—

MONTHLY PLANNER

MONTH: T+2 YEAR: N GOAL FOR THE MONTH: Monitoring cash inflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
—	—	—	—	—	01	02
03	04	05	06	07	08	09
10	11	12	13	14	15	16
17 net salary 5,820 lei	18	19	20	21	22	23
24	25	26	27	28 dividends 10,000 lei	29	30
31	—	—	—	—	—	—

What did our friend learn from this exercise of monitoring his cash inflows?

- In these 3 months, his main source of income is his salary, which is recurring and amounts to 5,820 lei. His salary may rise during the year.
- The dividend income in the third month, although almost double his salary, is occasional. Next year, the company in which our friend holds shares may decide not to pay dividends to its shareholders.
- A monitoring period of only 3 months may not be representative and may lead to conclusions that do not reflect reality. For example: in total, over the three months, our friend received 21,640 lei; on average, he received 7,213 lei per month; dividend income accounts for 46% of the total income received. If our friend drew up his budget for the next period based on an income of 7,213 lei per month, he would be making a mistake and would commit to expenses for which he would have no funds. That is why extending the monitoring period to the end of the year would help him better identify which income is recurring and which is occasional, and how often it is received.

Monitoring payment flows



Cash outflows are all the amounts of money that leave our accounts over a given period to cover expenses and financial obligations, or to reach our saving and/or investment goals.

As with cash inflows, we can group the payments we make into recurring expenses and occasional expenses. Recurring expenses are payments we make systematically and regularly. For example: building maintenance fees, rent, subscriptions, utilities, loan instalments, groceries, insurance premiums, taxes, etc. They make up the largest share of our total spending, and they should be paid out of recurring income. Occasional expenses are payments we make infrequently, usually linked to unexpected events, such as the cost of renovating an apartment after a major flood when those involved were not insured. Let's see what our friend does as he also monitors his payments over the same three-month period.

MONTHLY PLANNER

MONTH: T YEAR: N GOAL FOR THE MONTH: Monitoring cash outflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
01	02 rent 1,800 lei	03	04	05 maintenance fees 350 lei	06	07 groceries 250 lei
08 utilities 500 lei	09	10 subscriptions 140 lei	11	12 transport 150 lei	13	14 restaurants 100 lei
15 groceries 250 lei	16	17	18 health 50 lei	19	20 leisure 70 lei	21
22 groceries 250 lei	23 personal care 170 lei	24	25 clothing and footwear 250 lei	26	27 restaurants 200 lei	28 leisure 80 lei
29 groceries 250 lei	30 transport 350 lei	31	—	—	—	—

MONTHLY PLANNER

MONTH: T+1 YEAR: N GOAL FOR THE MONTH: Monitoring cash outflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
—	—	—	01	02 rent 1,800 lei	03	04 restaurants 100 lei
05 maintenance fees 350 lei	06	07 groceries 250 lei	08 utilities 500 lei	09	10 subscriptions 140 lei	11 leisure 70 lei
12 transport 150 lei	13	14	15 groceries 250 lei	16	17 leisure 80 lei	18
19 health 50 lei	20	21	22 groceries 250 lei	23 personal care 170 lei	24 restaurants 200 lei	25 clothing and footwear 250 lei
26	27 plumbing repair 610 lei	28	29 groceries 250 lei	30 transport 350 lei	—	—

MONTHLY PLANNER

MONTH: T+2 YEAR: N GOAL FOR THE MONTH: Monitoring cash outflows

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
—	—	—	—	—	01 restaurants 100 lei	02 rent 1,800 lei
03	04	05 maintenance fees 350 lei	06	07 groceries 250 lei	08 utilities 500 lei	09 restaurants 200 lei
10 subscriptions 140 lei	11	12 transport 150 lei	13	14	15 groceries 250 lei	16 leisure 70 lei
17	18	19 health 50 lei	20	21	22 groceries 250 lei	23 personal care 170 lei
24	25 clothing and footwear 250 lei	26	27	28 leisure 80 lei	29 groceries 250 lei	30 transport 350 lei
31	—	—	—	—	—	—

What did our friend learn from this exercise of monitoring his cash outflows?

