Financial-Legal Literacy Manual for Europe

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Financial-Legal Literacy for Europe

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Foreword

Welcome to the Financial-Legal Literacy Manual for Europe (the Manual), developed as part of the EU co-funded Erasmus+ project (Unique Code: 2020-1-FR01-KA204-080562 ; KA2 - Cooperation for innovation and the exchange of good practices) titled "Financial-Legal Literacy for Europe" (FIN-LEG-LIT) (www.finleglit.eu).

Since its launch in October 2020, the FIN-LEG-LIT project has united five partner organizations from four participating countries (in alphabetical order):

- Bulgaria (European Multicultural Association)
- France (Eurl Aristote and OENE - Organisation for Empowerment and Non-Formal Education)
- Italy (RFS EUROFORM)
- Lithuania (VšĮ Finansų teisės institutas)

The lead author of the Manual is Dr. Tomas Veršinskas, supported by Rokas Lazdauskas and Rokas Liaudinskas, all from VšĮ Finansų teisės institutas. All project partners contributed specific data and knowledge collected during the project, supporting the elaboration of the Manual and ensuring the translation of the Manual into their respective linguistic versions. The illustrations of the Manual were prepared by Hervé Pinel. The Manual was reviewed by the financial expert Andrius Normantas and the legal expert Mantas Meizeraitis.

This Manual is a comprehensive resource aimed at enhancing the financial and legal literacy of citizens across the European Union. Based on the materials of the Manual, the FIN-LEG-LIT project has also developed the Online E-learning Tool (the E-Tool), offering accessible online financial-legal education, enabling learning in any environment, at any time. The Manual and the E-Tool are available in five languages: Bulgarian, English, French, Italian,

and Lithuanian. The Manual was published in both paper format and pdf version, available at www.finleglit.eu .

The Manual and the E-Tool were developed considering the significant financial and investment losses the EU faces due to varying levels of financial and legal literacy among its citizens. The 2023 Eurobarometer survey of the financial literacy of EU citizens[1] has demonstrated strong disparities among member countries, which contribute to fragmentation and economic imbalances across the EU, leaving individuals vulnerable to economic fluctuations and crises, especially amid the challenges posed by the COVID-19 pandemic, war in Ukraine and other crisis situations.

The FIN-LEG-LIT project aimed at low-income, low-skilled, and/or low-qualified adults in the EU countries, who, according to the mentioned Eurobarometer survey (2023), are particularly vulnerable in terms of financial literacy. While targeting this audience, the Manual and the E-Tool may also be useful to all Europeans seeking to advance their financial-legal knowledge related to personal finance management.

The Manual and the E-Tool are designed to be used as group training material in seminars, workshops, and lectures, as well as for individual learning. The said instruments were elaborated in a way to best fit the needs of European citizens from different EU countries and therefore they rather provide universally applicable information, without aiming specific country and the specific financial and legal context. Therefore, the information provided in the Manual and the E-Tool should be seen and applied considering the local context.

The Manual is strongly inspired by the Financial competence framework for adults in the European Union[2] adopted in 2022 and is among the first financial-legal literacy tools applying the said framework in practice.

The Manual is structured to cover all the crucial aspects of personal finance management, incorporating both financial and legal perspectives. Section 1.2 of the Manual introduces the basic concepts of personal finance management and serves as a stepping stone to the more detailed sections that follow. The Manual is designed to accommodate different reading approaches. Readers can either peruse it entirely, from beginning to end, or selectively read sections of particular interest. As such, all sections are written to be standalone and readable independently. This approach may result in some repetition of

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[1] See: https://europa.eu/eurobarometer/surveys/detail/2953

[2] See: https://finance.ec.europa.eu/publications/commission-and-oecd-infe-publish-joint-framework-adults-improve-individuals-financial-skills_en

foundational concepts, but also includes numerous cross-references to facilitate locating related information in other sections.

Users of the Manual and the E-Tool can test their acquired knowledge by taking online tests in the E-Tool at www.finleglit.eu .

We invite you to explore the Financial-Legal Literacy Manual for Europe and make use of the Online E-learning Tool, empowering EU citizens with crucial financial and legal knowledge for managing personal finance. Together, we can pave the way for a more financially literate and economically resilient Europe.

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PART 1 - MY FIRST STEPS IN PERSONAL FINANCE

1.1 KEY TERMS OF PERSONAL FINANCE

For many people law and finance are full of unfamiliar strangely sounding terms and expressions. However, as in all other areas where we are not professionals, we do not need to know all the details. We drive a car but this does not mean we know the name of its every single spare part. What about the terms related to our body? Even more complicated? Yet, we may live a happy life even without knowing all the details. The same is true for law and finance. It is the work of the professionals to aid us whenever professional knowledge and support is needed.

However, to manage your personal finance once you get comfortable with these words and expressions, you may feel how much your financial horizons broaden and how this reduces the imaginary fears. In this section you will discover some of the key words related to personal finance, which will later be used throughout this Manual.

When you start thinking about the management of your personal finance, it is worth to have an idea about what these terms mean, most of which you probably know already:

Asset. Something of value that can be owned, such as property, investments, or cash.

Bailiff. An authorized officer or agent responsible for enforcing court judgments, recovering debts, and seizing property to satisfy outstanding financial obligations.

Bankruptcy. Legal status when a person cannot repay their debts and seeks a court's protection to resolve them.

Bonds. Debt securities issued by companies or governments that pay interest to bondholders.

Budget. A financial plan that allocates income towards expenses, savings, and investments.

Collateral. An asset pledged as security for a loan, which can be seized if the loan is not repaid.

Compound interest. Interest earned on both the original principal amount and any accumulated interest from previous periods. As interest is added to the principal, the total amount grows at an accelerating rate, allowing investments or debts to grow significantly over time.

Credit. The ability to borrow money or access goods or services with the understanding that it will be paid back at a later time.

Crisis. A situation in which there is a sudden and unexpected event that may have serious negative consequences, such as a financial crisis or health crisis.

Debt. Money owed to creditors, such as credit card balances, loans, or mortgages.

Discretionary expenses. Non-essential or optional costs that are not vital for survival. These expenses include entertainment, dining out, vacations, and luxury items.

Diversification. Spreading investments across various assets to reduce risk.

Early retirement. Choosing to stop working and retire before the defined retirement age.

Emergency fund (financial reserve). Designated amount of money set aside to cover unexpected expenses or emergencies, such as medical bills, car repairs, or job loss.

Essential expenses. Basic and necessary costs incurred for living, such as food, housing, utilities, healthcare, and transportation.

Expenses. Costs associated with living, such as rent, utilities, groceries, transportation, and entertainment.

Income. Money earned from various sources, like wages, investments, or rental properties.

Inflation. A general increase in prices and decrease in purchasing power of money over time.

Insolvency. A financial situation where an individual or organization is unable to pay their debts as they become due. This means that they owe more money than they have available to pay off their debts, which can lead to financial difficulties or even bankruptcy. Insolvency can be caused by various factors, such as excessive debt, poor financial management, or unexpected financial losses.

Insurance. Financial protection against unforeseen events, such as illness, injury, or property damage.

Interest. The cost of borrowing money or the return on invested capital.

Interest rate. The percentage charged by lenders for borrowing money or earned on savings.

Investments. Assets purchased with the expectation of generating income or capital gains, such as stocks, bonds, mutual funds, or real estate.

Liabilities. Debts and financial obligations that you owe to others.

Loan. Money borrowed from a lender that is expected to be paid back with interest.

Mortgage. A loan taken out to purchase a property, usually paid back over a long period of time with interest.

Mutual fund. An investment vehicle pooling money from multiple investors to buy diverse assets.

Passive income. Income generated without active involvement in earning it, such as rental income or income from investments.

Power of attorney. Legal authorization for someone else to act on your behalf in financial or legal matters.

Promissory note. A written promise to repay a specific amount of money to a designated party within a set period.

Refinancing. Replacing an existing loan with a new loan that has more favourable terms, such as lower interest rates or longer repayment periods.

Retirement. The point in time when an individual stops working and relies on accumulated savings and investments for income.

Savings. Money set aside for future use, such as emergencies, retirement, or other financial goals.

Securities. Financial instruments, such as stocks and bonds, representing ownership or debt.

Shares. Units of ownership in a company, also known as stocks.

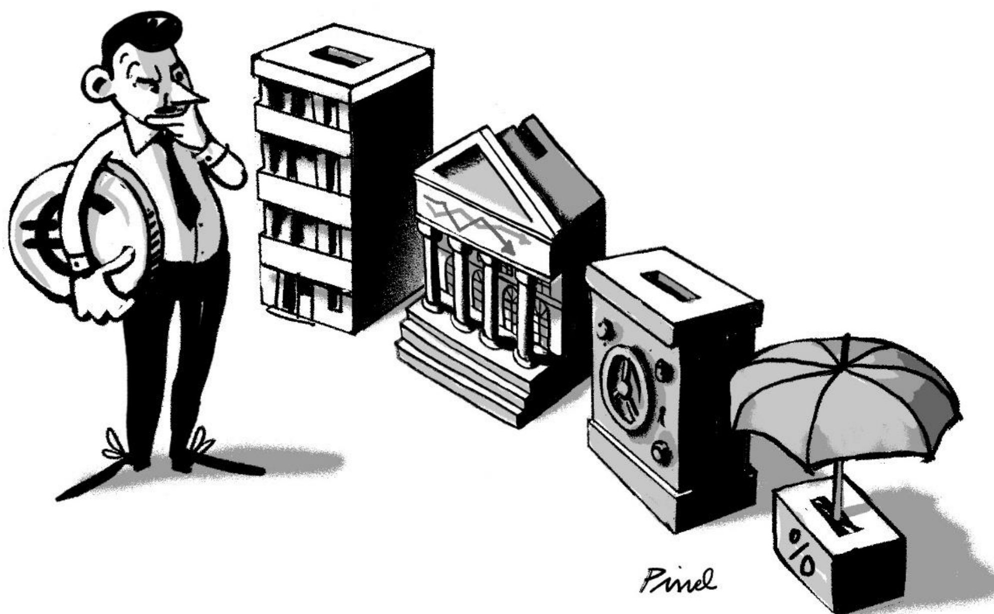
Taxes. Fees paid to the government based on income, property, or goods and services.

1.2 I HAVE EARNED MONEY – WHAT TO DO NEXT

When you have money, naturally, you ask yourself a question, what would you like to do with it. Basically, you have four options what to do with money:

- **spend**
- **save**
- **invest**
- **donate**

While these four options are valid choices, they all are related to a certain knowledge, how to do it. Money spending should not become a money wasting or savings should not turn into dust eaten by inflation and other risks. This Manual will introduce you the benefits and risks related to each of these four options, so that you could have the needed elements to make the informed decisions related to your money. While this section 1.2 will generally overview the four mentioned options, you will find more details in other sections of the Manual.



SPENDING. So, let us start with spending money. Sounds like a pure pleasure – spending money. If life was as short as one day, probably there would not be much thinking and we could easily spend our money or give it to others and the issue would be solved. It would be a pure pleasure. However, life is much longer than that and our needs and projects also are more complex. Therefore, when having earned money, you must carefully assess, what you should do with it. It is always necessary to think long-term and think about you not only today but also in 20, 30 years and years of retirement.

It is suggested that if thinking long-term a person should dedicate about **10-20 percent** of their money to **savings** and **investments**. Therefore, while talking about **spending** we talk about the remaining **80 percent** of your money. However, all these percentages are relative and it depends on your specific situation, how much money to dedicate to the four mentioned options. In all cases, spending should also follow certain rules. Otherwise, spending money may ruin your financial situation or prevent you from building a financially happy future. In other words, you should control what you are spending your money on, so that this spending does not become a **money wasting**.

It is suggested that **50 percent** of one's income should be spent to the **essential expenses** and **30 percent** – for **discretionary expenses**. The remaining **20 percent** could go to **saving and investment**. To manage these expenses, it is important to keep track of your expenses and create your **budget**. You may take a simple paper sheet, an excel file or any other format that is most suitable for you and put down all your sources of income and expenses of the month and then of the year. Having these lines of income and spending clearly visible you will be able to analyze and decide how to distribute the earned money, what expenses to keep or reduce, what income lines to increase and how. If you manage to reduce your expenses, this would allow you to dedicate the respective amount to other financial goals.

It may seem like creating a personal budget is a difficult task. However, it is not. This task can even be enjoyable and bring a great sense of satisfaction and control when you suddenly see a clear overview of all your finances. There is no one-size-fits-all format for your budget. You can start with a basic list on **paper**, and as your financial knowledge grows, you can create a more sophisticated budget. Alternatively, you can use **budgeting apps**, many of which are available for free. From the very beginning, your budget should include categories for your expenses and income. Having these categories allows you to calculate the difference between your spending and income, giving you a clear understanding of your financial situation and what actions you can take. You can then set **financial goals** and adjust your spending and income accordingly to reach those goals. A budget is usually planned for a one-year period. Below, you can find a very simple example of what a budget could look like.

Figure 1: Sample budget

Yearly income/expenses (2023)	Pessimistic scenario	Realistic scenario	Optimistic scenario	What to do to achieve an optimistic scenario
Salary	6000	12000	13000	Perform additionally paid tasks at work
Cleaning of apartments	240	360	720	Clean 18 instead of 12 apartments per year (30 euro/apartment)
…	…	…	…	
…	…	…	…	
Total revenue	6240	12360	13720	
Total expenses	12000	12000	12000	
TOTAL RESULT	**-5760**	**360**	**1720**	

This budget enables you to have a clear understanding of your income sources and the difference between your income and spending (labeled as "TOTAL RESULT"). It is recommended to create such a budget at the beginning of the year and consider three possible scenarios - Pessimistic, Realistic, and Optimistic. Throughout the year, various unforeseen events could occur, such as losing your job or facing unexpected expenses. Your main goal should be to structure your income sources and expenses in a way that, at the very least, you avoid a negative result at the end of the year in the Pessimistic scenario. Additionally, you may want to implement an Optimistic scenario, in which case you should clearly indicate in the table what actions you should take with each budget line to increase your revenue and achieve the desired Optimistic scenario result.

Establishing a budget requires careful tracking of your expenses to understand how much money you spend each month and each year. More detailed information on tracking expenses is discussed in Section 2.1 - Money Spending and Money Wasting.

This budget allows you to gain clarity about your financial situation and begin contemplating how to manage your finances better and set financial goals. Whether it's getting rid of debt, purchasing a bicycle, buying a house, preparing for retirement, or any other objectives you have in mind, this Manual offers various hints that can be helpful in achieving them. To reach your goals, you'll need to find ways to adjust your income and expenses to achieve the desired outcome, which may take several years or even decades. Ultimately, the path you choose is entirely up to you.

