

Bond Vigilantes

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In News: The bond yields rising the world over, the Reserve Bank of India (RBI) has warned against bond vigilantes, stating they could undermine the recovery, unsettle financial markets and trigger capital outflows from emerging markets.

About Bond Vigilantes

- Bond Vigilantes refers to any of the large bond market investors who aggressively sell government bonds in the open market as a mark of protest against the policies adopted by the government or the central bank of a country.
- The huge selling of government bonds can cause the price of these bonds to witness a sharp drop in price, thus leading to a significant rise in their yields.
- Bond investors can cause a considerable rise in the borrowing rates of governments, thus exerting significant pressure on them.
- A bond vigilante is an investor who protests monetary or fiscal policies considered inflationary by selling bonds, thus increasing yields.
- In the bond market, prices move inversely to yields. When investors perceive that inflation risk or credit risk is rising they demand higher yields to compensate for the added risk. As a result, bond prices fall and yields rise, which increases the net cost of borrowing.
- The term refers to the ability of the bond market to serve as a restraint on the government's ability to overspend and over-borrow.
- While some view bond vigilantes as harmful speculators, others see them as an essential force disciplining governments that spend beyond their means.