

# How Does Budget Deficit Affect Stock Return in Asia and Europe?

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## Abstract

The study aims at examining how fiscal deficits affect the performance of the stock return in Asia and Europe using multiple regression test. The results confirm the evidence of long-term relationship between budget deficit and stock return, which is the representative of stock market performance. Using linear regression, the study finds a negative relationship between budget deficit and stock return in 2002-2021 that were analyzed. A percent increase in budget deficit led to a significant increase in stock returns, and also find there is a strongly positive relationship between unemployment rate and budget deficit, also inflation rate and budget deficit. This means that budget deficits depresses stock market performance. Thus, we can say the study infers that budget deficits can be used to predict the behavior of the stock market performance in the future. In other words, in the long run, the study recommends the need to ensure that deficit financing successfully improves not only economic output, but also income and savings, so that investors will find stock market activity attractive.

**Key words:** Budget deficit, Stock return, multiple regression.