When we talk about essential expenses, this includes basic spending lines which are necessary for you to live, like food, rent payments, mortgage payments, electricity and transportation. Discretionary expenses which are not essential for your livelihood, like cinema, restaurants and traveling. Therefore, while thinking where and how to spend money you should first **prioritize** the necessary amounts to the essential expenses. Only if the essential expenses are covered, then you may plan how much money you could spend on discretionary expenses.

In order not to waste money you should **avoid impulse spending**. We all know that one should not shop while with empty stomach, since you risk to buy much more than you truly need and that the acquired products may be not the right ones. Therefore, before going to the shop, create a shopping list and follow it. That said, you should also **look for promotions, deals, discounts,** sales or coupons before going to the shop or while shopping. Think through, if you really need these goods and if the deal is beneficial to you. Deals may also be "fake", so be careful not to simply fall into marketing trap and waste your money.

Online shopping may also turn into money wasting easily, so think over your potential purchases carefully and see if you truly need these goods. Online shopping with a possibility to return the goods is also very helpful in spending money wisely and returning the goods you decide not to finally buy as you do not need them or they do not fit you.

Also, the major rule while spending money should be to **use only the money you have** and not the credit. If you use debt to pay for goods and services, the price of these goods and services will be higher and you will also have to be additionally disciplined to repay the debt. Using debt for your expenses shows that your expenses do not match your income. You may rather use debt for large purchases, such as buying a car or an apartment, where you have no possibility to pay all the amount in one payment and out of your pocket. To prevent using debt it may be a good idea to have a credit or debit card with a 0 credit. This would ensure that you pay with the money you have and not with the money that a credit institution or other credit provider has.

Once you have created your budget, it is important to **review your spending lines regularly**. Once a month you could have a glance through your spending lines and identify, what was necessary, what was not and where you could have saved money. A yearly review of your budget is very important, since you may see the whole year spending. A year is a cycle and

analysing your yearly budget allows you to best see, if your finances are going the planned way towards your financial goals, or if there is something you should change in your spending or income. Reviewing your budget regularly not only helps you to better manage your finances but also gives a feeling of awareness and control of your situation. We often receive income and spend money as if we were

following the river flow. However, if we start analysing and controlling our finances, this may be a much safer and comfortable way to go rather than to risk cliffs down the river simply hoping that they are not there or you will avoid them based on luck. Remember, that you build your own luck, including the financial one!

If you have **debt, pay it off** in accordance with the planned payment schedule. Debt generates more debt in terms of interest rate or late payment fines which adds additional difficulty to your finance. Therefore, paying off debt should be included in your spending priorities and you should keep its repayment discipline. You will find more details about debt in the next Section 1.3 (Debt – what is it and how it works). There are other important spending lines, like **insurance**, which adds strongly to your financial safety and may eventually cover expenses, which you would need to cover from your own money if not insured. You will find out more about insurance in Section 3.2 (Insurance).

In all cases spending must correspond to your financial capabilities. It is best to live below your financial capabilities, which allows you to have a safety cushion in case your income drops or other event(s) impact negatively your financial situation. Even if this happens, you would not need to dramatically change your life style and habits.

SAVING MONEY is another fundamental part of personal finance. People save money for different purposes, like building an emergency fund, planning to buy a car, saving for an apartment or retirement. Saving without an objective is not efficient, since the money saved is eaten by inflation and does not contribute in a targeted way to your objectives. If you are saving without an objective, there is a greater risk that your money will depreciate due to inflation or that you will spend it in detriment of your other financial needs. For example, if you have an objective to build your **emergency fund**, which would allow you to live some 3-6 months in case you lose your income source(s), you will respect certain rules related to this saving. You will know that the emergency fund should be untouchable and could be used only in emergency situations. Therefore, you would not spend this money to buy goods or services or spend it for your vacation travel. By the way, building an emergency fund should be the priority in terms of your personal finance. Not only it increases your financial security and flexibility but also you will feel much safer psychologically, knowing that you always have some money for emergency purposes. You will find more about building an emergency fund in Section 4.1 (Be always ready for the unexpected).

As mentioned earlier, it would be excellent to dedicate about **20 percent of your income to saving and investment**. However, it depends on your financial situation, to what extent you may dedicate a part of your income to saving and investment. If today it is not possible,

you should analyze your income and spending lines aiming to earn more or free up some money to use it for saving and investing.

Besides the untouchable emergency fund, it is also important to have money in the form of **freely accessible cash** which you would always have as a cushion to cover your expenses. You should avoid situations, where you would have "0" on your account or even worse – you would need to use credit money to cover your expenses. There should always be some extra in your pocket or on your account. By the way, besides having the most of your money in electronic form it is also wise to have a part of your cash in paper form. This way you are better protected from the unexpected situations such as a non-functioning ATM, lost debit card or non-functioning mobile phone.

As indicated above, **prioritization in saving** is important but different saving objectives may be achieved at the same time in parallel. You may decide, how much money every month you will dedicate to building up an emergency fund, how much you will save to have a financial cushion in freely accessible cash and how much money you will dedicate for other short-term (like buying a bicycle or saving for vacation) or long-term (like saving for retirement) objectives.

To save money you may use different **forms and instruments**. You may save cash on your bank account, save physical money, make a deposit in the bank or other credit institution, so that your money generates money in the form of interest. Depending on your saving goals you will be able to choose an instrument which best fits the respective objective. You should consult with your financial consultant or a banker, for example, what instruments are best for different saving objectives. For example, your emergency funds should be available immediately, if you need them. However, they may be saved in the form of a money account, which generates interest but still allows you to withdraw part or all of the money at a desired moment. On the other hand, if you save for long-term objectives, you may keep money in form of bank deposits with higher interest rate but also with the fixed maturity term (1 year for example). Before choosing the saving instruments you should most importantly ask the provider of the instrument if you could easily withdraw part or all of your money if necessary, does this instrument generate interest and is it insured under the EU insurance deposit schemes.

Several major **risks are related to saving** money. The very first is **inflation**, since it continuously eats up your money. The prices of goods and services have the tendency to rise and therefore your money loses value. For your 100 euros that you have today you will not be able to buy the same goods and services even in one year. If the inflation is moderate (let us say 2 percent per year), in one year you will need to spend 102 euros to buy these goods and services. But there may be periods when inflation rises to 10 percent per year or more …

Another risk, related to saving is a risk that the **provider** of saving instruments that you use will get **insolvent**. For example, you save your money in form of a bank deposit and the bank gets insolvent and cannot repay you your money. That would be a disaster and therefore you should be sure to save money in forms, which a subject to an insurance, allowing you to recover your money even in case of insolvency of the service provider.

Besides the already mentioned ones there are many other risks related to saving, like monetary reforms, fraud, changes in regulation or taxation. Therefore, even if saving money may seem a very safe option, you should not be hypnotized by it and remember that saving money generates you “0” or little interest. There are instruments, which are financially more attractive in terms of passive income generation, when your money makes money. If you focus only on saving, this means that **you may miss out opportunities** to earn more money.

INVESTING. Investing is another option, which you should consider while managing your personal finance. When you invest money, you expect that this investment will bring you a return in form of interest, dividends, price increase or higher salary. Investment options differ largely and you should find the ones which correspond best to your financial capacity, your financial goals, your knowledge and experience. Among the most popular investment opportunities are:

- Education
- Securities (shares, bonds, treasury bills, mutual funds, ETFs, etc.)
- Real property
- Gold
- Collectibles

These different forms of investment will be discussed in more detail in Section 3.1 (Investing my money – golden rules).

Different investments are related to different levels of risk. Riskier investments may generate more money (higher returns) but there is also a greater risk of losing money. On the other hand, you may choose investment instruments with lower risk but it is expected to also generate less return. Also, some investment instruments are fairly simple, while others require more knowledge and experience. Before investing you should decide, what are your **goals of investing**, what is your **strategy** of investing, **how much** money you will dedicate for investment and **what instruments** you will use for investment.

Since investment is related to the risk of losing a part or all of your money, you should **invest only those money, which you may "forget"**. You should not invest money, which you may need to cover your expenses. Otherwise you could be forced to sell the instruments you have invested in at a low point and suffer losses. Also, you should be psychologically prepared to the ups and downs of the market, so that you do not panic and sell your investments at a loss.

Another key word in investment is **diversification**. This means that you should invest in a range of investment instruments rather than in shares of one or two companies, for example. Your so-called **portfolio** of investments should be diversified and even if one company that you invested in goes bankrupt, this should not be a disaster for you, since you have invested in a range of assets.

The **earlier you start** investing, the more chance of long-term success you have. However, it would be unwise to immediately start investing big amounts of money into instruments that you do not even know. **Start** with **small** amounts and into instruments that you understand. In parallel invest in your knowledge and discover other investment instruments step by step, year by year.

Investing regularly tends to be most efficient way to invest for non-professionals. This approach allows to counter the ups and downs of the market, which is part of the process. Trying to predict when to buy and when to sell your investment instruments is a difficult task performed by the professionals, which are neither protected from the risk of failing.

Remember that investing for a non-professional is not as dynamic as they show in the movies. Therefore, before starting investing **take off your purple investment sun glasses** and consider investing as an interesting but long and rather slow process towards your financial goals. Most of the stories about getting rich fast through investing remain limited to a small number of individuals. Yet, many take unproportionable risk and lose part or even all of their money. Therefore, while investing:

- start early
- define your goals
- base all on the strategy
- go slow
- never stop learning

The specific investment opportunities that are best for you will depend on your individual financial situation, goals, and risk tolerance. It's important to do your own research and

consult with a financial advisor before making any investment decisions to ensure that they align with your individual financial goals and risk tolerance.

DONATING. One more option what you may do with your money is donation. It is a pleasure and important endeavour to financially support a cause or organization that you think needs your financial help. You should carefully assess, **how much** you may dedicate to donating, analyse, what **causes and organizations** you would like to support. Today's technologies allow you to donate from your local organizations to worldwide actors, like the United Nations World Food Programme or others. Your donation approaches should fit into your overall personal finance management strategy and not contradict your financial goals. Keeping up with your overall financial goals would allow you to donate constantly and even more than you do now.

However, it is important to note that there are a lot of **scams**, who's only objective is to extract your money and has nothing to do with the causes and work you wish to contribute to financially. Therefore, investigate whom you are donating and if the information on the beneficiary is accurate. There are fake websites of valid organizations, there are people who pretend to represent the beneficiary organizations, there are organizations that are set up as scams to collect your money. Therefore, it is useful to **do your research** before donating, communicating with people from the organization you like and even consult your bank if the banking details of the organization are accurate.

Besides avoiding scams, you should also research **how** the potential **beneficiary** of your donation **manages the donated funds**. You should avoid donating to those who mismanage received funds. Often you have a possibility to indicate a specific purpose of your donation, so that the money is used exactly for the purposes you are donating to. Look for organizations which provide **feedback to donors** on where the money received was spent.

Also, while donation is a charitable work, you should keep in mind that in many cases you may be entitled to **tax benefits** for donations you make. Be sure to consult about it with the tax authorities of your country or with a private tax consultant. Donation may have different tax implications. Therefore, it is worth to get acquainted with them beforehand.

1.3 DEBT – WHAT IS IT AND HOW IT WORKS

Debt refers to borrowed money that needs to be repaid with **interest** (most often), and it can be either a helpful tool in achieving your financial goals or a source of distress depending on how the debt is managed. Such management requires **patience** and **discipline**, as in all spheres of personal finance. Credit card debt, car loans, mortgages, personal loans, and medical debt are all common sources of debt. To manage debt effectively, it's important to **avoid unnecessary debt**, make **regular payments on time**, and **develop a plan to pay off** existing debt. It is very important to assess how the debt will impact your budget and see if you will be able to make regular payments to the creditor.

Debt **may result** not only **from** a loan contract between the lender and the borrower, like you and your bank. It may also result from other situations, for example, your late payment of invoices for services or goods or in cases where you incur damage to another person or his/her property. One of the most common debt is debt for rent and utilities. Late payment or non-payment of rent or utilities such as electricity, water, or gas bills can lead to debt. To **avoid rent** and **utility debt**, you should include these expenses into your budget and make regular payments on time. Setting up **automatic payments** or reminders can help ensure bills are paid on time. While utility debt is generally viewed as a less urgent concern in comparison to other forms of debt like credit card or student loan debt, to ensure financial stability, it's crucial to remain vigilant about utility bills and ensure timely payments, thus preventing utility debt from becoming a burden.

If you borrow money, normally you will need to pay a price for this in the form of **interest payment**. Interest payments refer to the additional amount of money a borrower must pay on top of the borrowed amount as compensation to the lender for the use of the money. It's crucial to be aware of the **interest rates** and repayment terms of your debt. When taking on debt, it's important to carefully consider the risks and benefits, especially when dealing with **high interest rates**. High interest rates can increase dramatically the amount of debt owed over time and lead to financial distress. It is better to steer clear of high-interest loans and seek alternative solutions in financial emergencies. Interest rates are discussed in more detail in Section 2.3 (Taking a loan and lending money).

If you decide to recur to debt, you should **borrow smartly** and take on debt in a responsible way to achieve financial goals and minimize costs. Smart borrowing includes principles like borrowing only what is necessary, comparing interest rates, understanding loan terms, and having a repayment plan. By managing your debt responsibly and avoiding unnecessary

debt, you can maintain financial stability, achieve your financial goals, and minimize legal risks.

If you're looking to manage your personal finances, **paying off debt** is a key component. Managing debt requires **discipline** and a **commitment to a plan**. By understanding the different types of debt, considering refinancing options, and implementing good debt management practices, you can work towards achieving financial stability.

While considering taking a loan, you should be aware that marketing and simplified lending processes may influence your decision to borrow **easy-access, high-cost credit**, especially if it is offered online or via mobile devices. You should carefully assess the consequences of such borrowing and aim to repay such high-interest debt as soon as possible.

It's crucial to **make regular payments** on time to manage properly the debt. **Making extra payments**, even small ones, can also help **pay off debts faster** and **reduce** the amount of **interest paid**. If you have multiple debts with high-interest rates, **debt consolidation** might be a useful strategy. This involves taking out a loan with a lower interest rate to pay off higher-interest debts and can make managing your debts easier. While speaking about debt, the first instrument to work with is your **budget** (see Section 1.2 on how to establish a budget). The budget will help you identify areas where you can **reduce spending** and **free up money for debt repayment**. Once you have a budget, it's important to **prioritize** your debts **by interest rate** and focus on paying off **high-interest debts first**. This will help reduce the amount of interest paid over time and speed up the debt repayment process.

While paying off debt, it's essential to avoid adding to it by refraining from taking on new debt or increasing existing balances. If you're facing challenges in making debt payments, consider **negotiating with creditors** to lower interest rates or establish a more favorable debt repayment plan. Open **communication with your creditor** is crucial, especially if you anticipate difficulties in repaying the debt promptly. If you foresee being unable to repay the debt on time or make timely periodic payments, it's advisable to discuss this with the creditor in advance, rather than waiting until the payment is due and the creditor starts legal actions to collect the debt.

