# Causality between public bond markets and financial stability in an emerging economy

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**Abstract**

In this paper we assess the impact of diverse macroeconomic shocks on both the public debt market and financial stability by identifying the channels affecting public bond interest rates and prices. The analysis is carried out by using Directed Acyclic Graphs (*DAG*) and Structural Vector Auto-Regression (*SVAR*) models. Our findings indicate that inflation, the policy interest rate, and indicators of risk perception are the variables that most affect the yield curve slope. And this in turn, when it increases, there is a positive concurrent effect on bank risk indicators.

**Keywords:** Empirical macroeconomics, Directed acyclic graphs, SVAR models.