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Determinants of Rising Living Costs and its Influence on Financial Distress and Overall Life Satisfaction Among Households in the Maldives

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Abstract: The purpose of this conceptual analysis is to show key factors that are contributing to the rise of living costs. The most recent research papers were reviewed to identify the key determinants of living costs and the key factors that are contributing to financial distress and overall life satisfaction. The past literature selected and reviewed showed that inflation, household income, house rent, increasing utility costs and implementation of goods and services tax (GST) are the key determinants of rising living costs. Also, past literature suggested that rising living costs steadily could contribute to increasing financial distress and adversely affect overall life satisfaction. The overall conclusion based on the past literature, the increasing living costs may worsen the overall life satisfaction and add more weight towards the financial distress. The practical and theoretical implications are discussed.

Keywords: Inflations, Goods and service tax, Household income, Rent, Utility costs, Financial distress, life satisfaction.

INTRODUCTION

Research Background

The cost of living has been widely discussed among economists and other scholars. It is a key indicator to assess the household well-being using utility-based models (Diewert, 1983). It was later established by Bosire & Omwenga (2022) and Latimaha et al. (2020) that rising living costs not only affect economic conditions but also reflects lived experiences of financial distress and life satisfaction. Their studies showed that during inflation, rising costs of essential goods and services such as rent, utilities and food strained their ability to meet basic needs which leads to emotional distress and reduced life satisfaction. Such pressures are heightened in Small Island Developing States (SIDs) including Maldives, due to their excessive dependency on imports and spatial distribution that makes the cost of living a nuisance. More recent studies revealed an empirical relationship between financial stress and psychological effects. This signifies that the link between rising costs and life satisfaction is mediated by financial distress (French & Vigne, 2018; Bierman *et al.*, 2023). This underlines the need for cohesive models that reflect both economic and psychological aspects of household well-being (Benneh, 2025).

In the past few years, Maldives witnessed a prominent increase in the cost of living due to rise in inflation and tax reforms. In August 2025, inflation rate was recorded at 4.1% where, food inflation reached 5.0% which negatively affected low and middle-income households (Maldives Bureau of Statistics, 2025). Moreover, a consistent rise in prices for the essentials such as housing, utilities and transportation put a notable stress on household budgets. In the beginning of 2023, the GST for general goods and services was raised from 6% to 8% and the tourism sector rate was raised from 12% to 16% which hiked up the retail prices for domestic and imported goods (Maldives Inland Revenue Authority, 2023). In a stagnant wage situation such as in Maldives, rising cost of living is a serious problem to households and their psychological well-being (Suthari, et al. 2025).

Numerous studies have been conducted, establishing the link between rising the cost of living and financial distress. French and Vigne (2018) concluded that financial difficulties lead to anxiety and depression, while Bierman et al. (2023) found that rising living costs increased financial distress and therefore it reduces life satisfaction. However, these studies avoided assessing their interconnected impacts while there are few studies that use all three variables together in an integrated context. A study conducted by Hernandez-Perez and Rambaud (2025) finds the relationship between economic hardship and well-being, but inflation, rent and other factors that may affect the cost of living were not considered. These gaps highlights the need for an in-depth study in the context of Maldives as a Small Island Developing State (Ratnayake, 2025).

Problem Statement

Living cost is determined by a group of factors such as inflation, housing and utilities affordability, tax and income adequacy which affects consumption and financial resilience of the

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households particularly in SIDs like Maldives with high dependency on imports and economic vulnerability (Bosire & Omwanga, 2022; Latimaha *et al.,* 2020). The inflation trends due to raising GST levels in 2023, there was a significant increase in cost of goods and services especially the essentials, which mostly affected low- and middle-income households (Maldives Bureau of Statistics, 2025) (Maldives Inland Revenue Authority, 2023).