Addressing the issue beforehand often allows both parties to find the best and easiest solution. By seeking a resolution even before the defined payment date, and thereby not breaching the debt-related contract (loan or service provision agreement), you gain time before the debtor might initiate legal procedures for debt collection. In all cases it is advisable to consult with the legal professionals in such type of situations. Hiding from the creditor may rather increase the potential risk of paying additional legal costs related to the collection of the debt. Such **legal costs** may be **considerable** and be even higher than the initial debt. **Collection actions** can also lead to salary garnishment or seizure of assets to recover the debt. Therefore, you should **seek professional legal advice** if you are facing any legal action.

Also, if you do not repay the debt on time, this may negatively impact your **credit score**. Having a negative credit history can lead to difficulties in borrowing money in the future. For instance, failing to repay a small debt on time can result in a negative impact on your credit score, which could prevent you from obtaining a loan to purchase an apartment later on. Therefore, it is essential to pay attention to timely repaying debts (even small ones) to avoid negative consequences for your future financial planning.

If you have difficulties in repaying the debt, you might also consider **refinancing your debt**. Before doing so, make sure the new credit doesn't worsen your position or reduce your rights compared to your current credit. This can be a good option when interest rates have decreased, you want to consolidate debt, change loan terms, etc. However, it's important to carefully consider the costs and benefits of refinancing before making a decision. For this, seek professional help from a financial advisor or credit counselor.

You should also be aware that **consumers are protected** under EU and national laws, which means you may have specific protections under applicable regulations, particularly concerning credit provision. If there are any uncertainties or issues with the borrower-creditor relationship, besides consulting a private lawyer, you can reach out to the institution overseeing the financial market in your country for free advice. They can help clarify your rights, especially if you suspect that the creditor is infringing upon them or if you are unaware of your rights. In some cases, these **supervisory institutions** can even act as mediators in disputes between debtors and creditors falling within their jurisdiction. Find out which supervisory institution handles financial matters in your country and get in touch with them via email or phone.

If your debt situation has become dire and you see no apparent solution, it's worth knowing that many EU countries offer procedures for filing for **individual bankruptcy**. This legal tool can provide debt relief, but it also has long-term consequences, like limited access to credit in the future. Although it may be an option for severe financial difficulties, keep in mind that it's not a straightforward process, and seeking advice from professional lawyers specialized in individual bankruptcy is advisable.

1.4 MY MONEY AND MY FAMILY

Managing your own money can be challenging, and handling family finances is even more complex. Personal finance demands discipline, patience, and a clear vision, and these become even more difficult to achieve when multiple individuals, such as family members, are involved. There is no one-size-fits-all approach to managing family finances, and just like in all family matters, managing family finances also requires compromise and finding the best way to proceed.

In some families, **one person** takes on the responsibility of managing the finances. This person may have more experience or interest in financial matters. The advantage of this approach is that it can lead to a clear division of responsibilities and prevent conflicts. However, it can also lead to one person bearing the burden of financial stress and may limit the involvement of the other spouse or family members in financial decision-making. Those who are not involved in managing family finances may feel left out of this important aspect of family life.

On the other hand, **both spouses** may be involved in managing the finances. This approach can promote teamwork and prevent one person from bearing the entire burden of financial stress. Both spouses can contribute to financial decision-making, and each can bring different perspectives and skills to the table. For example, one family member may be knowledgeable in investing, another could keep records of family expenses, and both could make joint decisions about budgeting, etc. This approach also enables the sharing of responsibility for the decisions made, preventing a situation where only one family member would bear the burden of any eventual failures. However, this approach also requires compromises between spouses who may have different ideas about financial priorities or strategies.

Families may also opt for a more collaborative approach to financial decision-making, involving the **whole family, including children**. This approach is a perfect training field for children in terms of financial literacy. The whole family acts as a team, setting common financial goals, finding consensus, and communicating about financial issues. This approach is also beneficial in terms of the division of responsibilities, where every family member could be put in charge of a specific responsibility, such as tracking expenses, searching for promotions and discounts, or analysing investment-related information. This approach has its own challenges in balancing the needs and wants of different family members, and it may require more time and effort to reach a consensus.

Regardless of which approach a family chooses, it is essential to have **open** and **honest communication** about financial matters. Family members should be able to discuss financial goals, concerns, and challenges openly and work together to find solutions.

As in individual finance management, **budgeting** in family finance is also essential. The family should create a **plan for income and expenses**. **Tracking** income and expenses, **prioritizing** expenses, and **adjusting** spending habits are all part of budgeting.

Despite the aforementioned specificities of managing family finance, the core aspects remain the same as in personal finance management. Families should set their financial goals and find and implement respective solutions. Information about spending, saving, investing, and donating can be found in other relevant sections of the Manual (for example,

sections 1.2, 2.1, 2.2, 3.1, 3.4). Families should also build an **emergency fund** to cover unexpected expenses for a period of 3-6 months in case the family loses its sources of income. **Managing** their **debt**, exploring ways to **increase** their **income**, and **educating children** in the field of financial literacy are among the issues that most families deal with to keep their financial situation in good shape.

It is important to **educate children** about financial literacy and involve them in financial decision-making to promote financial responsibility and stability over the long term. Children should be taught about financial literacy as early as possible, even as early as preschool age. Introducing basic concepts like earning, spending, saving, and giving can help children develop a foundation for understanding money management.

You can use **real-life examples** to teach children about financial concepts, such as involving children in grocery shopping or budgeting for family vacations. This can help them understand how money works in the real world. Parents should model and promote good money habits, such as saving regularly, avoiding debt, and living within their means. **Encouraging children to save** a portion of their allowance or earnings can also help them develop good money habits. Often, one practical exercise may be more efficient than hours of theoretical explanations about money. Allowing a child to **spend** all of his or her money (for example, 15 euros) and then letting him or her experience not being able to buy a desired chocolate or lemonade could provide a valuable lesson about money spending and saving. Subsequently, providing a child an opportunity to "**earn**" money and re-establish the lost financial balance would teach about how one may manage his or her own financial situation and be able to reach the desired goals.

You should also **teach children** practical money management skills, such as **creating a budget**, **tracking expenses**, and **setting financial goals**. This can help children develop a sense of financial responsibility and prepare them for managing money as they grow older. Encouraging open communication about money within the family can help children feel more comfortable talking about financial matters and seeking guidance when needed.

There are many resources and tools available that could help you teach children about financial literacy, such as **books**, **games**, and **apps**. These resources can make learning about money fun and engaging for children. You should also emphasize to children that mistakes and **setbacks are opportunities to learn and grow**. This can help children develop a positive attitude towards money and develop resilience in the face of financial challenges.

When it comes to **giving money to children** in the family, there are many factors to consider. Your family's unique circumstances and financial goals will play a significant role in determining how much money to give and for what purposes. One consideration is an **age-appropriate allowance**, which can teach children about money management and financial responsibility. You can set limits on spending and encourage children to **stick to a budget**.

1.5 KEY FINANCIAL PROBLEMS AND SOLUTIONS

While managing our personal finances, we may encounter various financial problems that require specific solutions. Among the most common financial problems, the following can be named:

- Overspending
- Indebtedness
- Lack of savings
- Lack of retirement savings

OVERSPENDING. Most of us often complain that the money we earn somehow 'disappears,' and we do not feel that we are advancing financially; instead, we feel stuck in one place. However, everyone can give an example of how they wasted their money due to incorrect financial decisions, lack of budgeting, discipline, or the absence of financial goals.

One of the most common factors that lead many to such situations is overspending – people tend to spend more money than they should considering their income. We often try to maintain a standard of living that precisely matches our income or is even higher than what we can afford. In other words, many people **overspend**, which constantly keeps them under stress and ultimately leads to a financial distress situation. Yet, the golden rule is that **we should live below our financial capabilities**, which brings financial stability, control, a sense of security, and satisfaction, even if it requires discipline and determination. Overspending can be caused by different factors, including a lack of budgeting, impulse buying, pressure from society, advertising or emotional spending.

Creating a budget is the first step in addressing overspending. You may find more information about how to create a budget in Section 1.2 (I have earned money – what to do next) of the Manual. A budget helps **track income and expenses** carefully, **set spending limits**, and **prioritize expenses** based on financial goals. By identifying areas where you tend to overspend, you can **adjust your spending habits** and prioritize your expenses based on your financial goals. You should identify areas where **expenses** can be **cut back** and **allocate funds towards savings** and **debt repayment**. There should be no place for money wasting and overspending in your personal finances. These two are like parasites on your financial health. Getting rid of them is essential to achieve your financial goals. More information on how to avoid wasting money is described in Section 2.1 (Money spending and money wasting).

Tracking expenses carefully is crucial in avoiding overspending. For this purpose, you may use a budgeting app, a spreadsheet, or a simple sheet of paper, which will allow you to identify areas of overspending and adjust your spending habits. You can find an example of a simple expense tracking table in Section 2.1 (Money Spending and Money Wasting).

Avoiding impulse buying is also key to eliminating overspending. Creating a **shopping list** before going to the store and sticking to it can help avoid impulse buying. **Waiting before making a purchase** to ensure that it is a necessary and affordable expense can also be beneficial. You should know that adverts, special offers and the media can have a powerful impact on your choices. Therefore, while choosing goods and services, have this in mind and think over whether you are making the respective decision not because of the **influence made on you**, but because you **truly need a certain good or service** and that you have found the best available option. Also, since the purchased goods or services might have different **environmental and social impacts**, you should have this in mind while making your choices.

Using cash instead of credit cards can also help to avoid overspending. Set a limit on how much cash you can spend each week or month and avoid using credit cards for discretionary expenses. If you are struggling with overspending **seeking professional help** from a financial advisor may be beneficial and even necessary.

INDEBTEDNESS. High level of debt is another financial issue that can have a significant impact on your finance. Creating a **debt repayment plan** and knowing how much of your finance you should dedicate to debt repayment each month is crucial. This involves listing all of your debts, including the amount owed, interest rates, and minimum payments, and prioritizing them based on interest rates or other factors. By allocating funds towards debt repayment each month, you can start to make progress towards becoming debt-free.

The plan should be established every time you take a new debt. You should do it beforehand rather than waiting until debt becomes a problem. As already discussed in Section 1.2 (I have earned money – what to do next) and Section 1.3 (Debt – what is it and how it works), this may involve **consolidating debt**, **negotiating with creditors**, or **seeking professional debt counseling**. It is also essential to avoid taking on new debt unless it enables you to repay existing debts and obtain better debt terms, such as a lower interest rate or an improved debt repayment schedule.

Consolidating your debt may be a useful strategy. This may involve taking out a personal loan or using a debt consolidation service. By consolidating your debt, you can manage your payments more effectively and potentially reduce your interest rates. However, it's important to carefully evaluate the terms and fees associated with consolidation options

and choose the one that is best for your situation. Professional advice would be very valuable in this case.

Negotiating with creditors may also be a useful option to reduce your debt burden. It may be possible to negotiate a lower interest rate, lower monthly payments, or a settlement agreement. It may be surprising for many, but credit providers are often flexible to negotiate the terms of your credit, as there is competition on the market and you may and should always look through all possible options. Therefore, do not be afraid of your future or present credit provider but rather calculate well your capacities to repay the debt and

manage the debt properly. Also, if you negotiate with the creditor, it's important to get any agreement in writing and keep copies of all correspondence.

Finally, it's important to **avoid taking on new debt** in order to achieve long-term financial stability. Focus on living within or below your means, creating a budget, and prioritizing your expenses based on your financial goals.

LACK OF SAVINGS can leave you and your family vulnerable to financial emergencies and limit your ability to achieve your financial goals. It is usually recommended to have enough savings in your reserve fund to cover 3 to 6 months of living expenses. This means that if you lose your job or other income sources, you will have enough savings to cover your expenses for several months while you get back on your feet.

Creating a **savings plan** and **making saving a priority** can help solve this problem. Savings plan would clearly indicate, how much money you have to put aside each month, week or day, depending on the saving method you prefer. You should set your clear **savings goals**, such as saving for a down payment on a home or building an emergency fund. You should look for ways to **reduce your expenses**, such as cutting back on dining out or entertainment expenses. **Consider negotiating with service providers** for lower rates, and look for ways to **save on your utility bills**.

Also, think about how to **increase** your **income** through part-time work or other income-generating activities. You can take on a part-time job, start a side business, or look for opportunities to earn extra income through freelance work or by selling items you no longer need. If you are still struggling to save money, consider seeking professional help from a financial or credit advisor.

To make saving even easier, you can **set up automatic savings transfers** from your checking account **to a savings account**. This way, you save money without even thinking about it. Banks and other service providers have many useful instruments ready to help you save money, therefore, you should consider consulting them about how to reach your savings goals.

LACK OF RETIREMENT SAVINGS can also leave you and your family at risk of not having enough money to retire comfortably. Creating a **retirement savings plan** and **starting to save as early as possible** is crucial. This may involve contributing to a pension plan or investment account, investing in stocks, mutual funds, real property or other assets. Since with your retirement savings you aim long-term, the value of your savings and investments should **increase in value** or at least **maintain** it in a **long run**. They may be aimed to generate you **passive income** or you may think selling them gradually once your retire.

The **earlier you start saving** for retirement, the better. Even if you can only afford to save a small amount each month, every little bit counts. **Make it a priority** to start saving for retirement as soon as possible.

You should set **clear retirement savings goals**. Identify specific goals, such as saving a certain amount by a certain age, put your calculations into a table depicting your life year by year and indicate amounts necessary to be saved each year to achieve the savings goals. Aim to increase your contributions each year.

The ways to save have already been discussed above and they are also applicable for saving for retirement. However, saving for retirement you should not focus on cash but rather on investments, which could later be transformed into cash or which would generate cash. Since saving for retirement is a long-perspective endeavor, saving in cash is not the best option since the value of your money would decrease due to inflation. Therefore, for the retirement purposes you should **combine saving and investing** money. The money you save for the retirement should be invested and therefore, professional advice could be very helpful in this case.

More about preparing for the retirement is discussed in Section 3.3 (Preparing my retirement).

PART 2 - MANAGING MY PERSONAL FINANCE

2.1 MONEY SPENDING AND MONEY WASTING

It is important to understand the difference between **money spending** and **money wasting**. Making wise spending choices can help you achieve financial stability and reach your financial goals, while money wasting may bring you to a financial distress. Money wasting occurs when you fail to prioritize your spending, fail to plan your purchases or simply have no spending discipline. This may result in unnecessary purchases that do not align with your financial goals or priorities.

