

WHAT IS 'BOND VIGILANTE' IN FINANCE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

This 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. In other words, bond investors can cause a considerable rise in the borrowing rates of governments, thus exerting significant pressure on them. While some view bond vigilantes as harmful speculators, others see them as an essential force disciplining governments that spend beyond their means.

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