These factors are treated in isolation in most studies while there are few empirical studies that explore combined impact on financial distress of households and their overall life satisfaction. Even though researchers like French & Vigne (2018) and Bierman et al. (2023) have concluded that rising living costs affects financial distress and well-being of the households, most of the studies were conducted for high-income countries, with minor relevance to SIDs. Several studies that explore financial strain and life satisfaction (Heo, Liu, & Park, 2025) seldom integrate the determinants of cost of living into their research models (Fauzia A-Clottey, 2025; Puthiya, 2025).

The recent inflationary pressures due to several factors such as GST hike and lack of wage growth in most sectors have led to financially strained households in the Maldives as concluded by Maldives Inland Revenue Authority (2023) and Maldives Bureau of Statistics (2025). There would be a misalignment with government policies and interventions with the lived experiences of the households, without empirical evidence on this matter. This highlights that there is an urgent need for research in Maldives context (Rubinstein, 2025).

Research objectives

- To examine the key determinants of rising living costs
- To examine the influence of key determinants of rising living costs on financial distress
- To examine the influence of key determinants of rising living costs on overall life satisfaction
- To examine the influence of rising living costs on financial distress
- To examine the influence of rising living costs on life satisfaction.

LITERATURE REVIEW

Review of Key Concept

Rising Living Costs

Cost of living is a concept that has been redefined overtime changing its economic values and how it is measured.

The concept of cost of living has evolved over decades, shaped by shifting economic priorities and measurement approaches. In the early 1900s, Konus (1939) defined cost of living as the average amount of money spent by a family on goods and services in a certain period of time based on their usual consumption patterns and social class. Boskin (2008) built on the idea of utility and defined living cost as the extra income that households need, in order to maintain the same standard of living when prices increase. This perspective was later updated by the Office for National Statistics (ONS, 2014), explaining that cost of living as the expenditure necessary to maintain a basic standard of living and additionally, comparing current prices to baseline period so that the impact of price fluctuations on household well-being is captured. To expand this perspective further, Bank Negara Malaysia (2015) considered other financial obligations such as household debt repayments and insurance along with household consumption of goods and services. This captures the financial pressures that households face daily as well as the long-term financial responsibilities. Most recently, studies focused on specific factors that contribute to rising living costs such as imposing goods and services tax (GST) that hikes up to the living costs in numerous economies (Sulaiman *et al.,* 2019). These definitions combined show that cost of living comprises of household consumption, long-term financial obligations such as loans and other debts, and also the impact of inflationary pressures on household well-being.

In the context of this research, living costs refer to the household expenses on essential goods and services and the financial obligations to maintain a basic living standard, reflecting on financial burden of meeting daily needs due to changes in prices and how it influences the well-being of the households.

Financial Distress

Financial distress has been explored in various studies in the context of personal finance and in corporate world. Farooq, Qamar, and Haque (2018) and Yazdanfar and Öhman (2020) defined financial distress as a condition where "companies struggle to fulfill their financial responsibilities that are usually related to bankruptcy, insolvency, or the likelihood of default." This perspective was

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supported by Kuizinienė et al. (2022) who found financial distress as a significant factor to predict the failure of a business. Moreover, several researchers studied this concept at an individual level. Hamid and Abdullah (2009), classified financial distress as mental or physical pain caused by stress or worries from one's financial circumstances. While they emphasize on psychological impacts, Meuris and Leana (2018) explains this term as the emotional stress experienced by individuals when they realize that their financial situation is unstable. French and Vigne (2018) characterized financial distress as "financial hardship", "economic stress", or "an inability to cope financially" indicating the struggle of managing financial responsibilities due to several economic problems. Angelica et al. (2025) believed that in addition to the inability to manage financial obligations, financial distress should also include its impacts such as worries and fears that are associated with mental and emotional stress. All these studies combined indicate that financial distress is not just focused on business issues but also emphasizes on lived experiences of individuals that have financial problems and their psychological impacts.

For the purpose of this study, financial distress refers to the challenges households experience in managing their daily and long-term expenses due to the inflationary pressure in the economy, and its impact on mental well-being of the households.