There are many different ways how people waste money. Below you may find few of the most common ones:

- Making impulse purchases
- Overspending on luxury items
- Paying high interest on debt
- Bad habits (for example, smoking)
- Paying for unused subscriptions
- Buying items on credit
- Failing to comparison shop
- Eating out frequently
- …

You may check if you have one of these issues influencing negatively your personal finance. If not – very well, but maybe there are other spending lines which you could consider as money wasting. Looking through your table of spending (see below Figure 2: Sample table for tracking your expenses) could help you in this exercise.

To avoid money wasting, it's important to create a **budget**, **prioritize spending**, **avoid impulse purchases**, shop around for **deals**, and **be mindful of unnecessary expenses**.

As already discussed in Section 1.2 (I have earned money – what to do next), it is important to establish a budget and understand how your expenses fit into the broader context of your financial situation. It may be the case that you spend more money than you earn, which means you have to rely on debt to cover your expenses. To create a budget (see Section 1.2 – I have earned money – what to do next) and effectively manage your **expenses**, you must first **track them carefully**. This will give you an idea about how much you spend each month and each year, enabling you to analyse if all expenses are necessary or if there are **areas**

where you can cut back. Below, you will find a simple illustration on how you could track your expenses. It is recommended to **establish a table** or use a **budgeting app** to track your expenses. **Every month** you should establish a total amount of your spending and calculate the total sum spent by the end of the **year**.

Figure 2: Sample table for tracking your expenses

Spending (2023)	Essential	Discretionary	Remarks
January			
Apartment rent payment	400		
Food	300		
Dining out		100	
Transportation	50		
Cinema		40	
Insurance	10		
Clothing	50	50	
…			
…			
Total January	*1000*		
February			
…	…	…	
…	…	…	
Total Essential spending	…	…	
Total Discretionary spending	…	…	
Total spending (2023)	**…**		

The table above will enable you to see your spending clearly. Some of the expenses are **essential**, making them more challenging to reduce as part of managing your expenses. However, some of the spending is **discretionary** and could be more easily reviewed if necessary. For instance, during a crisis or if you aim to cut spending to achieve your specific financial goals. Tracking your expenses is also fundamental in ensuring that you are spending your money in a disciplined way and not wasting it.

First of all, review your discretionary expenses. Avoid money wasting by being mindful of your spending habits and **avoiding unnecessary expenses**. Consider the long-term value of a purchase before making it, and **avoid impulse buying**. Secondly, look for ways to **save money on essential expenses**, such as by using coupons, shopping around for deals, or negotiating the prices of goods and services. To make wise spending choices, it's important

to **prioritize your expenses based on your needs** and values. Your created budget should reflect your priorities, and you should **stick to it**.

Impulse purchases can be a major source of wasted money, as you may buy things without considering whether the purchase is necessary or corresponds to your financial goals. Similarly, **dining out**, **going to the movies**, and **attending concerts** or **sporting events** can be expensive, and you may overspend on these activities if you are not tracking your expenses or setting a budget. **Subscription services**, such as streaming services or gym memberships, can be convenient, but they can also add up quickly. You may overspend on these services, particularly if you are not using them regularly or can find **cheaper**

alternatives. Additionally, **forgetting to cancel subscriptions** or memberships you no longer use can lead to wasted money.

Brand name products can also be more expensive and you may overspend on these products if you prioritize brand loyalty over cost savings.

Carrying debt can also be costly, as **interest charges and fees** can add up over time, and you may overspend on credit cards or loans, particularly if you are not able to pay off the balance in full each month.

Smoking is another area where one can waste a significant amount of money. In addition to the direct cost of purchasing cigarettes, smokers may also face **additional healthcare cost**. Quitting smoking or at least reducing the number of cigarettes smoked can not only improve your health but also save you money in the long run.

Figure 3: How cigarettes eat your money*

Cigarettes per day	1 month	1year	5years	10 years	20 years
10	90 €	1,080 €	5,400 €	10,800 €	21,600 €
20	180 €	2,160 €	10,800 €	21,600 €	43,200 €

*Let us say that the price per pack of 20 cigarettes is 6 euros

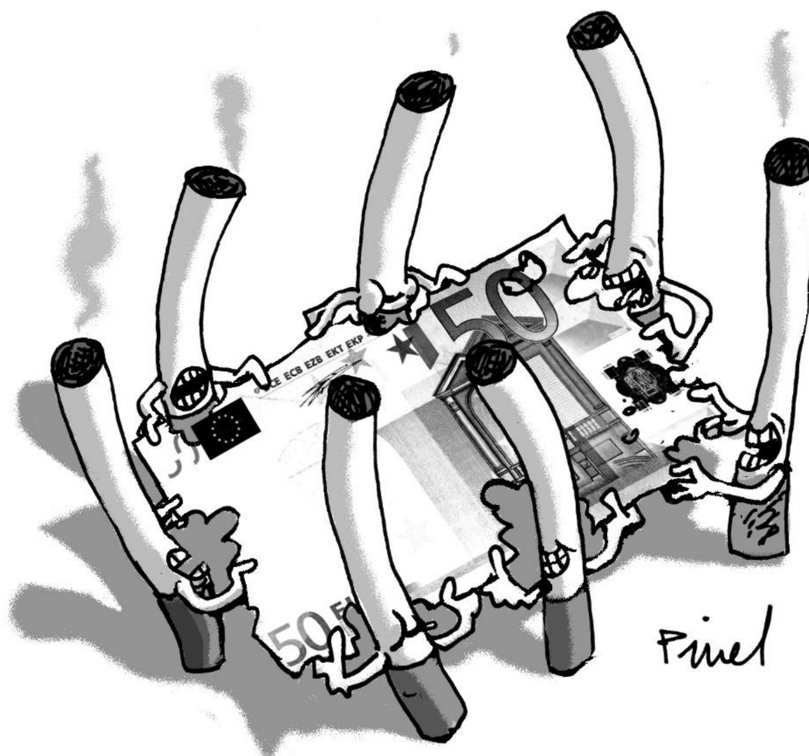
Another important element that may lead to unnecessary spending and overspending is **societal pressure**. If you're surrounded by people who can afford expensive vacations that you cannot, you shouldn't feel obligated to match their spending. Instead, be confident and communicate directly that such a vacation budget is too high for you. This is the simplest solution. Either your friends or family will accommodate an option that is more financially comfortable for you, or, if they don't, you should maintain your budgetary discipline. Do not waste your money because of the societal pressure.

There are many other ways, how people waste money and it is not possible to list them all here. However, there are some universal rules to follow to get rid of this phenomenon, negatively impacting your finances.

Besides sticking to your budget and prioritizing expenses, before making any **purchases**, you should **evaluate them against your values and priorities**. You should ask yourself whether they will bring you long-term satisfaction or it is just a short-term impulse buy. You should also **consider alternative options** that would be more cost-effective or better

suited to your needs. Every euro you spend on one thing is a euro you can't spend on something else. Therefore, **before making a purchase, consider what else you could do with that money**.

Budgeting apps are also useful tools that can help you track your expenses, create a budget, and set financial goals. Using **price comparison tools** can help you find the best deals on the items you want to purchase, saving you money and helping you avoid overspending on unnecessary expenses. However, you should know that the information obtained through cost comparison tools available online may be incomplete, inaccurate, or partial. **Paying with cash** may also be a useful approach since you always know, how much money do you have and how much is left. However, the most effective way to prevent yourself from overspending is to **be intentional and mindful** about your spending habits and to prioritize your financial goals and values.



2.2. MY SAVINGS – OPPORTUNITIES AND RISKS

Saving money is an important part of achieving your financial goals. By putting money aside, you can take advantage of opportunities such as changing to a better job or investing when the situation is right. In order to save effectively, there are several common instruments and strategies that you can use.

Saving money should not be an objective in itself. While it may seem disciplined to regularly set aside funds for future goals like retirement, this approach comes with a variety of risks that can render it inefficient. Factors such as inflation, monetary reforms, changes in taxation, and other risks can significantly impact your savings. Therefore, saving should ideally be targeted towards specific short- or mid-term objectives. This involves saving money for specific purposes, and then converting that money into another asset – such as a bike, a car, an apartment, or investments. If you intend to save money for long-term objectives, like retirement, it is beneficial to **combine saving with investing** in various types of assets that have the potential to appreciate over time or generate passive income.

There are different forms of **saving** money, and the most well-known, of course, is keeping money **in physical form** – banknotes or coins. This form of saving may be suitable for relatively small projects, like buying a computer, a bike, or saving for a vacation. The advantage of this form of saving is that it is highly visible and encourages daily discipline. Therefore, it can serve as an effective tool to develop financial discipline. This method is particularly beneficial for children. For instance, depositing 1 euro each day into a piggy bank is an easily manageable and visible task. However, as the amount of savings increases over a longer period, the associated risks also increase. Such money is not only vulnerable to inflation, but it may also be lost due to theft, fire, or other similar events.

Another fundamental financial instrument for saving money is a **savings account**. It allows you to earn interest on your savings and is a good place to start for those who are new to saving money. Setting up **automatic transfers** from your checking account **to your savings account** can help you save money without having to think about it.

Banks and other credit institutions offer savings accounts to consumers who want to save their money. These accounts offer **interest** on the deposited money, which can vary depending on the bank and the type of account. Additionally, savings accounts are **easy to open and maintain**, requiring minimal paperwork and documentation.

Savings accounts have several key aspects, which you should evaluate before choosing where to deposit your money. This includes **deposit limits**, terms of **access to funds**, applicable **fees**, required **minimum balance** to be maintained.

One of the main benefits of savings accounts is their security. In EU countries, savings accounts are **insured up to at least €100,000** under what's known as Deposit Guarantee Schemes. This means that even in the unlikely event of your credit institution becoming insolvent, you're guaranteed to recover your deposits up to this amount.

While the Deposit Guarantee Schemes provide a strong level of protection for depositors, it may still be beneficial to **spread your deposits across multiple financial institutions**. Doing so can help reduce your risk and ensure that your savings are protected. It can also provide added convenience and the opportunity to find the best interest rates by shopping around and comparing rates in different credit institutions.

As regards the **interest rate** paid for your deposit, it may either be **fixed** or **floating**. When deciding whether to save money in a savings account with a floating or fixed interest rate in, there are a few factors that you should consider. A **fixed interest rate provides stability and predictability** in your earnings, as the rate remains the same over the term of the deposit. However, a floating interest rate may offer better returns, since the rate can increase (or decrease) with market conditions. Yet, this makes it more difficult to plan your savings.

Furthermore, it's important to **check if there are any interest rate ceilings on floating deposit** accounts. This would mean that the interest rate cannot exceed a certain level, which may impact your decision on whether to choose a floating or fixed deposit account.

It is also important to consider **early withdrawal penalties**. Some savings accounts may have penalties for early withdrawal.

You should also consider the **inflation risk**, which can affect the value of the money saved in the account. Additionally, money saved in a savings account **may earn lower interest rates than other investment opportunities**.

Figure 4: Decrease of the value of your savings due to inflation

10,000 €	0 year	1 year	5 years	10 years	20 years
2% inflation	10,000€	9,803.92€	9,057.31€	8,203.48€	6,729.71€
4% inflation	10,000€	9,615.38€	8,219.27€	6,755.64€	4,563.87€

Additionally, **certificates of deposit** (CDs) are another option that allows you to earn an interest rate for a set period of time. If you're looking to earn **higher interest rates** on your savings for a fixed period of time, a Certificate of Deposit (CD) may be a good option for you. CDs are financial products offered by banks and other financial institutions that guarantee an interest rate for a specific term ranging from several months to several years.

CDs have a few key features, such as a **fixed term** during which the money deposited **cannot be withdrawn without penalty**, **interest rates** that are generally higher than those offered by savings accounts.

There are financial instruments that not only facilitate saving, but also combine this element with investing or insurance. For instance, **investment life insurance** or **pension funds** are viable options to consider when saving money. Utilizing these instruments, you may not only save money but also invest it, and/or even gain insurance coverage. More information about these instruments can be found in other sections of the Manual, such as Section 3.1 ("Investing my money - golden rules"), 3.2 ("Insurance"), and 3.3 ("Preparing my retirement").

2.3. TAKING A LOAN AND LENDING MONEY

If you wish to **TAKE A LOAN**, the key question to answer is why you would take the loan and whether there are no other options to attain a specific financial goal for which you intend to borrow money. You should consider the **purpose of the loan** and **whether it is truly necessary**. Loans that are used to invest in a business or education may be worthwhile investments, while loans for non-essential expenses such as vacations may not be. You should assess your financial situation and see how the new debt fits into your budget. You must make sure that you will be able to repay the loan in time. If you are already struggling to make ends meet or have other debts that need to be paid off first, taking on additional debt may not be worth it and risky.

Over-indebtedness can occur if you take on too much debt and are unable to repay it. **High interest rates** can also make it **difficult to make payments** and pay off debts over time. **Hidden fees**, **fraud**, and a **negative impact on your credit capacity** are also potential risks associated with taking out a loan.

However, if you decided to take a loan, there are several options available to you. The most common source of loans is from banks. **Banks** offer a range of loan products, such as **personal loans**, **home** loans, and **car** loans. However, to obtain a loan from a bank, you will need to meet the criteria defined by the bank and by the law.

Another option for obtaining a loan is through **credit unions**. Credit unions are member-owned financial institutions. To become a member of a credit union, you will typically need to meet certain eligibility criteria, such as living in a specific area or working for a certain employer.

Peer-to-peer lending platforms are another option that connects borrowers with lenders. Via these platforms people may lend money to other people without an intermediary credit institution. These platforms may be a good option for borrowers with less-than-perfect credit.

Taking a loan from **family and friends** is another common option, which has its positive and negative aspects. They are discussed below in this Section.

It is also important to note that loans may be **secured loans** that are backed by **collateral** and the **unsecured loans** that are not backed by collateral. In case of secured debt the lender requires that the borrower provides some property (for example, an apartment) to secure the repayment of the loan. If the borrower does not repay the loan, usually the

lender would have a right to recover the unpaid amount from the revenues received through the sale of the property serving as a security. On the other hand, in case of unsecured loan the provider of the loan relies on borrower's ability to repay the debt without any specific asset as security. Usually the unsecured loans are used only in cases of small amounts borrowed, like the credit card debt. Therefore, while considering the borrowing option you should also consider if the lender will require a collateral and what would be the risks of providing such collateral. If you take a loan and provide some property as collateral, you should think over what will happen if you do not repay the loan and also lose the property provided as collateral.

Before taking a loan, you should carefully **consider the interest rates** associated with the loan. High interest rates can result in higher borrowing costs, which can make it more

difficult for you to repay the loan over time. It is important to **compare interest rates** across different lenders and loan products to ensure that you are getting the best deal possible.

While interest rates may seem 'small,' do not be fooled by this illusion. If your repayment period is long, you may end up paying double the amount for your purchase that you have financed through the loan.

The figure below illustrates how much you would finally pay for a long-term loan of 100,000€ with a 2% or 4% annual interest rate. The different scenarios show how the loan costs vary depending on its duration. It might seem beneficial to take the loan for a longer period, as it would result in lower monthly payments. However, this is another illusion that actually dramatically increases the total cost of the loan.

