



Budgeting

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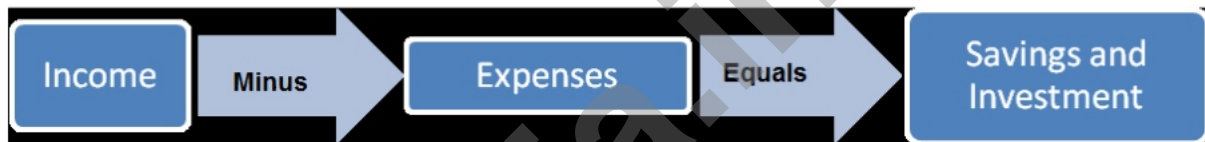
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[The lessons from this little case are](#)



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- Financial planning does not need to be discarded in an emergency; it must be carefully altered to suit the situation. Later it can be set back on track for the same goals.
- Always set aside some money for emergencies; one can never tell when they will pop up. The best way to plan for emergencies is to ensure that the family has adequate health insurance and the main earning member has enough life insurance

1. Transfer your debt to a lender who charges a lower rate of interest: Sometimes, as in the case of Arvind, people borrow from money lenders, who charge a very high rate of interest. When they are unable to pay back the amount with interest, within the specified period, the period is extended. But with increase in tenure, you also end up paying a much larger amount as interest. The family keeps struggling to pay off the interest component and never manage to pay off the actual loan. In such cases, you must find out if a micro-finance institution or bank in your neighbourhood is ready to give you a loan that equals what you owe the money lender. Even if they are willing to give you part of the amount, you will be

partially free of the moneylender's loan.

2. Pay off your higher interest loans first: If you are not able to pay all your loans back at the same time, pay off those which have a higher rate of interest on them. This will reduce the overall amount that you have to pay.
3. Make a very strict budget for yourself and your family: Nobody likes to live with loans. Try to first pay out at least 30 per cent of your income towards repaying your loans, or more if possible. Then, use the rest on your house hold expenses. Within household expenses, list out those that are necessary (food and education, etc.) and those that you and your family can do without, such as entertainment and spending on festivals and guests. Then try to do without the latter until your loans are paid off.

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