Overall Life Satisfaction

Life satisfaction is a broad concept explored by various researchers in different contexts. Veenhoven (1996) suggested that overall life satisfaction is a combination of an individual's experiences on different aspects of life such as "family, friendships, work and leisure". Supporting this viewpoint, Diener et al. (1998) believed that life satisfaction is how much a person is satisfied with their lives generally, evaluating their overall situation. Complementing this, Heller et al. (2004) and Pavot and Diener (2008) defined life satisfaction as a collective satisfaction from specific areas of life. However, Montag & Panksepp (2017) argued that life satisfaction is affected by the individual's personality and consistent emotional traits, rather than external factors. Recent studies describe life satisfaction as an overall assessment of one's quality of life, incorporating mental assessment and one's personal opinions (Frontiers in Psychology, 2022). These different perspectives suggest that life satisfaction is a general assessment of an individual's life and the impacts of personal traits and external factors.

Within the scope of this study, overall life satisfaction refers to the subjective assessment of household's quality of life, reflecting on rising living costs and financial distress influence their ability to meet their basic needs, achieve personal goals and promote a fulfilling lifestyle.

CRITICAL REVIEW OF UNDERLYING THEORY

Rising Living Costs: Demand-Pull and Cost-Push Inflation Theories

Demand-pull inflation refers to the rise in general price level due to an increase in aggregate demand relative to goods and services available in the economy. Whereas Cost-push inflation is caused by increase in the cost of production such as raw materials and wages, in which the cost is passed on to consumers in the form of higher prices (Haley, 2024). To understand the factors that influence the rise in the cost of living in Maldives, these inflation theories are quite significant as it explores rise in living cost due to both demand-side and supply-side pressures. Utilizing a combination of both theories is essential to comprehend the inflation trends and effects (Ahamed, 2024) in SIDs such as Maldives. The unique economic features of Maldives make it difficult to understand the drivers of inflation due to the significant impact of tourism-led demand, heavy dependency on imports and a very limited domestic production, which affects price levels significantly (Steenholdt & Chimirri, 2018). Therefore, examining these dynamics through demand-pull and cost-push inflation theories would be a strong framework to understand economic burdens that Maldivians experiences.

Financial Distress: Stress Process Model

The Stress Process Model explains how experiencing stressful events such as rising cost of living interprets into financial distress and psychological effects which also highlight coping strategies (French & Vigne, 2018). This model was originated by Pearlin et al. (1981), demonstrating how social stressors affect psychological well-being of people due to economic pressures and their vulnerabilities. It highlights how significant financial hardships is, in affecting individual's resilience and mental issues. To be more specific, increase in the cost of living can lead to more borrowing, more debts and reduced savings which may lead to high levels of anxiety. This would portray how financial strain affects individuals

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when there are insufficient resources such as finance (Can *et al.*, 2023). This model also indicates individual perceptions regarding financial pressures, availability of support systems in the society and explores the level of distress experienced by households due to the increase in cost of living (Shukri, 2024).

Overall Life Satisfaction: Subjective Well-Being Theory

Subjective Well-Being Theory indicates that overall life satisfaction of an individual is obtained from a cognitive assessment and their life situation and their lived experiences (Ahamed, 2024). It integrates "hedonic (emotional) and eudaimonic (meaning and purpose) aspects of wellbeing" where the assessment of these factors should be balanced to have a sense of life satisfaction (Sabri *et al.*, 2019). This perspective highlights that life satisfaction comprises of objective conditions as well as individual's subjective perceptions and their experiences (Coste *et al.*, 2020). Therefore, this theory is significant to analyze how rising cost of living and financial distress affect households in terms of mental and emotional state of the individuals. This theory also suggests that individuals can adapt to financial and economic pressures through resilience and using effective coping strategies, managing long-term negative influences (Elsayed & Aleriani, 2024). However, consistent financial distress and heavy debt burden reduces overall life satisfaction and emotional well-being of individuals (Ferreira *et al.*, 2021). These findings underline the significance of financial well-being to assess the overall life satisfaction, including objective financial conditions and individual's perceptions on their financial situation (Sorgente *et al.*, 2024) (Hernández-Pérez & Rambaud, 2025).