Figure 5. How much a long-term loan truly costs

	100,000 €	10 years	25 years	40 years
2%	Total amount paid	110,416.14€	127,156.30€	145,356.31€
	Monthly payments	920.13€	423.85€	302.83€
4%	Total amount paid	121,494.17€	158,351.05€	200,610.47€
	Monthly payments	1,012.45€	527.84€	417.94€

Repayment terms are also important to consider. Can you afford to make the required payments on time? Are there any **penalties for early repayment**? It is important to understand the terms of the loan and to ensure that you can meet the repayment requirements. You should definitely make sure that your loan contract allows you without any penalties to repay a part or all of your loan before the term. This will allow you to manage the debt properly, repay the loan whenever you think is beneficial for your finance. For example, in case the interest rate increases, you may wish to repay a part of the loan earlier so that you do not need to pay higher monthly payments and a higher total amount for the loan. Moreover, the right to repay the loan earlier would allow you to change the provider of the loan if this is beneficial for you. For example, if the interest rates in the market have decreased, maybe it is worth for you to look into proposals of other borrowers, who would be willing to propose you better loan terms.

LENDING MONEY. If you think about lending money to another person, there are several factors to consider before making such a decision. Firstly, you should think about your **relationship with the borrower**. Lending money to a friend or family member could

negatively affect your relationship with them and therefore, it might be best to decline the loan request. It is said that if you want to lose a friend, lend them some money …

You should also **assess the borrower's ability to repay** the loan. This is called a default risk – the risk that the borrower will not repay the debt as agreed. Factors to consider include their income, credit capacity, other outstanding debts or financial obligations.

You should also consider if lending money is the best option for you. Maybe investing money or choosing another option rather than lending would generate you more money and you would not lose the **opportunity to earn more**.

However, if you decide to lend money, it's **important to establish clear terms for the loan**. This includes, among other things, the **amount** of the loan, the **interest rate**, the **repayment schedule**, and how the repayment will be secured. As regards the security, the borrower could provide some collateral to guarantee the repayment of the loan or a third person could guarantee the repayment of the debt. Both parties should understand and agree to these terms before the loan is issued.

Depending on the amount of money involved, you may need to create a written or even notarized **contract** outlining the terms of the loan. You should know that "written" does not necessarily mean "on paper". An electronic signature can have the same legal value as a signature in person, and therefore, you may complete the signing of the contract and transfer of money even without being physically present with the person you are signing the contract with. It is also important to consider any **legal or tax implications of lending** money.

Even in cases where the law does not require this, it is always advisable to have a **written loan contract** if you are lending money to another person. It helps to clarify the terms and conditions of the loan, including the amount of money being lent, the repayment schedule, and any interest or fees that may be charged. In general, it is important that you **keep** all the **documents** (both paper and electronic), which may be necessary in the future for financial, legal or taxation purposes.

A written contract can help to prevent misunderstandings or disputes between the lender and the borrower, and can also provide legal protection for both parties in case of a breach of the agreement.

Furthermore, you should **carefully monitor and note the amounts** which have already been **repaid**. This is particularly important if the loan was extended in physical money and not via bank transfer. It is extremely easy to lose track, which may result in disputes between the two parties.

If you are lending money to a friend or family member, it may be tempting to rely on a verbal agreement or trust that the loan will be repaid on time. However, it's important to remember that even well-intentioned borrowers can run into unexpected difficulties that may make it difficult for them to repay the loan.

By having a written contract in place, you can help to protect your interests and ensure that both parties are on the same page regarding the terms of the loan. It's always a good idea to consult with a legal professional to ensure that your contract is legally enforceable and that you have addressed all of the necessary details.

One instrument that can be very **useful for the lender** is a **promissory note**. This is a written promise to repay a specific amount of money to a designated person at a defined date. The promissory note must be written in a form required by the law. Furthermore, some countries may require promissory notes to be registered or notarized to be enforceable. Therefore, if you wish to issue or receive a promissory note, it is recommended to do so with the support of a professional lawyer.

The main advantage of the promissory note is that usually, if the borrower does not repay the debt, the lender may recover the respective amount without going to court but simply using the services of the bailiffs. If the loan is formalized by a simple agreement, the lender should go to court first to recover the debt. Thus, while this instrument may benefit the lender, it could be **risky for the borrower**, who would not have an opportunity to defend themselves in court unless there are exceptions.

While lending money is generally legal, there may be certain **regulations and restrictions** that apply depending on the specific country, circumstances and amount of money involved. For example, lending money on a **regular basis** as a **business activity**, would most likely be specifically regulated and taxed. Therefore, before lending it is important to consult with a lawyer. Even a short consultation could save you much money and trouble in the future.

2.4. CAN MONEY MAKE MONEY?

Can money make money? The answer is **YES**, **MONEY CAN MAKE MONEY**. The two key points here is to save a necessary amount of money and find the necessary asset to invest in, so that your money starts to generate money. However, all this process is also related to risks. While your money can make money, you may also lose it while lending or investing.

When you **invest** your money in different types of investment instruments, such as shares, bonds, mutual funds, real estate, and others, you can potentially earn a return on your investment, which in turn can help you achieve your financial goals.

Here are some most popular investment options:

- Shares
- Bonds
- Mutual funds
- Exchange-traded funds (ETFs)
- Real estate
- REITs (Real Estate Investment Trusts)
- Peer-to-peer lending and crowdfunding
- Savings accounts
- Certificates of deposit (CDs)
- Treasury bills and notes
- Insurance policies with cash value (for example, whole life insurance)
- Art and collectibles
- Cryptocurrencies
- …

This list of investment options does not mention the most efficient investment opportunity – investing in your own education and training. This Section does not focus on this option, while it should always be considered when planning your life and finance.

It is important to note first that **all investments** carry some degree of **risk**, and it's important to do your own research and seek professional advice before making any investment decisions. Additionally, it's important to have a **diversified portfolio** and invest in a range of assets rather than into one asset. If you invest all your money into the shares of one company and it gets bankrupt, you will lose all your

money. However, if you invest in shares of 50 companies, it is very unlikely that all of them would get bankrupt and therefore, your chances to lose all your money are minimized. Investing is a process, which needs knowledge, experience and discipline. Managing your greed, fears and stress in investing is fundamental to be successful in this endeavour.

There are several **factors to consider** when selecting investment instruments that will best suit your needs and financial goals. One key factor to consider is **your risk tolerance** – how much risk you can and are willing to take while investing. Usually, higher risk investments offer the potential for higher returns, but also carry a greater risk of loss.

Another important factor to consider is **your investment goals** and what you hope to achieve with your investments. For example, if you're saving for retirement, you may want to consider lower risk **long-term investments**. Additionally, you should consider your time horizon for your investments. Are you investing for one year, ten years or till you retire? Depending on the answers to these questions you should choose the suitable investment instrument.

Starting early and **investing regularly** is also important for long-term success. It's important to invest in instruments that you understand and take the time to research and learn about different investment opportunities. You may start from the simplest saving and investing instruments, such as savings accounts and learn over the time what other more sophisticated instruments you could use to invest and gain higher returns.

It's also important to consider the **fees and expenses associated with different investment instruments**, as these can impact your returns over time. Also, consider seeking **professional advice** from a financial advisor, your credit institution or investment professional who can help you make investment decisions.

While the first investment option on the list is **shares**, this does not mean they are the simplest financial instrument. Shares represent ownership in a company, and buying shares means you own a portion of that company. If you invest in shares and the value of the shares increases over time, you can sell them for a higher price than what you paid for them. Moreover, it may be the case that while you hold the shares, the company which issued the shares will distribute a part of its profits in the form of dividends and you will receive additional amount. The benefit of investing in shares is the potential for high returns, but the risks include constant change in prices of shares as well as the risk of losing part or all of your money. For example, the price of the shares may drop and never recover once you have bought them or the company which issued the shares gets bankrupt.

Additionally, you have the option to invest in **bonds**, which are debt securities that represent a loan made by an investor to a borrower, typically a company or government.

The price of the bond may increase or decrease, leading to potential gains or losses (if you decide to sell the bond). Furthermore, when investing in bonds, you will typically earn **interest** on your investment until the bond reaches its maturity date and the issuer repays you the amount you have lent. The benefit of investing in bonds is the potential for regular income and lower risk compared to shares. However, it may be the case that the company which issued the bonds gets bankrupt or cannot repay the bond principal amount to the investors (bondholders) at a defined date.

Mutual funds are an investment mechanism, where money from multiple investors is pooled into one "pot" and used to purchase a diversified portfolio of shares, bonds, other securities or assets. The mutual funds are managed by professionals and therefore the essence of investing in mutual funds is to benefit from professional management and diversification. However, the risks include fees and expenses as well as the possibility of poor management of the invested funds. If you wish to invest in mutual funds, you should look into those, who have a long history, so that you could see the earlier results of the fund and reduce the risk that the fund will be closed in few years because of the poor results. As mentioned, diversification of your investments is an important aspect that

mutual funds offer to you, because they invest your money into a range of assets, thus reducing the risks.

Exchange-traded funds (ETFs) are similar to mutual funds in that they offer a diversified portfolio of securities, but they are traded on stock exchanges like individual shares. The essence of investing in ETFs is to benefit from diversification and flexibility, with the ability to buy and sell ETFs throughout the trading day, which is usually not possible with the mutual funds. Investing in ETFs you should consider not only the risks related to the price of ETFs but also the fees and expenses which are applied to the investors.

Real estate investments involve purchasing and owning physical property, such as residential or commercial buildings, parking lots, land parcels or other, hoping that such assets will generate passive income for you or increase in price over time. The benefit of investing in real estate is the potential for regular income and increase in value of the property. However, you should carefully consider all the costs related to the management and maintenance of such property, the risk that its value may decrease. Managing and maintaining such property may require considerable financial, time and psychological inputs from you. How many tenants you will have to find? What if they do not timely pay the rent? Thus, before investing into real property, carefully think and calculate if it is better to invest, for example, into a small apartment or into several parking lots that you could rent out. Consider taxation of your activity, which may also change in the course of time.

One more key term in investing is **compounding interest**. This means that you reinvest all or part of your earnings from your investments. This generates a very impressive effect. The earlier you will understand the force of compounding interest, the better it is for your personal finance management. The figure below demonstrates the difference between investing with and without reinvesting the earnings from investment.

Figure 6: How your money may make money

Investment + its yearly return	1 year	5 year	10 year	20 year	50 year
1000€ +5 % reg.	1,050 €	1,250 €	1,500 €	2,000 €	3,500 €
1000€ +5% comp.	1,050 €	1,276.28 €	1,647.01 €	2,653.3 €	11,467.4 €
1000€ +10% reg.	1,100 €	1,500 €	2,000 €	3,000 €	6,000 €
1000€ +10% comp.	1,100 €	1,610.51 €	2,707.04 €	6,727.5 €	117,390.9€

All in all, it is important to remember that **investing is a long and slow process towards your financial goals**. The **stories of getting rich fast through investing are often**

exaggerated, and many people take unproportionable risks and end up losing money. To succeed, do not base your investment on dreams but rather on clear financial goals, knowledge and discipline. Doing your own research and consulting with professionals in finance is crucial.

2.5. PERSONAL FINANCIAL DISTRESS – ACTIONS AND SOLUTIONS

You may experience different types of **personal financial distress** that can affect your financial stability. It's important to be aware of these potential risks and to take steps to protect yourself. You should take steps to prevent and manage these risks, building an emergency fund, paying down debt, saving for retirement, seeking professional advice, and being financially disciplined.

Debt is one of the most common sources of financial distress, and it's important to manage your debt responsibly to avoid high interest charges and damage to your credit capacity. **Unemployment** is another common cause of financial distress, and it can be challenging to cover your living expenses without a regular source of income.

Unexpected medical expenses can also cause financial distress, particularly if you are uninsured or underinsured. **Housing costs**, including **rent or mortgage payments**, can consume a significant portion of your income and may lead to financial distress if they become unmanageable. Lack of savings for retirement is another personal financial distress to be tackled.

Emergency expenses, such as car repairs or home repairs, can also cause financial distress if you do not have adequate savings or other resources to cover these costs. **Divorce or separation** can lead to financial distress as well. Additionally, becoming a victim of **financial fraud**, such as identity theft or credit card fraud, can lead to financial distress as you may be held responsible for fraudulent charges and may experience damage to your credit capacity.

If you are experiencing strong financial distress, there are several ways you can address the situation. First of all, you should **assess your current financial situation**. Take an inventory of your debts, bills, and expenses, as well as your income and assets. Create a table of income and expenses as shown in Figure 2 (Sample table for tracking your expenses) in Section 2.1 (Money spending and money wasting). This will help you to identify the source of your financial distress, establish a budget and to develop a plan to address it.

Creating a budget (see Figure 1 (Sample budget) in Section 1.2 (I have earned money – what to do next) can help you to understand your income and expenses and to identify areas where you can reduce spending. This can help you to free up money to pay down debts and build up savings.

In your budget you should **prioritize** the **expenses**, which are **necessary** to take you out of the financial distress situation. Identify which expenses are the most important and which can be delayed or reduced. Prioritizing your expenses can help you to avoid falling further into debt and to focus on paying off your most important debts first.

If your financial distress is due to debt, think about **negotiating with creditors**. If you are unable to make payments on your debts, discuss with your creditors the options for reducing your debt, restructuring your debt repayment schedule, postponing payments of the debt. The creditors may be willing to work with you to develop a payment plan that fits your budget. However, you should do this in advance and not wait until the last minute, when you can no longer cover your debts. Delaying action may lead to your creditors resorting to legal means to recover the debt.

In case of financial distress, you should consider **seeking professional advice**. There are many organizations and institutions which provide such support free of charge or you may address yourself to a private financial advisor or credit counselor. They can help you to

develop a plan to address your financial situation and develop a strategy that works for you.

There is one more option, which is **debt consolidation**. As already discussed in Section 1.5 (Key financial problems and solutions), if you have multiple debts, debt consolidation may be an option to help you to manage your debts more effectively. Consolidating your debt may involve taking out a new loan to repay several existing loans. This may allow you to better manage your payments and potentially reduce your interest rates. In this case professional advice would be necessary.

Building an emergency fund is essential for the prevention and eventual management of financial distress situations. Therefore, think about it in advance and try to put aside an amount which would allow you to maintain your spending level during the period of 3-6 months. This fund helps you to cover unexpected expenses and to avoid falling further into debt in the future. Start by setting aside a small amount each month and gradually building up your savings over time.

Another important aspect is that managing financial distress can be a challenging and stressful experience. The **emotional impact** of financial distress can be overwhelming, and it's important to take care of both your physical and emotional health. Therefore, **practicing self-care is essential**. Taking care of your physical and emotional well-being by getting enough rest, exercise, and proper nutrition can help you feel more resilient and better able to cope with stress.

