How Rising Living Costs are Impacting Financial Choices for Expats in 2023

In 2023, expats around the world continue to feel the impact of the rising cost of living.

The whirlwind of major global events over the past few years – including Brexit, Covid-19, the war in Ukraine, soaring energy prices, exchange rate fluctuations and inflation – has impacted expats living in almost every country.

The Economic Intelligence Unit (EIU) reported in their latest Worldwide Cost of Living (WCOL) Survey that prices have risen by an average of 8.1% in the world's biggest cities – the fastest rate or the last two decades. Western Europe has been hit especially hard as gas and electricity prices have risen by an average of 29% compared with an average increase of 11% globally.

We asked **200 expats** in **54 countries** worldwide how recent global events have impacted their **financial state**, **life choices** and **decisions about the future**.

The expats surveyed all had past and present UK connections, and answered a series of questions about how recent global events and the continued rise in living costs have impacted them, whether they're making major life changes as a result, and how their plans for the future have changed.

Summary

- **67%** of expats said the rising cost of living has **impacted their financial situation**
- **54%** of expats told us their financial situation has negatively **impacted their mental health**
- **37%** of expats are **considering major life changes** as a result of the global economic situation
- Around a **quarter of UK property owners** who live outside the UK are considering selling their properties

The Impact of Recent Global Events on Expat Finances.

67% of expats said the cost of living and inflation has **significantly affected their financial situation.**

The last few years have been incredibly disruptive to the global economy and expats around the world are feeling the impact on their finances. Here are the events which have had the biggest impact on the expat community and why.

Global inflation

67% of expats we surveyed said the cost of living and inflation has significantly affected their financial situation. In early 2023, global inflation hit 11%– the highest annual increase in inflation since 1996.

As a result of the residual impact of the Covid-19 pandemic on supply chains, coupled with rising oil and food prices following sanctions placed on Russia, food and fuel accounted for more than half of inflation in 2022 across all regions of the world.

Exchange rate fluctuations

64% of our survey respondents said their finances have been significantly impacted by exchange rate fluctuations. Inflation, interest rates, trading relationships and market expectations can all impact exchange rates – and over the last few years, there has been major disruption in all these areas as a result of Covid-19, Brexit and the war in Ukraine. Historically one of the most stable currencies in the world, the British pound hit a record low towards the end of 2022.

Half of the expats we surveyed said they had been somewhat or significantly affected by the devaluation of GBP.

Energy prices

58% of expats we surveyed said they've been affected by the global rise in energy prices. Throughout 2022, energy prices rose sharply as sanctions placed on Russia following the invasion of Ukraine exacerbated already existing fuel shortages. By September 2022, European energy prices were up 40% compared to the previous year.

Despite falling wholesale prices in the early months of 2023, energy remains expensive for consumers due to the volatility of the market as energy companies are unlikely to reduce prices until we reach a sustained period of stability.

Brexit

Three years after the UK officially left the EU, 57% of our survey respondents are still feeling the impact of Brexit on their finances. The impact of Brexit was felt immediately after the 2016 vote, with an instant devaluation of GBP against USD, the Euro and other currencies as confidence in the UK's economic strength decreased significantly.

Since then, despite some degree of recovery, any major shocks have led to record lows for the pound. While drastic, sudden changes in the UK have always resulted in a devaluation of GBP, since Brexit the impact has been much more significant, negatively affecting expats with UK assets or income to a degree they haven't felt before.

Additionally, with issues around post-Brexit financial regulations and the ability of UK firms to provide services in the EU being hampered, British expats in Europe have experienced a multitude of issues – from bank accounts being closed to financial advisors being unable to assist them due to not having the required regulations to operate in the EU which were previously available as part of EU membership. This situation is improving as many advisory firms have adapted and set up EU based entities enabling them to provide regulated advice within the EU

War in Ukraine

The ongoing Russia-Ukraine war has affected the finances of 49% of the expats we surveyed.

As well as energy supply and prices, the conflict between Russia and Ukraine has disrupted global supplies of wheat, barley, cooking oil and fertiliser. As a result, the International Monetary Fund (IMF) reported a 7.3% rise in consumer prices in the world's wealthiest countries and 9.9% in the poorest.