Conceptual Framework

The conceptual framework for this study is visually represented in Figure 1, illustrating the hypothesized relationships between rising living costs, household financial distress, and overall life satisfaction.

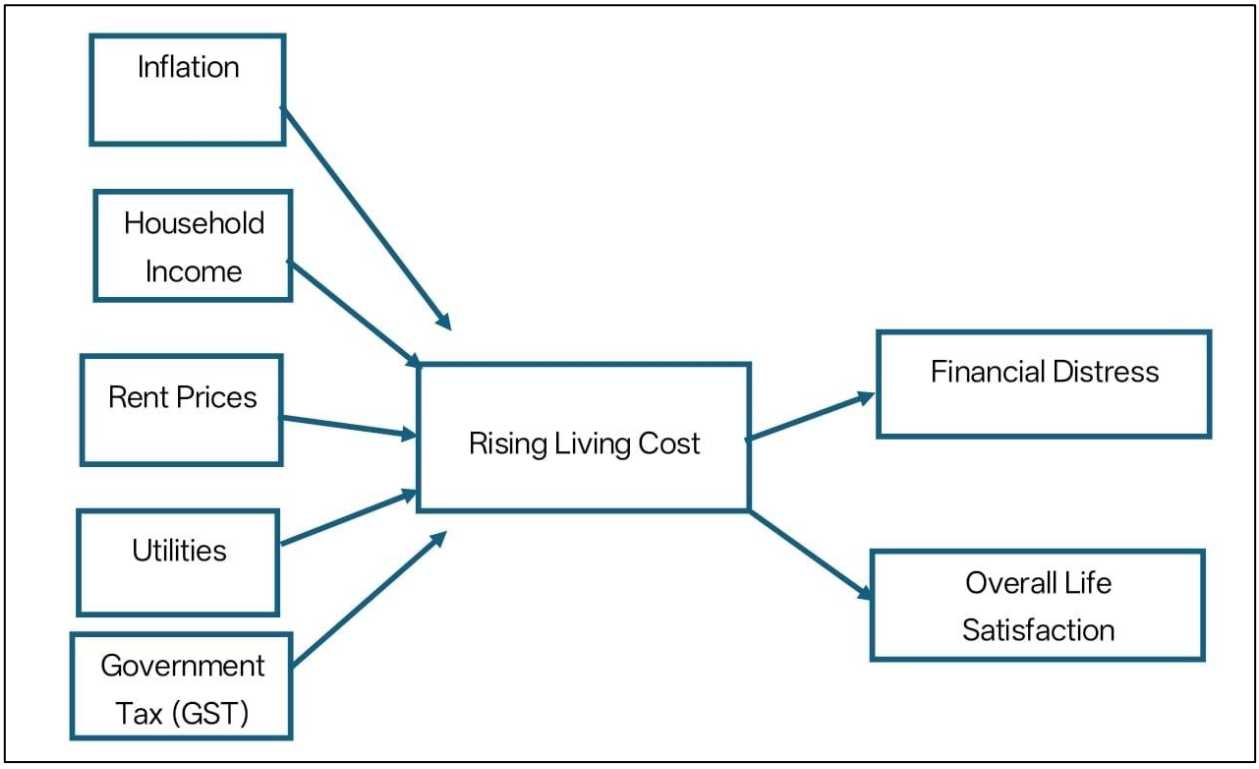


Figure 1: Conceptual Framework

DETERMINANTS OF RISING LIVING COSTS

Impact of Inflation on Rising Living Costs

Inflation is the consistent and persistent rise in the general price level of goods and services, which increases costs of living and thereby reduces purchasing power (Schneider, 2025). Due to this, households are forced to purchase the same amount of goods and services with more money than they used to spend before therefore it increases the expenses required for their standard of living (Movsisyan *et al.*, 2024). This impact is worse in Small Island Developing States (SIDS) such as Maldives due to their high dependence on