Support from friends and family may be of great value here and serve as a source of emotional comfort. Moreover, there are different support groups and organizations, that could help you to manage the emotional aspects of the financial distress. Techniques such as **meditation** can also be helpful. Doing **sports** and simply **watching a good movie** are very simple but very efficient means to tackle with the stress and be able to take more efficient decisions managing the situation. Most of these instruments are free of charge and therefore you only need to decide and go for it.

Overall, it is important to **focus on what you can control**. While it may not be possible to fully control your financial situation, focusing on your budget and spending habits can help you to feel more empowered and in control.

Thinking about how to increase your income may bring even more positive energy, since it keeps you busy creating plans, imagining and acting. Doing nothing is the worst scenario to follow. It's important to **stay positive and focus on the future**. Remind yourself **that financial distress is a temporary situation** and that you can take steps to improve your financial situation over time.

For more about how to tackle difficulties in personal finance, see Section 1.5 on Key financial problems and solutions.

PART 3 - MY PERSONAL FINANCE AS PART OF THE ECONOMIC SYSTEM

3.1. INVESTING MY MONEY – GOLDEN RULES

The main financial instruments available today are presented in Section 2.4. (Can Money Make Money?) of the Manual, while the current Section focuses on the fundamental principles of investing in the context of the management of your personal finance.

The very first rule to follow would be to **invest only** the **money that you can afford yourself to lose** and that you will not need for your expenditures in the short run. Such approach will protect you from the important negative impact on your financial situation should your investments fail. Also, psychologically you will be much better off, if you apply this approach rather than investing amounts, which would significantly impact your situation. Investing cautiously provides you less opportunities to earn money, but provides you with more security and limits your risks. It could be said that investing only those money which you can "forget" is a safe approach to investing.

Furthermore, your **investments should not impact your money reserve**, which may be used only in emergency situations and should be refilled as soon as possible. The money you hold as a reserve, is not meant to be used for investment purposes, no matter the attractiveness of the investment.

Investing allows you to employ your money, so that it makes more money. Thus, the purpose of investment would be on one hand to **protect** your money **against inflation** and ensure that it does not lose value. On the other hand, you may expect a certain **revenue** from your investment. This revenue may be generated via different mechanisms – gains from the increase in value of the assets you invested in, dividends, interest, rental payments and others.

Investments are related to **risks** and while there are financial instruments, which may quasi-guarantee you a certain return on your investment, there are instruments that do not provide such guarantees, but may also provide higher return on your investment. Therefore, choosing the right investment instrument to invest in and duly assessing the related risks is a must before you start investing. If you have no sufficient knowledge to invest by yourself, **seek professional support**. For example, you may ask for a meeting with your banker or other financial service provider and discuss different options, which would be suitable for you. This is a free of charge consultation, which may bring you much information that you are searching for. Of course, make sure that the **person giving you financial advice has a right to do so**.

There are tools that allow you to automatically **copy the portfolio** of another investor. This is known as **social trading**. Be careful when selecting the investor, you want to follow and test your choice with a virtual portfolio before investing real money. Research the platforms and investors offering social trading services thoroughly before you start investing your money. Make sure they have the right to offer such services and that they are supervised by the relevant supervisory institutions.

In most cases giving **financial advice** requires that the advisor has a **license** to do so. Such licenses are delivered by the supervisory authorities in your country and/or EU, such as central banks or securities commissions. Therefore, if you decide to receive a professional financial advice do not hesitate to call or write an email to the supervisory authority in your country. Ask them if the advisor you have chosen has a right to give financial advice. This will diminish your risk of receiving a poor-quality advice, which could cost you the loss of money.

However, always remember that **you are the final decision maker** and that it is **you**, who will **bear the risk of losing** part or all of your money due to this investment decision. Even if you have sufficient knowledge to invest, it is always good to have an alternative opinion and the professionals could help you here as well.

There are different **sources of information** on which you may base your decisions. One of them is the **information** that companies you invest in or financial service providers must **disclose to investors and consumers**. They are required by law to disclose certain types of information that you may consider while making your investment decisions. However, not all of this information may be complete or accurate. This must also be taken into account.

Also, you should be cautious of **scams and fraudulent schemes** while investing. If you receive a call or an email promising guaranteed high returns on your investments or if they ask you to click on a link or provide your login or PIN code, it is most likely that you are being targeted by fraudsters or scammers. Be careful and get informed about different scam and fraud schemes as they are constantly changing. Be cautious when selecting service providers and investment or financial instruments. Furthermore, fraud and scam schemes may target not only your money but also your personal data. The digital age makes scams and fraud schemes even easier to implement, which requires your particular attention and mindfulness. If your **personal data** is stolen, there is a risk of **identity theft**. Your personal data may be used to make unauthorized online purchases or for other illegal actions, which could cause you additional trouble or financial losses.

The table below illustrates, what happens to your money, if it is invested with 10% annual return rate and the yearly inflation is 2% or 4%.

Figure 7. Investment fights inflation. What happens to your 10 000 EUR?

10,000 €	1 year	5 years	10 years	20 years
2% inflation	9,803.92€	9,057.31€	8,203.48€	6,729.71€
10% regular return - 2% inflation	10,800€	14,000€	18,000€	26,000€
10% compound return - 2% inflation	10,800€	14,693.28€	21,589.25€	46,609.57€
4% inflation	9,615.38€	8,219.27€	6,755.64€	4,563.87€
10% regular return - 4% inflation	10,600€	13,000€	16,000€	22,000€
10% compound return - 4% inflation	10,600€	13,382.26€	17,908.48€	32,071.35€

One of the most common mistakes that can be made is the **lack of diversification** of investments. To diversify and invest your money into a range of assets you have to have a

sufficient amount of money. Also, you would need to do more research to be able to invest in various assets. This requires time and knowledge. However, you may use instruments which allow the diversification of the investments even with a smaller amount of money and almost no time to be spent on managing the investment. For example, you could invest in mutual funds or ETFs that are professionally managed. These instruments were discussed in Section 2.4. (Can Money Make Money?).

Another important aspect is to base your investments on knowledge, experience and discipline but **not on emotions**. Emotions such as fear, greed or hope will finally lead to irrational or impulsive decisions and the loss of part or all of your investment.

Also, as a non-professional investor you should **not** base your investment strategy on **trying to predict** the increase or drop of **prices** of shares or other securities. It may work one or even several times but this is not a long-term strategy for a non-professional investor. Numerous researches show that it is more efficient to invest regularly into securities and stick to your investment strategy and financial objectives.

While investing you should also know that the **history of prices of securities does not guarantee** that they will follow the same path in the **future**. There is no guarantee of that. A company you are investing in may get bankrupt, issue more shares or simply the price of its shares may drop in price and not recover.

One more important aspect you should consider are the **fees and expenses** related to your investments. While they may seem unimportant at a first glance, in a long-run they may accumulate into an important amount. For example, if the commission fee for buying a share is 10 euros and selling the same share is additional 10 euros, this makes you think over what minimum amount you should invest to make your investment cost-effective. In such case if you invest 100 euros the percentage consumed by the commission fees would be way too high. Different providers offer different prices for their financial services. Therefore, this aspect also merits a separate research from your side.

Basic your investments on a **long-term perspective** is a more efficient strategy than focusing on a short-term and taking high risks for potential high returns. Personal finance management is about long-term – all your life. Therefore, even if you have short-term objectives and strategies, they should fit into the overall long-term strategy of managing your personal finance.

You should also know that **different investment products** may have **varying environmental, social, and corporate governance characteristics**. It may be the case that you would not be willing to invest in some types of industries or companies, but more willing to

invest in others, such as environmentally responsible businesses. In general, you should know that your financial and investment decisions have broader consequences on the society, environment and economy on the local, national and EU level. Take this into account, when making your investment decisions.

Currency risk is another risk to be taken into account. **Exchange rate** of currencies may change rapidly and strongly. Therefore, if your local currency is euro and you invest in US dollars, you should have in mind the risk of change in USD/EUR exchange rate. Your investment results in foreign currency will be positively or negatively impacted by the currency exchange rates. Besides the exchange rate risk, you should also consider that changing one currency to another will most often be subject to transaction fees and commissions, which vary among exchange service providers and over time. You may check the information related to exchange rates using numerous **currency converter tools** online. However, these tools will not display the **fees and commissions** applied by your exchange service provider. You may check those directly with the service provider. Be mindful when selecting the provider of investment services and always consider the terms applied to the exchange of the currency if it applies to your investment.

Another aspect you should consider when making your investment choices is that information provided by financial service providers and companies on their investment and financial products and services may be **marketing information or biased** information. Do your research before investing and consult with finance professionals, when possible.

Continuous learning and research are another key to success in managing your personal finance. This information and experience are necessary to make efficient saving and investment choices. The earlier you start your financial education, the faster you will be able to put your personal finance on the right track and will benefit from all this accumulated knowledge faster and longer during your lifetime.

3.2. INSURANCE

There are different dangers in life. Many of us dream that these dangers never materialize and we often think and hope that **"this happens to others, but not to me"**. However, no one is protected against bad things to happen. What we can do is to soften the situation by ensuring that we are financially protected, in case something unexpected happens. In fact, people understood long time ago, that we can protect each other by putting together a part of our money in one pot and pay the ones who suffer from disasters, diseases or accidents. This mechanism of protection is called **insurance**. The person who signs the insurance contract with the insurance company or other insurance provider is called a policyholder. The payments you make to be insured are called premiums.

There is a whole variety of insurance products, which insure you against different dangers (risks). We may insure ourselves, our family, our property or, for example, our business. Some of these insurances are **compulsory**. For example, if you drive a car, you are required to have car insurance. Imagine, if everyone drives without insurance, what it would be like in case of an accident. Also, usually every person has a compulsory health insurance, so that everyone could go and see the doctor or have financial coverage in case of a disease. Other insurances are **optional** and it is up to you to decide if you wish to have this type of insurance. For example, you may wish to insure your health additionally, so that in case of a trauma you would be paid a certain amount. Or if you are a farmer, maybe you would like to insure yourself against the loss of your harvest due to drought or heavy rains.

Thus, there are different types of insurance, depending on what risks you wish to insure from. For example, **health insurance** covers all or part of your medical expenses, including hospitalization, doctor visits, and prescription drugs. **Life insurance** provides financial support to a beneficiary in the event of the policyholder's death, while **disability insurance** provides income replacement in the event that the policyholder becomes disabled and is unable to work.

Homeowners insurance covers damage caused to the policyholder's home by such events as fires. You may also have civil liability insurance which could cover damages that you or even your family members have caused to the property of others. If you own a car, **auto insurance** can cover damage to your vehicle and liability for injuries or property damage to others in the event of an accident.

If you plan to travel, **travel insurance** can cover medical expenses, trip cancellation or interruption, lost or stolen luggage, and other travel-related risks. **Pet insurance** can cover veterinary expenses of your pet.

These are just a few examples of possible types of insurance. The insurance products and their terms vary throughout the EU and therefore, you should check with local insurance companies or insurance brokers to find out about what type of insurance is available for you.

There are even insurance products that combine **insurance coverage with investment options**. For example, **whole life investment insurance** is a type of life insurance which besides the payment of a defined amount in case of the death of the policyholder may also offer an investment component. Part of your premium payments go towards investments and build value during the long-term. Moreover, usually you would even have a right to decide about the respective investing strategy to be applied.

Insurances are usually provided by **insurance companies**, which are licensed and supervised by the relevant supervisory institutions. While taking the insurance you should

check with the supervisory institutions in your country (like the central bank or insurance commission) if the respective insurance company has a **license** and has a right to sell such products.

When selecting the insurance policy, **compare the various offers** of the relevant insurance. It is often quite difficult to compare the offers of insurance and therefore, **professionals could help you here**. While you may contact each insurance company individually, you may also ask for support from the **insurance brokers**. These are companies or individuals, who have information on many different insurance offers and may compare them and advice you on which could be the best option for you. It is actually a good idea to establish a contact with an insurance broker you trust and always have a contact point for advice on insurance matters. Even in case of **insurance event** (the event against you take the insurance, like the car accident) your insurance broker may help you to manage the whole situation. The broker could advice you about whom and when to inform about the insurance event, what documents to submit and to whom, how to behave during and after the insurance event.

Besides contacting an **insurance broker**, you should also do your research on the reputation of each insurance provider by reading customer reviews, checking their ratings with independent rating agencies, and looking for any complaints or legal actions against the company. You should also consider the **quality of customer service** provided by each insurance provider, including their responsiveness and availability. It's also important to **compare the premiums** and all related **fees and deductibles** of each insurance provider to ensure that you are getting a fair price for the coverage provided.

Both insurance companies and insurance brokers are supervised by the **supervisory institutions**, which may provide you with an additional support in insurance matters. If you feel that the insurance company or insurance broker has violated your rights, you should contact the supervisory institution for advice, how to act further.

Besides taking an insurance privately, there are also other options how you could be insured. For example, many employers offer **group insurance plans** as part of their employee benefits packages, which can include health insurance, disability insurance, and life insurance.

Some EU countries have **government-run insurance programs** that provide coverage for **specific groups of individuals**, such as low-income individuals, elderly citizens, or disabled individuals.

Insurance should be seen as an **integral part of your personal finance management**. Therefore, consider insurance cost as a must in your budget. This is an instrument, which may ensure that in the events you are insured against, you would not need to remedy the situation with your own finance. Otherwise, even one such event could strongly impact or even ruin your finance. For example, **when taking out a loan**, it's important to consider the potential risks and to protect yourself and your family against unexpected events that could affect your ability to repay the loan. There are several types of **insurance** that can provide protection, such as life insurance, disability insurance, unemployment insurance, and property insurance.

One of the biggest risks related to insurance is **providing incomplete or inaccurate information on your application**. This could result in the insurer denying your coverage and making no payment in case of insurance event. It's also important to **understand the exclusions and limitations** of the policy to know what is not covered and how much you can claim. The sole title of insurance contract does not mean that all the related damage will be covered. You should carefully check, what is covered and what is not. For example, a car insurance will not cover damage that you inflict intentionally on the property of others.

Premium increases can also be a risk, and it's important to understand how and why your premium may increase over time. Furthermore, if you breach the insurance policy terms and conditions your insurance **policy may be cancelled**.

Another risk is the insolvency of your insurance company. This may result in the loss of coverage and the inability to make claims. While there are **EU insurance coverage schemes** that cover insolvency of an insurance company, these coverages are **limited** to a certain amount, which may be not less than 100,000 euros.

While insurance is an excellent product, in order to fit it into your personal finance management, you should purchase **only coverage that is necessary** for your needs. Additional coverage can unnecessarily increase your premiums and result in paying for coverage that you don't need.

