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A Study of the Relationship between Gross Domestic Product and the Budget Deficit

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Sri Lanka is a less developed country. Because of that, the policy strategies of the government were focused on the further consolidation of the fiscal deficit while supporting the objective of achieving a sustainable and regionally balanced growth. As a result, the Gross Domestic Production (GDP) of the country is increasing annually. Real GDP can be defined as the quantity of final goods and services produced in an economy in a specific period of time measured by the market price of the base year. But there is a budget deficit of balance of payment in each year even if the GDP increases. As such, it is important to study the relationship between these two key variables in an economy. The main objective of this study is to identify the relationship between the GDP and the budget deficit. In addition, the study sketches out the co-relation between these two variables. The annual bank report of central bank was used to conduct this survey. SPSS software was used to analyze the data. According to simple linear regression, the dependent variable is the budget deficit and independent variable is GDP. The value of R-square is 0.905. The significant value of simple regression is 0.001 and the co-relation value is -0.905. This study concluded that there is a strong inverse relationship between budget deficit and GDP. Furthermore GDP can be identify as a major factor which determined the change in the budget deficit. So it is important to increase GDP in an economy to manage this difficulty of budget deficit.

Key words: *Gross Domestic Product, Budget Deficit, Co-relation*

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