- Over the 3 months, most of our friend's payments are recurring. They mainly cover rent, maintenance fees, utilities, groceries, transport, subscriptions and other day-to-day expenses. Identifying these expenses is important, because they must take priority when drawing up the budget for the coming periods.
- Some recurring expenses are paid once a month, while others involve several payments during the same month. For example, rent, maintenance fees or subscriptions are usually paid once, while spending on groceries, transport, restaurants or leisure is spread over the month. Monitoring how often we pay gives a clearer picture of how our financial resources are used.
- In month T+1 there was also an occasional expense of 610 lei to repair a fault in the plumbing. Unlike recurring expenses, such payments do not occur regularly and are harder to anticipate. That is precisely why they must be taken into account when we consider whether we need an emergency fund.
- A longer monitoring period can provide more relevant information about the level, frequency and nature of our expenses. It can help our friend better distinguish between recurring and occasional expenses and estimate more realistically the expenses he needs to plan for in his personal budget.



Net cash flow is the difference between total inflows and total outflows over a given period. It shows whether, during the period analysed, the money received was enough to cover the payments made.

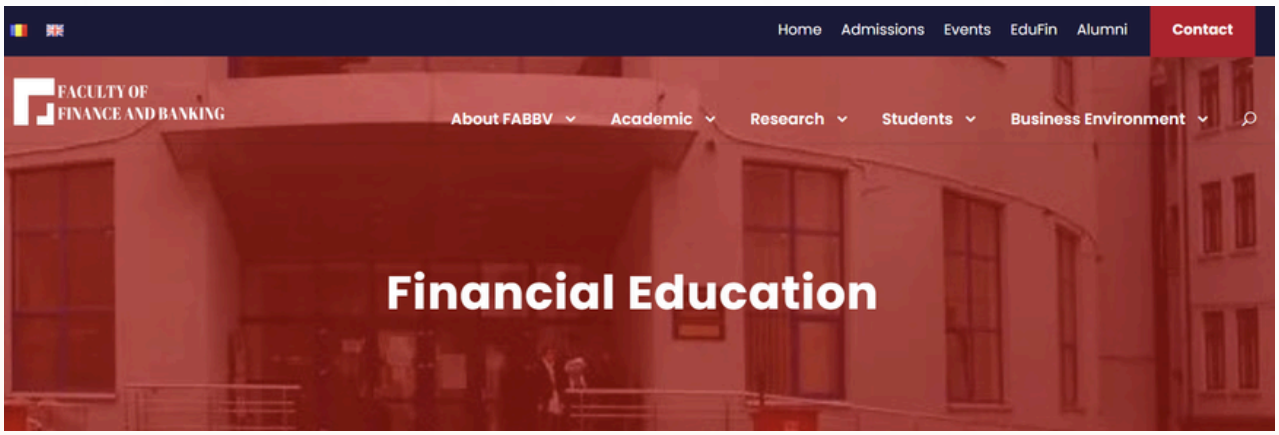
Depending on the relationship between inflows and outflows, net cash flow can be:

- **positive,** when inflows exceed outflows; in this case, there is a cash surplus at the end of the period;
- **zero**, when inflows equal outflows; in this situation, all the money received during the period was used to make payments;
- **negative**, when outflows exceed inflows; in this case, additional financial resources are needed to cover all payments.

Applying this to the situations analysed above, we see that:

- in month T, our friend received 5,820 lei and paid out 5,210 lei, giving a positive net cash flow of 610 lei;
- in month T+1, inflows and outflows were equal, at 5,820 lei, because of the occasional expense for the plumbing repair; net cash flow was therefore zero;
- in month T+2, inflows totalled 15,820 lei, made up of his net salary of 5,820 lei and dividends of 10,000 lei, while outflows were 5,210 lei; this gave a positive net cash flow of 10,610 lei.

Monitoring net cash flow helps us assess the balance between inflows and outflows and identify the periods when we have a surplus or, on the contrary, a shortfall of financial resources. This information is useful for planning our personal budget and for setting realistic savings goals.



Preparing the personal budget

Once the monitoring stage has shown us our main sources of income and our most important categories of expenses, we can move on to the next stage: drawing up our personal budget. The first decision we need to make is the time horizon for the budget. This depends on how often we receive and make payments. Most often, we draw up a monthly budget, because wages and pensions, the main source of income for a person or household, are paid monthly, and so are maintenance fees, utilities, loan instalments, subscriptions, etc. At the start of the calendar year, however, we can plan the budget for each month of the year, so that our financial situation is more predictable and we can better handle unexpected events that may bring significant unforeseen expenses. Online apps can make drawing up a personal budget easier. We have developed one ourselves, available at https://fabbv.ase.ro/edufin/. You can use it too! The box below shows you how.