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imports and vulnerabilities to external shocks (Raghoo *et al.,* 2018). One of the most significant causes of inflation in SIDS is imported inflation where price variations in the global market for goods such as oil and food products directly increases domestic prices for consumers (Makun, 2021). Moreover, due to supply chain disruptions and infrastructure issues, the cost of transporting goods to the domestic market is also a main constraint, which contributes to the inflationary pressure on household expenses (Ekanayake & Dissanayake, 2025). H1: Inflation is positively associated with rising living costs

Impact of Household Income on Rising Living Costs

One of the significant factors of living costs is household income. The level of income states the purchasing power of individuals or households, and their affordability of necessities (Can *et al.,* 2023). When income does not increase with the rise in prices, the cost of living increases and makes the households struggle to meet their basic needs (Can *et al.,* 2023). Main issue in Small Island Developing States usually experience is that they are more vulnerable to economic conditions, further leading to unstable income, which increases their financial burden when price fluctuates (Tisdell, 2009). Most of the households affected by the rising costs are low-income households as a larger portion of their budget is spent on necessities (Henry *et al.,* 2022; Lockwood, 2002). This makes them extremely vulnerable to economic shocks that affect their income stability because of lack of resources that may help them to cope with such changes (Lloren, 2021). H2*:* Lower household income is positively associated with an increased perception of rising living costs

Impact of Rent Prices on Rising Living Costs

Consistent rise in rent prices increases living costs especially in SIDS as they are geographically separated islands. The obvious lack of land in such countries tend to have a higher demand for housing, which elevates the land values and therefore increasing rental costs (Mausio, 2020). In SIDS, construction costs are also high due to their dependency on imported construction materials which leads to more shipping and logistics expenses. And these costs are passed on to the people who rent the houses which means that rental prices increase (Chadee *et al.,* 2021). Lorga et al. (2022) stated that "rapid urbanization and economic development, sometimes driven by tourism, intensify demand for housing in limited areas, further pushing up rental prices", while Chadee et al. (2023) indicated that the demand for affordable housing is much higher that the availability of affordable housing which leads to consistent rise in rental costs that households need to spend a large proportion of their income on (Chadee *et al.,* 2023).H3: Increased rent prices are positively associated with rising living costs for households in the Maldives

Impact of Utility costs on Rising Living Costs

Utility costs comprise of costs associated with electricity and water. It is one major contributor to household living expenses especially in SIDS (Weisser, 2003). The heavy reliance on imported fuel for electricity makes utility prices high and this makes these countries more vulnerable to global oil price fluctuations as well as high transportation costs (Raghoo *et al.,* 2018; Shah *et al.,* 2021; Wolf *et al.,* 2016). In the earlier years, Weisser (2003) stated that "the combined effect of high transport costs for fuel imports, limited domestic demand, and diseconomies of scale in electricity production renders power generation extremely expensive in these regions". Moreover, for each separate island in the nation to have its own power plant makes the electricity unstable and expensive (Dornan, 2014). Water utility costs tend to be high as well due to the lack of natural freshwater resources because expensive methods such as desalination would be required to these countries and this process requires substantial amount of electricity. Therefore, it increases operational costs and thereby further increases utility costs (Astolfi *et al.,* 2017; Fernández-Gil & Petrakopoulou, 2019). H4: Higher utility costs (electricity and water) are positively associated with rising living costs.

