TABLE 1: Development of Shocks
(percentage shares of current revenues)

	Global	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
REVSHOCH-SH	1.7	-0.2	2.2	3.1	2.2	1.6	1.8	2.3	1.8	2.2	1.4	0.6	2.3
EXPSHOCH-SH	1.6	1.4	0.6	4.0	2.7	2.1	1.9	1.9	1.2	2.8	0.2	-0.3	2.7
SURSHOCK-SH	0.2	-1.7	1.6	-0.9	-0.6	-0.5	-0.1	0.4	0.6	-0.6	1.2	0.9	-0.5
SUR-SH	2.7	1.8	2.4	0.3	2.6	2.6	2.6	4.3	4.5	1.8	4.2	3.6	3.0

TABLE 2: Business Cycle, Spending and Revenue
(annual growth rates)

	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96
EXPG	4.1	0.6	1.6	1.1	3.5	1.5	-29.1[1)]	-3.5	5.5	2.3	1.5	3.8
REVG	-0.4	1.3	-0.6	3.5	3.5	1.5	-27.9[1)]	-3.4	2.6	4.9	0.9	3.1
GRANTG	-37.3	-28.6	62.2	1.5	11.5	13.3	-4.3	-1.2	0.1	2.2	-8.7	-22.7
UNEMP	-1.0	-1.3	0.1	0.8	0.7	0.1	0.8	0.5	1.1	-0.4	-2.0	-1.3
INCOMEG	5.1	4.7	1.9	-0.2	0.4	0.3	1.2	1.4	0.3	6.5	-0.6	4.0

1) Due to change in accounts, current revenue and expenditures have a break in the time series in 1991, see text

TABLE 3: Fiscal Adjustment
(current revenue, expenditure, tax structure, and stock of liquidity)

	Δ REV	Δ EXP	ΔITAX	ΔPTAX	Δ LIQV
Rev $_{-1}$	-0.093*	-0.166*	-0.175*	-0.281*	-0.243*
	(0.045)	(0.038)	(0.043)	(0.034)	(0.034)
Shock $_{-1}$	-0.602*	0.289*	-0.058*	-0.120*	0.545*
	(0.051)	(0.034)	(0.014)	(0.060)	(0.053)
Shock $_{-1} > 0$	-0.561*	0.274*	-0.023	-0.145	0.593*
	(0.085)	(0.045)	(0.019)	(0.100)	(0.092)
Shock $_{-1}$* D	-0.089	0.030	-0.074*	0.054	-0.097
	(0.124)	(0.064)	(0.031)	(0.116)	(0.140)
Shock $_{-1} < 0$	-0.650*	0.305*	-0.097*	-0.091	0.496*
	(0.076)	(0.048)	(0.022)	(0.060)	(0.083)
Δ Income	0.030*	0.010	-0.011*	-0.059*	0.026
	(0.015)	(0.008)	(0.005)	(0.014)	(0.019)
Income $_{-1}$	0.056*	0.002	-0.018*	-0.057*	0.046**
	(0.014)	(0.011)	(0.007)	(0.020)	(0.025)
Δ Grant	1.019*	0.150*	-0.054*	-0.316*	0.496*
	(0.047)	(0.029)	(0.015)	(0.055)	(0.058)
Grant $_{-1}$	0.450*	0.123*	-0.046*	-0.278*	0.534*
	(0.063)	(0.037)	(0.023)	(0.062)	(0.059)
Δ Unemp	-7.995	-117.87*	0.008	0.090*	2.397
	(36.17)	(33.04)	(0.014)	(0.035)	(43.779)
Unemp $_{-1}$	38.09	-70.46**	0.009	0.144*	6.241
	(40.73)	(37.57)	(0.015)	(0.044)	(44.912)
Soc $_{-1}$	1047	1730*	0.030	2.891*	1442
	(728)	(500)	(0.277)	(0.879)	(900)
Herf $_{-1}$	-478	8.422	0.006	-2.049*	-1238
	(815)	(674)	(0.315)	(0.914)	(911)
Time dummies	Yes	Yes	Yes	Yes	Yes
Sargan/df	123/65	134/65	105/65	121/65	107/65
p-value Sargan	0.000	0.000	0.001	0.000	0.001
First-order SC	-11.057	-11.004	-9.909	-5.418	-9.510
Second-order SC	-0.521	-0.952	-1.616	2.220	-0.305

Note: Time dummies are included in all equations. The Sargan test is a joint test of valid instruments and correct model specification. AR(1) and AR(2) are tests for first and second order autocorrelation, and follow a standard normal distribution. For revenue and expenditure, separate coefficients for 1991 are included, but not reported. ** and * denote statistically significance at 10 and 5 % level, respectively. For ITAX and PTAX, the shock and income coefficients are multiplied by 1000. Finally, for LIQV, the shock is not lagged.