After completing the stage of monitoring his inflows and outflows, our friend decides to draw up his budget for the following month, T+3 (Figure 4), setting himself the goal of saving 500 lei every month.

Our friend knows that an increase in electricity prices has been announced for next month, which will lead to a general price rise of 2%.

To build his personal budget, our friend will start from the recurring income and expenses identified during the monitoring period. On the income side, he will include his net salary of 5,820 lei, as this is his recurring source of income, but not the dividends received in month T+2, which were occasional.

The recurring expenses identified in the period analysed totalled 5,210 lei per month. Applying a general price increase of 2% gives an estimated 5,314 lei for month T+3. Adding the savings goal of 500 lei brings the total planned amount to 5,814 lei.

Compared with his salary income of 5,820 lei, the savings goal is feasible, leaving 6 lei unallocated. Our friend can therefore build his budget for month T+3 so that he covers his estimated expenses and, at the same time, saves the amount he set.

To organise the budget better, the expenses identified during monitoring are shown separately, according to their nature and purpose. This structure makes it possible to track the main categories of expenses separately and gives a more detailed picture of how income is allocated. The budget structure can also be analysed by the purpose of spending, grouped into needs, wants and savings.

Figure 4. Planned personal budget for month T+3



Source: authors' own elaboration using the Financial Education by FABBV app

In the budget planned for month T+3, needs total 4,600 lei, or 79.1% of monthly income. This category includes rent, maintenance fees, utilities, groceries, transport, subscriptions, as well as health and personal care. Wants are allocated 714 lei, or 12.3% of income; this category covers leisure, restaurants, and clothing and footwear. For savings, 500 lei has been planned, or 8.6% of monthly income.

After drawing up the budget for month T+3, our friend can follow during the month how it is actually carried out. The app lets him compare planned and actual amounts for each category of income and expenses, making it easier to spot any deviations from the original budget. He can thus see whether the plan was followed in full or whether changes occurred because his income or expenses varied. This stage is important for assessing how well the budget was executed and for justifying any adjustments in the following periods. At the end of the month, comparing planned and actual amounts shows how well the budget was executed and identifies the categories in which actual spending was higher or lower than estimated.

How do we save?

We are generally tempted to buy things “on sale”, because it makes us feel we are saving money. But if we look at the situation more closely, the money “saved” may already have been spent. Either we buy several units of the same discounted product and, once home, realise we didn't need so much, or that we can't use up such a large quantity of a perishable product; or we spend the money “saved” on something else that wasn't on our shopping list to begin with. In the end, we realise that nothing is left of the saving we made.

Another example: at the end of the month, we find that some money is left in our account after we have made all the planned payments. We are pleased, because we think we have saved that money. What actually happened is that we spent less than we received, for various reasons; for example, a payment we had planned for that month was postponed. In this case, therefore, the surplus was accidental.

Saving is a conscious process that involves building up a sum of money over a certain period, for a specific purpose, to meet future needs, wants or financial goals, such as the down payment on a home or a car, an emergency fund for unexpected expenses, or a tour of exotic countries. The simplest way to save is to "put money aside", whether we keep it in our current account, put it in a piggy bank or keep it "under the mattress". These ways of saving have some drawbacks. If we keep the money in our current account, we will be tempted to spend it. If we keep it under the mattress, its purchasing power will fall, or it may be stolen. An alternative is to deposit the money in a savings account at a bank. This way our savings will be better protected and, in addition, we will earn interest.



Our friend has set himself a new financial goal: saving 500 lei a month for 10 years in a savings account that pays 2% interest a year. Our app will calculate the amount our friend will have in the account in 10 years (Figure 5).