54% of expats feel their financial situation significantly impacts their mental health.

- More than half of the 200 expats we surveyed reported a link between their emotional and financial wellbeing. Perhaps unsurprisingly, wealthier expats with more than £500k in UK assets are less likely to report a link between their money and mental health (47%).

- Research into the link between money and mental wellbeing by the Money and Mental Health Policy Institute found that 86% of people with experience of mental health problems said that financial difficulties had made their mental health problems worse.

- Even more concerning is that 72% of people said that their mental health problems had made their financial situation worse, leaving them stuck in a vicious cycle leading to a worsening of both their emotional and financial wellbeing

Robert Hallums, Founder of Experts for Expats, urges expats seek expert advice if they feel their mental health may be suffering as a result of their financial circumstances: "Nobody makes the best decisions under stress, so when it comes to finances it's best to speak to a trusted expert as soon as possible. Not only will they be able to advise you on the best course of action to improve your future situation, but it's also highly likely they'll be able to reassure you and put your mind at ease by sharing alternative options you may not have considered."

The Impact of Rising Inflation & Interest Rates on Expats with UK Assets.

25% of expats we surveyed have been **impacted by rising mortgage interest rates,** while UK house sales have dropped to a 12-year low.

While expats around the world are feeling the effects of global economic instability, those with financial ties to the UK – for example property, income, pensions or investments – are being severely impacted by the country's rising inflation and interest rates.

We asked our expats with assets in the UK which factors are most affecting their financial situation.

Rising inflation

Rising inflation is having the biggest impact on expats with UK assets, with 53% of those we surveyed agreeing that inflation is affecting their finances. According to the Office for National Statistics (ONS), consumer price inflation in the UK is higher than it has been for the last 40 years. The soaring costs of energy and grain have been key contributing factors, with UK energy price inflation peaking at a staggering 58% in July 2022 and annual food inflation hitting 16.7% in January 2023.

Decreasing house prices

38% of expats we surveyed have a family home in the UK, while 22% have one or more rental properties without mortgages and 15% have rental properties with mortgages. Therefore, it's no surprise that 39% cited decreasing house prices as having a significant effect on their financial situation.

After a 2.3% fall in UK house prices in November 2022, experts predict that 2023 will see a significant decline in home values of anywhere between 5% and 30%.

Rising interest rates for savings

Of the 57% of our survey respondents with money in UK savings accounts, only 26% have seen an improvement on the interest rates on their savings.

While UK banks are gradually improving savings rates, often a saver is required to switch accounts to be able to take advantage of much improved rates. However, as there is a general requirement to be a UK resident to open such accounts, most expats will be unable to benefit from improved interest rates and must seek alternative ways to get higher rates of interest.

Rising mortgage interest rates

25% of expats we surveyed have been impacted by rising mortgage interest rates, which is one of the key contributing factors causing property sales to drop in the UK. While the average cost of a five-year fixed-term mortgage in the UK has fallen from 6.5% in October 2022 to 4.35% in February 2023, mortgage rates remain high. It's expected that the average monthly mortgage repayment will increase by £250 a month over the course of the year – and with 1.8 million fixed-rate mortgage deals set to end in 2023, a significant number of UK property owners will find themselves worse off.

At the end of 2022, the Bank of England's Financial Policy Committee estimated that UK landlords' monthly mortgage repayments would rise by around £175 – but some experts say monthly repayments could rise by more than £300 for some landlords.

Fewer mortgage options

A decrease in mortgage options in the UK has significantly impacted 19% of the expats we surveyed. In February 2023, there were around 4,300 residential mortgage deals on the market for UK residents compared to 5,300 plus in December 2021, before interest rates started to rise – however, this is an increase of almost 2,000 compared to the number of products available in autumn 2022.

In addition to fewer mortgage products being available on the market, it's estimated that house purchase mortgages will fall by 23% and buy-to-let mortgages will fall by 27% in 2023 due to rising inflation impacting affordability.

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- **15%** have rental properties with mortgages

What Life Changes are Expats Making in the Wake of Global Economic Events?

As the global events of the last few years continue to impact almost every country's economy, it's no surprise that 37% of expats told us they are or may be considering major life changes as a result of changes in their financial situation.