Impact of GST (Goods and Services Tax) on Rising Living Costs

When governments imposes or increases Goods and Services Tax, it directly affects to the living costs as the tax is indirectly reflected on the prices of consumer goods and services (Chitra, 2019; Kaira *et al.,* 2024). GST is added to the sale price of goods and services hence, the burden is on the consumer ultimately, which increases the retail prices in general (Chitra, 2019; Sulaiman *et al.,* 2019). Several empirical studies have proven that imposing GST increases the general price level of goods and services (Kaira *et al.,* 2024; Valadkhani, 2005). The money required for daily household expenses rises significantly due to the increase in general price level of all goods and services which increases cost of living. The main issue of GST is

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that households are forced to spend a large amount of their budget to cover the costs and thereby increasing their cost of living. (Shanmugam & Haripriya, 2022; Sulaiman *et al.*, 2019). H5: The implementation and increase of Government Taxation are positively associated with rising living costs

Impact of Rising Living Costs on Financial Distress

Rising cost of living makes it difficult for households to maintain their standard of living and leads to financial distress (Korol, 2021). "When the cost of everyday essentials such as food, housing, and utilities increases faster than household income, a significant reduction in real income occurs, forcing millions to struggle in meeting basic needs" (Grailey *et al.*, 2024). Such pressures may lead to anxiety and depression, and they may feel that they cannot cope with the economic hardship (French & Vigne, 2018). Higher living costs reduces disposable income for many households, leading to higher debts, lower savings which intensifies financial insecurity (Martín-Legendre & Santos, 2024). Several studies show that significant increase in living costs leads to psychological distress due to the financial burden (Bierman *et al.*, 2023).H6: Rising living costs are positively associated with increased financial distress

Impact of Rising Living Costs on Overall Life Satisfaction

Rising living costs can reduce overall life satisfaction as households are unable to manage their expenses and meet their basic needs to maintain a quality life. Having a financial burden leads to psychological strain and reduced satisfaction in life (Jung *et al.*, 2024). For instance, households that spends a larger proportion of their income on rental costs are observed to have lower life satisfaction and bears the highest burden (Acolin & Reina, 2022). When individuals realize that their cost of living is has increased, it affects their emotional well-being (Bierman *et al.*, 2023). In addition to this, being unable to meet the financial responsibilities can adversely affect family relationships which further lowers the life satisfaction with (Blom *et al.*, 2018). Therefore, Consequently, the consistent pressure of high living costs reduces subjective well-being by limiting financial security and personal fulfillment (Lee *et al.*, 2023). H7: Rising living costs are negatively associated with overall life satisfaction

CONCLUSION AND IMPLICATIONS

This research aims to explore the factors that contributes to living costs and their influence on financial distress and overall satisfaction among households in the Maldives. This study focuses on factors such as inflation, household income, rent prices, utility costs, and GST and conceptualizes cost of living as a multidimensional stressor that influences financial stability and emotional well-being. The key literature findings indicates that rising living costs are not merely economic phenomena but personal experiences that shape how households cope, adapt, and perceive their quality of life. In the Maldivian context, pressures such as import dependency, geographic isolation and limited social protection shows the urgency of targeting evidence-based research.

This study offers data driven insights for policymakers, and it focuses on the significance of constructing inflation-sensitive social protection strategies such as utility subsidies, income-based subsidies to low-income households to overcome from economic shocks. The findings also highlights the urgency of imposing a progressive tax and strategies to make housing affordable to low-income households specifically in urban areas where rental price is high. Since studies prove that high living costs increases financial distress and lowers life satisfaction, it is important to establish financial literacy programs and mental health support programs. These policies can help households to cope with rising costs and maintain their mental well-being as well.

Theoretically, this study contributes to the research on poverty and well-being by offering how financial hardships affect individuals' emotions and life satisfaction. It applies the Stress Process Model and Subjective Well-Being Theory to small island developing states (SIDS), highlighting how structural vulnerabilities make the emotional effects of financial strain worse. By linking the cost of living to both financial stress and life satisfaction, the study addresses a gap in research that often looks at these issues separately. This combined approach provides a foundation for future studies to examine factors like social support, coping strategies, and regional differences.

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