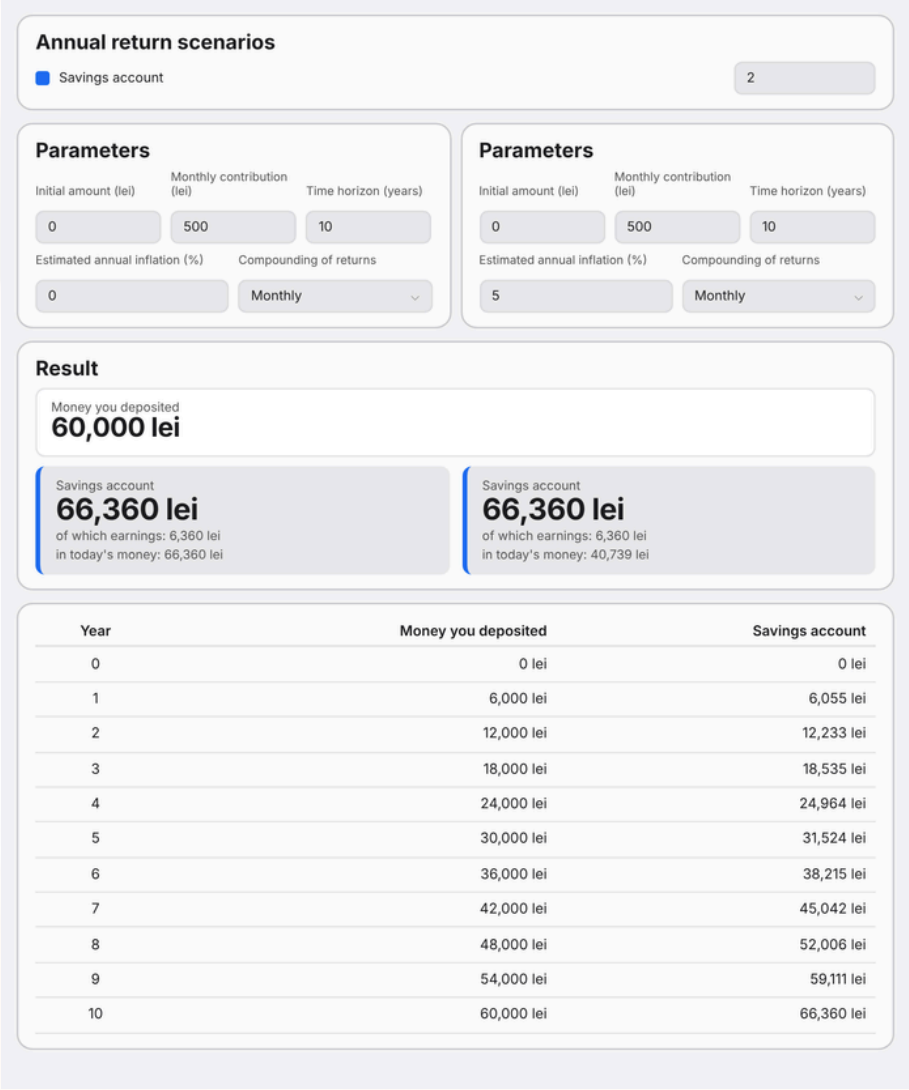
Over the 10 years, his own contributions add up to 60,000 lei, corresponding to monthly savings of 500 lei.

With an annual interest rate of 2% and monthly compounding, the amount accumulated in the savings account reaches 66,360 lei, the difference of 6,360 lei being the interest earned. Compared with keeping the same amount in a current account with no interest, a savings account lets him accumulate more, thanks to the interest earned and its compounding.

To show the effect of inflation on savings as well, two scenarios are analysed. In the first scenario, with no inflation, the 66,360 lei accumulated at the end of the period keeps the same value in today's purchasing power. In the second scenario, assuming an annual inflation rate of 5%, the nominal amount accumulated is still 66,360 lei, but it is equivalent to 40,739 lei in today's purchasing power.

Comparing the two scenarios shows that interest increases the nominal value of savings, while inflation reduces the purchasing power of the amounts accumulated. So when we assess the result of long-term saving, we should consider not only the amount accumulated and the interest earned, but also the real value of the amount at the end of the period.

