

stay in place in the next quarter (0.85), and p_{CF} denotes the quarterly probability that the Incompatible fiscal framework regime will be followed by the Fiscally-led regime, which is one in the baseline case. In constructing Figure 6 in the paper, we progressively lower this parameter to show that fiscal stagflation dissipates as the probability that the Incompatible fiscal framework regime will be followed by the Fiscally-led regime is reduced. \tilde{H}^p is the transition matrix governing the evolution of the Monetary-led and Fiscally-led policy mixes. That matrix is calibrated using the estimated transition of the matrix H^p (Table 2) defined in the main text after imposing the restriction that the Fiscally-led led regime is an absorbing state; that is,

$$\tilde{H}^p = \begin{bmatrix} p_{MM} & 0 \\ 1 - p_{MM} & 1 \end{bmatrix} = \begin{bmatrix} 0.9992 & 0 \\ 0.0008 & 1 \end{bmatrix}.$$