54% of expats said they would not or don't know if they would seek expert financial advice before making these major life decisions.

When making choices about any aspect of your finances that could impact your future, it's vital to seek an expert with regards to the best options for your tax, wealth or pension situations.
Not only is this likely to save you money and stress in the short term, but it's also likely to help improve your financial prospects in the long term.

After uncovering that more than half of the expats we surveyed weren't sure about or weren't considering speaking to an expert financial adviser before making life-changing decisions, we reached out to our network of experts to find out more about the key implications and pitfalls expats need to be aware of and avoid.

Moving countries

40% of expats we surveyed told us they are considering moving countries as a result of their current financial situation.

The most common reasons people move abroad are for work opportunities, lifestyle choices or a better quality of retirement.
Since 2016, following the UK's exit from the EU and the devaluation of GBP, many British expats have had little choice but to return home due to an unsustainable cost of living or because they don't qualify for the right to stay.

Expert for Expats founder Robert Hallums says: "The main pitfalls people should be aware of when moving abroad are the impact of exchange rate fluctuations, and that culture shock can increase the time it takes to settle into living in a new country – homesickness is likely to be a reality at some point within the first 12 months.

It's also vital to understand the tax rules of both your new country of residence and your home country to ensure you are reporting and paying your taxes correctly.

Whatever your reasons for moving abroad, it can be complex and stressful. Seeking advice from experts in finance, tax, culture or legal, can help minimise stress and make sure there are no hidden surprises. What's more, you'll settle into your new life more quickly if you know everything is taken care of – it's never too soon in the moving process to seek advice."

Changing jobs

31% of expats are considering changing jobs as a result of recent global events.

The COVID-19 pandemic radically impacted the job market, accelerating the uptake of remote working, e-commerce and automation. Globally, this has resulted in 25% more workers than previously estimated potentially needing to switch occupations For some people, this will have opened up more opportunities to work abroad.

For others, factors including sector saturation, closure of physical premises or decreasing demand for their skills in a host country could be prompting expats' decision to pursue a different career.

Investing more

31% of expats told us they are considering investing more in the near future. In any period of financial uncertainty, there are always gains to be made and new opportunities to be investigated. As a result of rising inflation, increasing interest rates and falling house prices, options for investment have changed.

Robert Hallums, Founder of Experts for Expats, says: "When inflation is high, the value of your cash decreases at a faster rate. Therefore, doing nothing with your cash at the moment will cost you money in the short and long term. While familiar options for investing might not be available to you at the moment, investment choices for expats are becoming more varied – even for US expats. What we're seeing at the moment is that people who already have investments are looking to invest more, while those yet to make investments are more conservative about investment decisions. Remember though, if you are considering making investments, they should always be for the medium to long term."

While people will often think about underlying investments (such as stocks, ETFs and bank products) expats whose country of residence may change in future should certainly seek advice before investing as certain platforms may be incompatible with your future plans, impacting which country you choose to move to.

No matter what your plans for the future, expats should always speak to an expert before making investments, as it is critical to align your investment decisions with your risk profile and your personal and financial objectives. This is incredibly difficult to do without an independent expert who has experience in analysing your situation.

Before making an investment, it is also essential to obtain local tax advice as well as tax advice in your home country. This ensures your investments are optimised to minimise tax and avoid attracting additional tax penalties in future.

Repatriation

25% of expats told us they are considering repatriation to their home country. For British expats in particular, three major events have led to people considering repatriating to the UK.

Mental health and wealth are key influencers on expats' life choices.

Expats whose financial situation impacts their mental health are more likely to be considering major life changes this year.

- 80% of expats considering major life changes at the moment agreed or strongly agreed their financial situation impacts their mental health
- In comparison, only 46% of expats not considering any life changes at the moment said their mental health is affected by their finances
- Wealthier expats are also less likely to be considering major life changes in the wake of global economic instability.
- 19% of expats with less than £500k in UK assets are considering major life changes vs. only 7% of those with more than £1m in UK assets
- 22% of expats with less than £500k in global assets are considering major life changes vs. only 12% with more than £1m in global assets

Firstly, the devaluation of GBP since 2016 and further crashes in 2022 mean that the value of GBP income in another country is now worth significantly less.