Figure 5. Growth of savings over 10 years and the impact of inflation on purchasing power



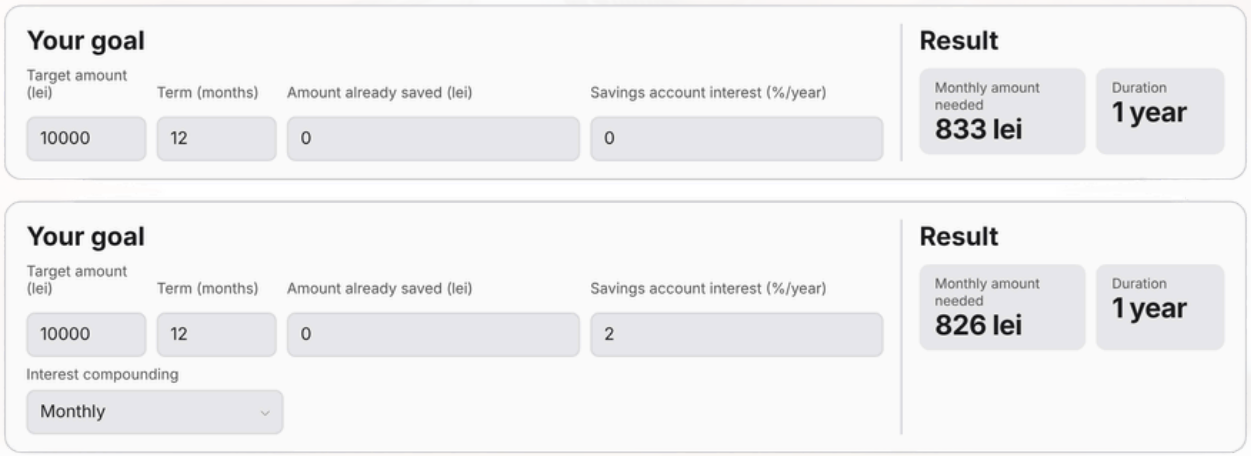
Year	Money you deposited	Savings account
0	0 lei	0 lei
1	6,000 lei	6,055 lei
2	12,000 lei	12,233 lei
3	18,000 lei	18,535 lei
4	24,000 lei	24,964 lei
5	30,000 lei	31,524 lei
6	36,000 lei	38,215 lei
7	42,000 lei	45,042 lei
8	48,000 lei	52,006 lei
9	54,000 lei	59,111 lei
10	60,000 lei	66,360 lei



An acquaintance of ours has decided to save money for one year so that next year she can go on a cruise that will cost her 10,000 lei. However, she does not know how much she needs to save each month to reach her goal. Our app will calculate this amount (Figure 6)

In the first scenario, we assume the money saved is kept in a current account that pays no interest. To accumulate 10,000 lei in 12 months, she needs to save 833 lei a month. In the second scenario, we assume the money is deposited in a savings account that pays 2% interest a year. In this case, the monthly contribution needed to reach the same goal falls to 826 lei.

Figure 6. Monthly amount needed to reach the financial goal, depending on the interest earned on savings



Source: authors' own elaboration using the Financial Education by FABBV app

Comparing the two scenarios shows that earning interest on savings reduces the monthly contribution needed to reach the same financial goal. In this case, the difference is 7 lei a month, with the amount needed falling from 833 lei to 826 lei. The difference is relatively small, given both the time horizon of only one year and the annual interest rate of 2%.

In the second scenario, we assumed monthly compounding of interest, which means that the interest earned is periodically added to the amount saved and, in turn, earns interest in the following periods. The effect of this mechanism grows as the saving period gets longer.

One last point we want to highlight is saving to build an emergency fund for unexpected situations. The EU-wide survey on financial literacy, carried out in March–April 2023 and published as Flash Eurobarometer 525 (Monitoring the Level of Financial Literacy in the EU), shows the level of financial fragility in Romania. Asked “If you lost your main source of income today, how long could you cover your living expenses without borrowing money or moving house?”, 25% of respondents in Romania said they had no emergency fund, compared with an EU average of 16%, and only 23% said they had savings that would cover their living expenses for 6 months or more, again below the European average of 33%. This financial fragility makes us vulnerable to unexpected events and shocks that can turn our lives upside down and affect us financially as well. That is why saving is so important. If we find it difficult, thinking we don't have enough money “to put aside”, we can start by saving small amounts we are comfortable with, as often as suits us best. For example, if we put 5 lei into a savings account every day, in 5 years we will have saved almost 10,000 lei. If we double the amount, we will accumulate about 20,000 lei. All it takes is to set a goal, keep it in mind, make a plan and act on it.