In all cases it is important to carefully read and understand the terms and conditions of an insurance policy before signing it. If you have any questions or concerns, ask your insurer or insurance broker. Be aware that it may be very difficult or even impossible to prove the information which you have received verbally from the consultants of your insurance company or insurance broker. Therefore, be sure that **all the necessary** information and **details** is included **in a written contract** signed by both parties.

3.3. PREPARING MY RETIREMENT

The purpose of the money you earn is not only to serve you today but it must also ensure your financial security once you have retired. Many young people think that the **retirement** is something, which will never come. This is not true. We all live forwards and get older with years, so we must make sure that our finances will support us even when we will no longer work as hard as during our young days. The key point is that the amount of money necessary to ensure our expenses during the retirement is very high. For example, if your monthly pension is 1.000 euros, you would need 240.000 euros to cover your **pension during 20 years**. What if your retirement lasts 30 years?

Therefore, the earlier you understand the importance to start preparations for your retirement, the better opportunities you have to ensure your financial security during older days. Postponing these preparations for later may end with empty pockets at an age when you will need most of the support and will have fewer possibilities to work and earn money.

Saving for retirement or pension is a **critical component of financial planning**. Besides other things, it can offer the financial security and the potential for compound interest.

There are different ways to ensure finances for your retirement. The main mechanism, of course, is to work legally and pay your contributions to the public **social security system**. Once you retire, this is the state and its relevant public institutions, who would ensure that each month you would receive a **pension**. This system is based on a so-called **solidarity of generations**, where the generation, which works, pays the pensions to the generation, which has retired. To receive this type of pension you must work a defined period of time and pay a part of your earned money to the social security system.

While preparing for retirement, it is very important to understand, that if you **work without an employment contract (illegal work)** you are not participating in a public social security system and will not benefit from the pension payments once your reach the retirement age. There are other forms how you can participate in the social security system (for example, working individually and paying social security taxes). If even a portion of your salary is paid illegally, you will either not receive any pension at all, or its amount will be significantly reduced. Consider whether it's truly worth enriching a dishonest employer by agreeing to have a portion of your salary and taxes unpaid. Will this employer take care of you once you are old and unable to work anymore? The same applies if you work

individually as **self-employed**. **Paying and declaring taxes** will both contribute to your financial stability, as well as to the development of your country.

Besides your public participation in the social security system you may save for retirement investing in **private pension funds**. There are different systems in different countries related to private pension funds. The state may even support you through different instruments, like tax incentives or direct financial contributions if you decide to invest in private pension funds. Making your decision about participation in such schemes you should assess if the accumulated funds will be inheritable by your heirs, if you could withdraw them earlier (for example, in case of emergency), will all the accumulated amount be paid to you upon retirement or will you receive monthly payments from the fund.

Private pension funds are managed by finance professionals who invest the contributions made by you and many others into the fund. Their investment strategies are designed to provide you with additional pension payments beyond what you receive from the public social security system once you retire. The way these funds are funded varies from country to country: it can either be a portion of your payments to the social security system or direct payments made by you to the private pension funds, or a combination of both.

However, it is important to understand that private investment funds come with a range of risks, and there is a possibility of losing money.

Generally, planning your retirement is quite a complex process, involving a range of saving and investment mechanisms. Therefore, it is recommended to consult with financial advisors, your credit institution or private pension funds to establish your **retirement savings plan** and select the instruments that best fit your situation.

Below you may see a table demonstrating, what amounts could be saved if you would only save money for your retirement and keep it in your deposit account generating interest. This does not mean that this is the only and the best way of preparing your retirement. The table below illustrates what you could save if you put aside regularly 1000 euros per year and keep it in your bank account generating 3 percent of interest rate (reinvested yearly).

Figure 8. Saving for retirement in the form of deposits

Deposit money in your bank account every year	2023	2024	2032	2042	2052	2062
3 % yearly interest rate (reinvested every year) Start from 1000 euros Deposit +1000 euros every year	1000	2030	11464	26870	47575	75401

Another table illustrates, what you could save if you invest 1000 euros every year for your retirement into investment instruments generating 5 percent of profit (for example, in form of dividends) where all generated profit would be reinvested.

Figure 9. Saving and investing for retirement

Invest 1000 euros every year	2023	2024	2032	2042	2052	2062
5 % yearly profit (reinvested every year) Start from 1000 euros Invest +1000 euros every year	1.000	2.050	12.578	33.066	66.439	120.800

The tables above show only simplistic, average calculations, without considering many other important factors, such as change in prices of the selected investment instruments, taxes, frequency of investments (for example, if you deposit money or invest it every month) or impact of inflation on your deposits or investment. All this should be discussed with the professional advisors.

From the examples above you may see that if money is only put aside or even kept as interest-generating deposits, this does not generate the amounts necessary to cover your retirement. These amounts may serve as additional sources of money supplementing the amounts you receive from the public pension plans. Therefore, as already mentioned in this Manual, **saving should be combined with investment** into diversified portfolio of assets, which besides passive income generation would also have a potential of increase in value and could be sold if and when necessary.

The amount of money you should dedicate to saving for your pension per month or per year depends on several factors, such as your income, age, retirement goals, and lifestyle. However, financial experts generally recommend to **save between 10% to 15% of one's income for retirement**. The **earlier you start** saving for retirement, the less you will need to save each month. For example, if you start saving in your 20s, you may only need to save around 10% of your income each month. However, if you start saving in your 40s or 50s, you may need to save 15% or more of your income each month to catch up.

The table below illustrates the effect of starting preparing your retirement early. In one scenario you put aside and invest 50 euros per month while in the second case you put aside and invest 100 euros every month. The yearly return of your investment is 10 %. It is assumed that the retirement age is 64 years.

Figure 10. Preparing your retirement – when to start

Age of starting to save and invest for retirement	50 € per month (+10 % yearly return on investment)	100 € per month (+10 % yearly return on investment)
Start at 25 years	251,719€	503,437€
Start at 40 years	55,490€	110,980€

You may also invest in different financial instruments adapted for this purpose or buy real estate, which you could rent or sell. While doing such investments for your retirement you should consider different risks, such as inflation. As already mentioned, if you simply save money, your money loses value due to inflation or it may be subject to other risks.

Preparing for retirement is a complex and long-term endeavor, requiring careful consideration, planning and discipline. It is essential to select instruments and strategies fit for your long-term retirement saving goals. The choice of instruments for your retirement lies with you, but remember that inaction is the worst tactic. If you have not started yet, start planning and investing now to secure a comfortable and financially stable retirement in the future.

3.4. I WOULD LIKE TO DONATE. WHOM TO TRUST?

Sharing is inherent in our human nature, and you may find yourself inclined to share a portion of the money you have earned with others. This act of benevolence is called **donation**. However, once you have made the decision to donate for a specific cause, it is essential to verify the legitimacy of the recipient. It would be unfortunate to lose your hard-earned money due to falling victim of fraud.

Before donating money, it is crucial to consider your own financial situation. Assess **whether you are** truly **able to make the donation** and how it fits with your budget. Think about how much you can comfortably afford to contribute. Don't let emotions or impulsive thoughts guide you but rather carefully consider your decision.

Giving half of your entire monthly salary to your favourite sports club might seem tempting initially, but it could be a bad choice in the long run for your own budget.

Be cautious when choosing **who to donate to**. There are numerous scams and **fraudulent schemes** pretending to be legitimate causes that deserve your support. Verify the legitimacy of those seeking help, as scammers often use psychological tactics to sway your decision. For example, you might encounter internet articles or emails showing urgent needs for medical or financial aid. Some of these are genuine, but others may be deceitful. Donating online or through mobile platforms can also expose you to **cybersecurity risks** such as identity theft and other types of fraud. Therefore, use secure payment platforms and keep the documentation related to your donations.

Stay vigilant, as there are websites that mimic real organizations supporting those in need. **Conduct your investigation** to ensure the person or organization you want to support is **authentic**.

To ensure your support reaches its intended recipients, **donate to individuals or organizations you know** and trust. Inquire about how your donation and others' contributions are used. You can specify the purpose of your donation, for example, in the banking transfer instructions. Even legitimate charities may **misuse funds** by using them for purposes other than those specified by the donor. This can be due to poor management, lack of oversight, or other factors. Therefore, it is important to be clear about the purpose of your donation and any restrictions you want to place on its use.

It is also easier to trust **well-known local or national organizations**. You hear a lot about them on TV or read about them in the news. Normally, the society and the authorities keep a closer look on such organizations and this is an additional argument for you to trust them. Of course, even such organizations may have different types of difficulties and face risks.

If you wish to support people from other places on the Earth, you may use different support instruments used by the **international organizations**, such as the United Nations. With today's modern technologies you may support people in different places of the world even with one click on your smart-phone.

Donating may lead to a reduction of your **taxes**. Contact the appropriate public authorities responsible for taxation in your country, such as the Tax Inspection or Tax Service, and

inquire about how donations affect your taxes. By doing so, you can take advantage of potential incentives that encourage people to donate.

You may also find some useful information related to donating in Section 1.2 of this Manual (I have earned money – what to do next?)

PART 4 - MANAGING PERSONAL FINANCE DURING CRISIS SITUATIONS

4.1. BE ALWAYS READY FOR THE UNEXPECTED

Life is full of unpredictable events, especially in the field of finance. Preparing for **crises** during stable and financially secure times can help you navigate challenges effectively and even turn them into opportunities. On the other hand, if you face a crisis unprepared, the difficulties you encounter will likely be more severe. Planning ahead can make it easier to overcome such situations.

Crisis situations can take various forms, such as losing your job, economic downturns, or global pandemics like COVID-19. To effectively overcome these situations, **advance preparation** is essential. However, preparing for a crisis can be challenging since you may not know exactly what it will look like or when it will occur. Nevertheless, if you are always ready, the timing of the crisis becomes less critical.

Since crises can be diverse, it is crucial to have **universal preparations** that can help you cope with different types of crises. Flexibility in your preparedness is key to facing uncertain circumstances successfully.

In simple terms, a crisis can be either economic, such as personal, national, or global economic downturns, or it can be of a different nature, like war, pandemic, or natural disasters, which still affect your financial stability. **Crises** typically have a limited duration, and your main goal should be to maintain your financial security throughout this period. To achieve this, you need a source of financing, which can come from your previous or current activities. In other words, you need money to get through the difficult time.

The easiest approach is to **save money during prosperous economic times** and use it when facing difficulties. However, economic crises can endure for several years, making it challenging to accumulate enough funds to sustain you for such a long period. Therefore, preparing for a crisis requires a **combination of various strategies**, not solely relying on saving.

During crisis situations, you might be eligible to receive **payments from the public social security system** or other support mechanisms. Having an official employment contract and full social security coverage is crucial in such times, as it can provide vital support during difficult situations.

When preparing for a crisis, **start by assessing your expenditures**—the money you spend. Your spending should align with your financial situation, and you should be able to manage

it comfortably. In times of economic prosperity, the temptation to spend more and buy a better car or larger apartment, can be significant. However, during favourable financial times, it is essential to consider how you will handle your finances if the economic situation worsens.

Before taking on significant debts, like a bigger loan for a larger property, **consider whether you can repay the debt in various scenarios**, such as losing your job, receiving a smaller salary, or facing increased interest rates. Consult the credit institution or lender to model these situations for you. Ensure that your spending decisions are based on a pessimistic scenario rather than an optimistic one. Consider how you will manage your expenses if your income decreases by 30 percent or 50 percent.

If you **adopt a pessimistic approach to your spending**, you'll experience less stress during potential economic crises. Moreover, you'll have more money available for saving, investing, lending, or other opportunities to generate additional income. Having a financial reserve during good times enables you to manage your spending more effectively and provides a larger buffer to overcome difficulties during economic downturns.

It is crucial to remember that during prosperous times, people are often driven by **over-optimism**. However, your objective should be to ensure the stability of your finances throughout your lifetime, not just when the economy is doing well.

You should create a **reserve or emergency fund**, which would allow you to live **for at least several months** in case of sudden loss of income. Many unpredicted things may happen, which would leave you without earnings. For example, you may lose your job or may have some health issues. Therefore, include the formation of such a reserve among your priorities and each month set aside a sum of money for this purpose. Calculate, how much you need to set aside each month to form this reserve during a defined period of time.

The table below indicates the amount of the recommended emergency fund based on your monthly expenses. Do not worry if you can't reach this goal quickly. Even having some savings is better than none, especially if you manage them wisely.

Figure 11. Size of the emergency fund

Usual monthly expenses	Emergency fund (3 months of autonomy)	Emergency fund (6 months of autonomy)
500 €	1,500 €	3,000 €
1,200 €	3,600 €	7,200 €
2,700 €	8,100 €	16,200 €

Since you cannot predict the exact nature of a crisis, it is wise to keep a portion of your reserve in a **bank account** and also in **cash**. Cash can be a reliable form of payment in emergency situations where electronic payment methods may not be accessible. However, for security reasons, it is best not to keep large sums of money in cash.

Make sure you have enough cash to cover your expenses in case the crisis limits electronic banking, credit cards, or ATM withdrawals. It would be unfortunate to face difficulties with only a small amount of cash on hand, like 10 euros, making it impossible to buy essential items.

In addition to having a financial reserve, it's important to **diversify your income sources**. For instance, you could rent out a parking lot, keep bees and sell honey alongside your

regular job or rent out a room in your apartment or house to generate extra funds when needed. This can provide valuable support during a crisis. These **additional sources of income** can run alongside your regular work or be created if a crisis arises.

Another crucial aspect of security is having a place where you can **produce your own food**. For instance, if you have inherited a small house with a kitchen garden and fruit trees, it can provide great support during a crisis. Growing your own food and having a small shelter in a rural area can be immensely beneficial during challenging times. Even if you live in the city, having some basic rural life experience can prove valuable.

Additionally, depending on your location, you may spend more time collecting berries, fishing, or gathering herbs for tea or medicine plants, further enhancing your **self-sufficiency during a crisis**. Such activity not only saves your finances, and increases your self-sufficiency but also contributes to your psychological stability when it is needed the most. This may also become an additional source of your income.

4.2. HOW TO ACT ONCE THE MAJOR ECONOMIC DOWNTURN IS HERE

Managing your money during a crisis requires a different approach compared to a normal economic period. During a crisis, you need to prioritize essential expenses, such as housing, food, and healthcare, and reduce or eliminate non-essential expenses like entertainment or dining out. A **crisis increases various risks** that threaten your personal finances. While these risks exist all the time, a crisis situation makes negative events more likely to happen. For instance, you may face a higher probability of losing your job or experiencing reduced working hours. Your investments may lose value due to drop in prices or inflation. During a crisis, criminal activities increase, increasing the chances of falling victim to fraud or scams. The government may also cut programs and support mechanisms to save public finances.