Experts for Expats founder Robert Hallums says: “The pound is now showing signs of some recovery from last year’s devaluation, but not yet to pre-2016 levels. This impact is not sustainable for many people in the long term and many feel like returning home is their only option.”

Secondly, Covid-19 created an unprecedented scenario, separating expats from family and friends due to international travel restrictions. Robert Hallums says: “During the pandemic, many expats became acutely aware that they were a long way from their families. As a result, many people wanted to move closer to home – particularly those with older relatives.”

Finally, Brexit has forced some British expats to move home due to visa requirements or because companies aren’t able to recruit British people as easily.

Selling assets

25% of the expats we spoke to are considering selling assets.

Over the past 12 months, we’ve seen increasing numbers of expats considering selling their buy-to-let properties. In most cases, this is either to release equity or avoid increasing mortgage rates and a potential drop in ROI. However, many people are now reconsidering their initial plans as the market situation may not be as dire as previously predicted.

Experts for Expats’ Robert Hallums says: “One of the main criteria influencing whether expats are choosing to sell assets seems to be their level of personal uncertainty, such as job insecurity or needing the funds now to tie in with future plans.”

When selling or disposing of any assets, expats need to understand how the value of the asset will be treated in both the country it is being sold and their country of residence. If an asset has appreciated, this is likely to be considered a gain/profit and as such may be taxed under capital gains tax rules or as income. There may also be special rules in an expat’s country of residence governing the disposal of particular assets.

Seeking expert advice is vital to ensure assets are disposed of/sold in the most tax-efficient way possible, making sure any gains or income is reported and taxed correctly in the correct jurisdiction. Failure to report and pay the correct tax in each country could attract fines and potentially criminal proceedings, which means getting it wrong could be a costly mistake.

Downsizing

19% of expats we surveyed are considering downsizing their property. Downsizing a property can have multiple benefits if you no longer need as much space. Not only will it reduce mortgage size and therefore mortgage payments, but downsizing could also potentially decrease the cost of maintaining a property.

Robert Hallums says: "When considering downsizing a property, the key factor is whether you can achieve the same or equivalent quality of life in a smaller, more affordable property. However, it's important to seek advice to ensure there are no tax issues you need to consider."

If expats are downsizing for financial reasons, a financial advisor can help establish whether there are alternatives as well as whether the long-term impact is worth making the decision now.

Postponing retirement

17% of the expats we surveyed are considering postponing retirement. Retirement is the moment a person becomes financially independent and can live their life as they wish without having to rely on work. Usually, expats will achieve this as a result of having no debts or financial dependents, plus an income from pensions or investments which brings them their desired quality of life.

Robert Hallums says: "With the increase in the cost of living, a significant number of people who were planning to retire in the next few years are facing a decision. Some are postponing retirement to ensure their pensions/investments can meet their desired level of income, others are looking to increase their pension payments in the immediate term to maximise their retirement pot. Not many people foresaw the scale of recent cost of living increases, and are adjusting their retirement plans not only to adapt to the current rise in living costs but to safeguard against potential future rises due to ongoing global events."

People approaching retirement are far more likely to be impacted by the rising cost of living as earning a salary provides an opportunity to progress or change jobs. Therefore, some expats may be inclined to continue working to supplement their pension income rather than rely solely on their pension.

Robert Hallums says: "We recommend that expats review their retirement plans with their financial advisor every few years. It's important to understand your current situation as well as what the future may look like if the cost of living continues to rise."

Additionally, reviewing your financial situation and retirement plans with an expert will give you peace of mind that everything is on track, or enable you to take informed action if not, such as reducing pension or advisory fees.

What does the future look like for expats with ties to the UK?

While nobody predicted the events of recent years, experts agree that the combined impact of Covid-19, Brexit, war and government policies could be felt for years to come. However, most finance experts are viewing 2023 as a year of evaluation, advising people to take time to review rather than make rash decisions.

Robert Hallums, Founder of Experts for Expats, says: "Although 2023 began with the same degree of pessimism as the end of 2022, as the first quarter has progressed, fears of a potential recession in the UK have been reduced somewhat. This may well lead to a more optimistic outlook – especially as inflation and fuel prices are expected to fall. Right now, we're advising expats to create a medium to long-term plan which protects against periods of uncertainty and offers long-term growth and return on investment."

For the UK, with a General Election on the horizon in 2024, there will be more uncertainty around the corner. While this doesn't necessarily mean British expats will need to make major decisions, it would be prudent to seek advice, review your situation with an expert and adapt your plans to benefit your financial situation in the long term.

Specifically for British expats, the biggest predictable challenge is the impact on GBP in the short to medium term. If you have assets or income connected to the UK, seek advice on how to use these fluctuations to your advantage while mitigating against negative impact. Robert Hallums adds: "For every threat, there is always an opportunity – this applies to financial planning and investments too. However, you will need an expert to help you make the most out of every situation that arises."

UK Property: To Sell Or Not To Sell?

For a significant number of expats who have property in the UK, rising mortgage rates have made additional homes or buy-to-let property more of a liability than an asset.

24% of the expats we surveyed are considering selling their UK properties as a result of rising interest rates.

The most popular reasons expats gave for considering selling their property in the UK were to free up capital for other investments (34%), an expected decrease in UK property prices (27%) and to free up capital to clear other mortgages/debts (15%).

Additionally, 14% of respondents told us that their rental income is no longer sufficient (14%) or that they cannot afford an increase in mortgage interest rates (8%).

Even though 39% of expats we surveyed said they are unaware of the Capital Gains Tax (CGT) requirements when selling UK property, 55% said they would not or don't know if they would seek expert financial advice before selling UK property. Furthermore, 62% of expats told us that they would not or don't know if they would seek independent financial advice to decide what to do with the funds from the sale.

Capital Gains Tax: What Expats Need to Know

UK Capital Gains Tax (CGT) is the tax payable on profits you receive when an asset is sold or disposed of. It used to be the case that if you left the UK for a complete tax year and then disposed of any profitable assets during that year, you could be exempt from CGT – although different rules have always applied for property. Now, an individual has to be non-resident for a minimum of five complete UK tax years to take advantage of this rule.

Which assets are liable?

Assets which are liable for CGT include all forms of property (unless specifically exempt), certain gifts made, the sale of assets acquired by inheritance, shares and assets transferred through divorce, or civil partnerships which have been dissolved.

How much tax will I pay?

In the UK, CGT for residential

property is charged at the rate of 28% where the total taxable gains and income are above the income tax basic rate band. Below that limit, the rate is 18%. For trustees and personal representatives of deceased persons, the rate is 28%. Gains from non-residential property and land are taxable at 18% or 28% and for other assets, the rates are 10% or 20%.

[> Try our Capital Gains Tax Calculator for UK Non-Residents]

How do I avoid paying unnecessary tax?

There are several different tax reliefs expats may be able to claim which can reduce the chargeable gain. If you have a UK property, or other assets in the UK, you're considering selling, you should always seek qualified advice about your best course of action to avoid any unnecessary tax bills.

[> Read more about UK Capital Gains Tax for Expats at expertsforexpats.com]

What if I don't pay the correct Capital Gains Tax on UK property?

Selling a UK property and realising a significant amount of equity creates problems for expats without careful planning. If expats fail to correctly declare and pay appropriate Capital Gains Tax in the required jurisdictions, it can lead to financial penalties or worse.

In the UK, for example, there is a time limit of 60 days to report and pay CGT when selling a property which has increased in value (excluding primary residence). Failure to do so correctly attracts financial penalties and interest on due payments.

Ignorance isn't an excuse when it comes to CGT. Seeking tax advice when you first consider selling a property is crucial so you can incorporate tax payments in future.

Working with a financial advisor who can help you plan for the medium and long term can ensure you maximise any investments and avoid the pitfalls which can come from moving countries or repatriation in the future.

> **Less than half of expats** said they would **seek financial or tax advice** before selling a UK property.

Protect your finances & your future, today.

Get the right advice from a regulated, independent financial adviser who will support you to plan for your future by managing your money well today.

At Experts for Expats, every introduction is dealt with by hand and we only work with people we trust. All advice is tailored to you and your unique circumstances and our experts will always take the time to get to know you before offering any advice.

Request your free introduction to a fee-based independent financial adviser at **expertsforexpats.com**