Staying calm in such situations is extremely challenging, but it is the first step to handle the stress that arises from tough economic times. It's important to realize that **difficult times are temporary**, and better days will come. If you're concerned about your psychological balance due to the stress caused by a critical financial situation, always **consider seeking professional help**. You may also find useful information how to deal with the crisis situation in Section 2.5 (Personal Financial Distress – Actions and Solutions).

If you have managed to save some **funds for emergency** situations, it is necessary to not dive straight into such funds, but first of all to **make a strategic plan, how to use least of emergency money**. Emergency funds are intended to provide a safety net during challenging times, so use them wisely and be mindful of the potential duration of the crisis. Making a plan is an essential step in stabilizing your financial situation. Having a well-thought-out plan will enable you to navigate through the crisis with greater financial stability. Prioritize **using your savings strategically** to supplement your monthly budget and cover essential expenses, rather than maintaining previous spending habits. This will stretch your funds further and provide a buffer for unforeseen emergency situations. Setting monthly budget should involve only expenses that cannot be reduced and are needed in order to fulfil most important needs. **Budget should be tightened** in areas of unnecessary travel expenses, eating out and entertainment, maybe even rent size might be reduced if it is possible to move to smaller place.

During a financial crisis, consider exploring **additional income sources** like **part-time jobs** or **freelance** work. You can also sell unnecessary items through a garage sale or online platforms for extra cash. This may even serve for you to get rid of unnecessary belongings and clean your home.

Additionally, **consider seeking help** even before the situation becomes critical. Do not wait until the last moment. Instead, consult with support organizations or public institutions that could assist in your specific situation. For example, you might be able to **negotiate** with **tax** services to schedule the payment of your taxes, discuss **credit** repayment terms with your bank or simply go to a charity canteen. You may also negotiate with **service** providers for lower prices or deferral of your debts (if any).

During a financial crisis, adopting a **prudent approach to shopping** becomes essential. Focus on finding **low-cost alternatives** and avoid unnecessary luxury expenses. However, you should be careful and **not focus solely on the price of goods and services** you buy. The **quality** of low-priced goods and services may be such that you may end up needing to pay twice to get what you wanted. Prioritize buying essential items and explore money-saving strategies, such as buying in bulk or using coupons. Additionally, consider embracing a more **minimalist lifestyle** by re-evaluating your needs, which can lead to significant savings

in the long run. By being mindful of your spending and making conscious choices, you can stretch your resources and weather the financial storm more effectively.

Reducing food waste and **implementing energy-saving** measures at home can not only ease your life during the crisis but also instil new discipline in your daily routines and provide benefits not only in the short term but also in the long run. Considering **autonomous power generation** devices could also be a good idea, as they may ensure a stable source of energy with fixed initial investment costs. By being mindful of these things, you will not only contribute to your personal finances but also to the important overall causes of **saving the environment** and **supporting food security** objectives.

There are many different solutions to financial difficulties, and you should demonstrate flexibility in finding and applying them. For example, some people opt to **travel to countries with lower living costs** to spend the winter or even an extended period there. By spending your winter in a place where there are no heating costs, you can make savings in this area. Additionally, this could serve as a combination of saving money and vacation time. While you are away, you also have the option to rent out your apartment or home, which would bring in additional income to your budget. This can help alleviate some of the financial challenges you may be facing.

Also, overcoming the crisis together with others could be easier. **Co-operation** with family, friends and other people may be very helpful. For example, you may **reduce your expenses** through carpooling, sharing accommodation, or splitting subscription costs.

If necessary, you have the option to **take a loan or refinance**, provided you find one with an acceptable interest rate and other terms. However, do not see refinancing as your primary choice, and make sure you are comfortable with the terms of any loan you take. Taking a loan with a high-interest rate could worsen the situation further.

During a financial crisis, job security becomes even more critical. If you have a **job**, take steps to safeguard it and your income. This could involve **enhancing your job skills** or taking on **extra responsibilities** to showcase your worth to your employer. Being receptive to learning new skills that are needed in the turbulent market can increase your employability and provide a safety net against potential layoffs or downsizing. Also, communicate openly with your employer about your willingness to adapt to the changing circumstances. Staying proactive and flexible will demonstrate your commitment and value to the employer, also making you more indispensable during challenging times.

During a financial crisis, it is natural to feel anxious about your **investments**, but you should not react impulsively to short-term market movements. Instead, consider consulting with

a financial advisor who can provide a more objective perspective on your portfolio and guide you through uncertain times. While market fluctuates during the crisis, it is fundamental to keep your long-term goals in mind and resist the temptation to make drastic changes to your investments. A successful investing involves staying committed to your strategy and not overreacting to the crisis situation. Keep yourself informed about economic developments and market trends, but do not allow constant news updates to drive your decisions. By staying patient and disciplined throughout the crisis, you position yourself for potential growth and financial recovery once the markets stabilize.

Additionally, consider **seeking professional advice** from finance experts, such as financial advisors, your banker, or public organizations and institutions. They can provide crucial information and expertise to help you make informed financial decisions.

All in all, your **financial stability** during the crisis **should be prepared before** the crisis hits. If you have not made your preparations in advance, then all the measures you take during the crisis are emergency measures that may only soften the impact of the crisis. However, it is much more efficient to manage your finances correctly during good times. Then the crisis will only require some adaptation of your personal finance management and may even provide you with opportunities (see Section 4.3 – Opportunities During the Crisis Period).

4.3. OPPORTUNITIES DURING THE CRISIS PERIOD

Financial or economic crises can have various negative impacts, such as job loss, reduced income, and investment losses. However, it is essential to recognize that **crisis situations can also present opportunities**, which you should prepare for. For instance, during a financial downturn, certain investments may become undervalued, creating a chance to **purchase shares, bonds, or other assets at a lower price**. As the economy eventually recovers, these investments may appreciate in value, leading to higher returns.

Another potential opportunity is that during a financial crisis, **central banks may lower interest** rates to encourage spending and investment. This can **make borrowing cheaper** and help reduce the cost of mortgages, credit card debt, and other loans. Additionally, during a financial crisis, **retailers may reduce prices on goods and services** to boost sales, providing an opportunity to purchase items at a lower price. You may also have **more time to learn new skills or pursue education** that can lead to improved job prospects or higher income in the future. Also, during a financial crisis, **governments may offer financial assistance** programs or other support to help those who are struggling financially. You should look through all these elements and identify, which are the opportunities that would allow you to overcome the crisis situation.

However, during a financial downturn, **be cautious with your investments** and **focus on assets that can withstand economic challenges**. While no investment is entirely risk-free, some options are more resilient than others. For example, bonds issued by the government are a relatively secure option, while it may be the case that the interest paid to the investors during the crisis period may appear unattractive to non-professional investors.

It is no secret that different industries make through the crisis situations better than others. Knowing this you may be willing to invest into the so-called **defensive shares**, issued by the companies that are less affected by economic downturns. Their products or services are essential or in high demand regardless of economic conditions. For example, this concerns companies acting in the healthcare, consumer goods, and utilities sectors.

Another option is **dividend-paying shares** that can provide a steady income stream during a financial downturn. Companies that continuously pay dividends tend to be more stable. For example, there are companies, which are called "dividend aristocrats". They are known for consistently paying and raising dividends to their shareholders (for example, during

consecutive 25 years or more). To be a dividend aristocrat, a company must also meet some other criteria. Investors find them attractive because they offer a reliable income stream, even during uncertain economic periods.

The prices of **real property** may also be very attractive during crisis situations. It may even be the case that a so-called real property bubble will burst during the crisis situation, causing the prices of real property to drop dramatically. Perhaps this could be an opportunity to purchase your first apartment or a house. If you're considering taking a loan to buy real property, be aware that while many credit institutions might reduce lending during a crisis, there may still be credit providers willing to capitalize on the market situation where others are not lending. These providers may be interested in entering the market or expanding their share in the credit market, offering credits under attractive terms and interest rates. If you feel confident about taking a loan during the crisis, look for such credit providers. However, be aware that a financial crisis does not necessarily guarantee a drop in real property prices. In fact, it may be the opposite, depending on the nature of the crisis and the measures implemented by governments and central banks to

address it. Therefore, act accordingly and consider the specific circumstances before making any decisions.

To efficiently invest during the crisis period, it is important to **consult with professionals** in this field. By focusing on assets that are likely to be more resilient in the face of economic challenges, you can protect your finances and weather the storm of a financial downturn.

On the other hand, a financial **crisis provides an opportunity to reassess priorities**, leading to **improved financial decision-making in the future**. Experiencing a crisis may prompt you to better manage your expenses and develop stronger financial discipline and management in the long term. Use this opportunity, since the lessons learned during the crisis will serve you well in the future.

During crisis periods, as they also offer opportunities, it's essential to not only build your reserve fund but also set aside money to establish an **opportunity fund**. As they say, in certain crisis situations, "cash" may become "king". Having cash on hand during a crisis can open up various opportunities for you. However, this is not always the case. The inflation may also be high during the crisis times and accumulating cash and keeping it may negatively impact your finances.

Most opportunities arise when the crisis hits its lowest point. Therefore, it is crucial to assess carefully when to use your money for investing and seizing these opportunities. Also, be cautious **not to invest too much** of your finances since you need to sustain yourself through the entire crisis period. Investing **too early** and being forced to sell your investments at an even lower point could be disastrous for your personal finances, turning potential opportunities into a deeper crisis situation. **Do not use you reserve fund for investing**, even if temptation is very high.

You should also consider that **investment risks are even higher during a crisis** compared to normal economic periods. Therefore, it is important to follow all the rules related to diversifying your investment portfolio and be prepared for additional expenses that some investments may require before generating income. For example, if you decide to invest in real property during a price drop and lease it out, it might take several years to find tenants due to reduced demand. Even if you find tenants, the unpredictable crisis situation poses additional risks, such as tenants not paying rent. Companies you invest in also face higher risks during a crisis, so investing during such times should not be driven by over-optimism.

Consulting with finance professionals is particularly important if you invest during the crisis period, since markets are also strongly influenced by irrational behaviour of investors,

such as panic. Therefore, you should consult with those, who have a strong understanding, how to best invest during the crisis and how to react to different turbulences in the market.

If this is the first financial **crisis** you are facing, it will most probably serve **as a learning platform**, allowing you to gather experience rather than benefiting from opportunities offered by such situations. However, the economy is cyclical, with highs and lows that can significantly influence your personal finances. Learning from previous crisis situations may better prepare you for what is coming in the future (see Section 4.4 – Once the Crisis Is Over).

4.4. ONCE THE CRISIS IS OVER

It may be difficult to decide whether the financial or economic crisis is over. However, there are some **signs that may indicate** that the **end of the crisis** is approaching. One of the main indicators of the nearing end of the crisis is **rising economic growth**. This can be measured by indicators such as GDP growth, employment rates, and consumer spending. Additionally, the **rise of share market** performance, interest rates, and credit availability can also be signs that the crisis is starting to abate. **Recovery** of some **specific industries** that were hit hard by the crisis, such as housing or manufacturing, can also indicate that the crisis is starting to abate. While there is a range of other specific indicators, you may feel that the crisis is ending even from the **media**, which will definitely report about it.

However, it is important to remember that the **end of a crisis can be a slow and gradual** process, and there may be **setbacks** along the way. Therefore, you should **stay vigilant** and continue the financial **discipline** of the crisis time until you are sure that the bad times have passed.

The crisis situation may drain your finances and exhaust you physically and emotionally. Therefore, it is crucial to **take time to recover** from all the hard work and management you had to handle during the crisis. It's up to you to decide the best way to get back into shape – whether it is going on vacations, engaging in sports, reading books, watching movies, or any other activity you find suitable. This period of rest will not only help you to recover but also allow you to reflect on the difficulties and challenges you faced and contemplate which direction you want to pursue in the future.

The crisis may significantly alter the landscape in which you live or work. Therefore, once it is over, you need to reassess what is best for you and your financial situation. Is it worthwhile to continue with the same employer, or is it time to start your own entrepreneurial activity? Should you consider improving your products or services? Taking time to reflect on these questions is crucial as it will define your path for the future and how you will invest your work energy and organize your finances. It serves as your **strategic plan for the future**!

Once you decide, what to do next and launch the activities, start thinking how to **replenish your reserves** exhausted during the crisis. While generally economy is cyclic and major economic crisis have a tendency not to repeat themselves immediately one after another, the reality might be different. Economic downturn, pandemics, wars – many thinks may

happen, not to mention that you may never be sure about your own situation. Therefore, refilling the reserves should be one of your priorities once the crisis is over.

If you have taken a loan or multiple loans to help you navigate through the crisis, it becomes essential to **prioritize reducing your debt** to stabilize your financial situation and minimize interest payments. However, it may be the case that during the crisis, interest rates may be relatively low, depending on the type of crisis and the measures implemented to combat it. If you find yourself in a situation with low interest rate on your loan, you should carefully think if it is better to repay the debt faster than required in your loan contract. If you have a loan with a low interest rate, it might be advantageous to retain it, rather than rushing to

repay it. You could use your cash for other purposes rather than for repaying the debt before its term.

If you managed your finances and activities efficiently during the crisis, it may be the case that you have acquired certain assets (for example, instruments for your professional work, real estate, shares), improved your professional qualifications, extended or received loans, or taken other actions that allowed you to overcome the crisis or seize opportunities. Now it is **time to consider how to best benefit from the actions taken during the crisis** period.

If you purchased shares during the crisis, think carefully and consult with finance professionals about the best time to sell these shares, or perhaps it would be better to hold onto them and regularly receive dividends, for example. In any case you should review your investment portfolio, so that now it would be fit for the rising economy and not for the crisis period. If you have acquired new professional skills, seize the opportunity to benefit the most from them, as the economy is recovering, and there is an increasing demand for services and goods, as well as rising prices for various assets – from shares to real estate.

Learning from crisis situations is fundamental for your personal finance in the long term. Therefore, take the time to look back and think about **what went right and what went wrong**. Were you sufficiently prepared for the crisis? Which of your actions were the most efficient, and where did you encounter challenges? In a lifetime, there are many crises, and it is essential to draw conclusions as early as possible, so that during the next crisis, it becomes an opportunity for you rather than a disaster.

Ideally, you should **put all in writing** and keep it in a PC folder or paper form, ensuring that you do not forget the lessons learned. Do not think that you will "remember" all you have learned and there is no need to put it in writing. People tend to forget things and it would be damaging to lose what you have learned and not use it in the future. Life will continue to change, and you should revisit the lessons learned during the crisis. These lessons will not only help you prepare for the next economic downturn but also allow you to use this experience when the economy runs smoothly.

Create a table with columns for "**what went wrong**" and "**what went right**" and write down your **remarks and solutions**. Evaluate whether it was worth buying shares, a car, real estate or investing in your own education during the crisis. Consider whether it was worthwhile to travel to countries with lower living costs to save on expenses that you would have otherwise incurred in your own country (heating, electricity, food, gas, etc.). Explain in this table why you think your respective actions were right or wrong, or what you would do differently in the future.