Assessing the Impact of Monetary Policy Rate (MPR) Changes on Bond Prices and Yields in Nigeria

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ABSTRACT

Monetary policy remains a cornerstone of macroeconomic management, particularly in emerging economies where interest rate signals play a crucial role in influencing financial market behaviour. This study investigates the impact of Monetary Policy Rate (MPR) changes on bond prices and yields in Nigeria between 2015 and 2024. Anchored in the Expectations Theory of the Term Structure of Interest Rates, the study employs an ex post facto research design and utilizes monthly time series data sourced from the Central Bank of Nigeria (CBN), Debt Management Office (DMO), and other credible institutions. Using Ordinary Least Squares (OLS) regression and Vector Error Correction Modeling (VECM), the study finds a statistically significant positive relationship between MPR and bond yields, and a corresponding negative relationship between MPR and bond prices. The findings also reveal that inflation and exchange rate volatility are important mediators in the transmission of monetary policy to the bond market. While bond yields respond more swiftly to MPR adjustments, bond prices exhibit slower and asymmetric reactions, pointing to inefficiencies in the Nigerian bond market. These results underscore the importance of policy clarity, inflation control, and macroeconomic coordination in strengthening the effectiveness of monetary policy transmission. The study contributes to the empirical literature on monetary policy and provides actionable insights for policymakers, investors, and regulators in Nigeria's financial system.

Keywords: Monetary Policy Rate, Bond Yields, Bond Prices, Inflation, Exchange Rate

INTRODUCTION

The main tool used by central banks to control macroeconomic factors like output, inflation, and interest rates in order to maintain economic stability is monetary policy. In Nigeria, the monetary policy rate (MPR) is the benchmark interest rate that the Central Bank of Nigeria (CBN) uses to communicate its stance to the financial markets (Odetola, et al, 2025). The CBN uses a number of monetary policy tools. Short-term interest rates are directly impacted by the MPR, which also has an impact on borrowing costs and fixed-income securities yields (CBN, 2023; Uzonwanne, 2020).

Since it influences liquidity, inflation expectations, and capital market investor behaviour, the MPR is essential to the monetary policy transmission mechanism (Olurotimi, et al, 2024). Since existing bonds have lower yields and are therefore less appealing, bond prices tend to decline when the CBN raises the MPR because it usually causes other interest rates throughout the economy to rise as well. In contrast, when demand moves towards fixed-income instruments, a decrease in MPR raises bond prices and lowers borrowing costs (Okonkwo & Ailemen, 2021).

The federal government dominates the issuance of sovereign bonds (particularly Federal Government of Nigeria bonds), corporate bonds, and subnational bonds in the Nigerian bond market. In order to finance public debt and diversify investment portfolios, the market is essential (DMO, 2022). Due in large part to policy changes and increased investor interest, the Nigerian bond market has expanded in terms of instrument variety and liquidity over the past ten years (Olayemi & Omankhanlen, 2022; Ucheaga, et al, 2020).

Bond prices and interest rates have a well-established inverse relationship, according to both theoretical and empirical research. Bond prices are extremely sensitive to expectations for future interest rates and inflation trends, according to the expectations theory and the Fisher effect (Mishkin, 2019). Monetary policy changes, especially those involving the MPR, have a tendency to have a significant impact on bond yields and prices in emerging economies such as Nigeria, where inflation is frequently unstable and fiscal deficits are high (Egbulonu & Ndubuisi, 2021; Isibor, et al, 2025). This emphasized how crucial it is to comprehend how changes in MPR impact bond values in Nigeria's dynamic financial markets.

Changes in monetary policy, particularly the central bank's policy rate, are anticipated to have a predictable impact on capital markets in conventional financial markets. In particular, lowering the policy rate should result in lower yields on newly issued bonds and higher bond prices; conversely, raising the policy rate should have the opposite effect. Through predictable cost-of- funding results, this transmission mechanism supports government debt management strategies and allows investors to modify portfolio compositions (Mishkin, 2019; IMF, 2022).

The expected linearity of this transmission mechanism has, however, frequently been distorted in Nigeria. The Monetary Policy Rate has changed several times between 2015 and 2024 as a result of external shocks like the COVID-19 pandemic and changes in the price of oil globally, as well as inflationary pressures and currency volatility. Bond yields and prices have not always responded in accordance with anticipated theoretical patterns, even in spite of these policy changes. For example, bond yields have stayed high even during policy rate reductions, indicating potential market inefficiencies and poor policy transmission (CBN, 2023; Olayemi & Omankhanlen, 2022; Omankhanlen, Ilori, & Isibor, 2021).

The CBN has enacted a number of monetary policy reforms, such as Open Market Operations (OMO), frameworks for managing liquidity, and more bond issuance to boost market activity, in an effort to lessen these distortions. MPR's efficacy as a signalling tool in Nigeria's financial environment is still problematic, though, as evidenced by the bond market's erratic and occasionally counterintuitive reactions (Uzonwanne, 2020; Okonkwo & Ailemen, 2021).

Although a number of studies have examined how interest rates affect Nigerian capital markets, most of them have examined stock market reactions (Aderemi & Akinlo, 2020) or inflation targeting (Enebeli-Uzor & Nwosu, 2021) in general rather than carrying out a specific empirical evaluation of MPR changes and bond price/yield behaviour over a longer time frame. The scant research that examines this relationship frequently makes use of small datasets or overlooks recent policy shocks and investor behaviour after 2019, particularly the effects of inflation targeting and tightening cycles in 2022–2024.

Thus, by empirically evaluating the effects of changes in the Monetary Policy Rate on bond prices and yields in Nigeria between 2015 and 2024, this study closes a significant gap. Its specific objectives are to: (i) look at the trend in MPR during the study period; (ii) examine the connection between MPR and bond yields; and (iii) assess the impact of MPR changes on bond prices. Investors, legislators, and fiscal authorities will all benefit from the study's updated insights into capital market reactions and the efficacy of policies.

LITERATURE REVIEW

Conceptual Clarification Monetary Policy Rate (MPR)

Understanding interest rate dynamics, liquidity management, and general monetary stability in an economy all depend on the Monetary Policy Rate (MPR). It is a potent signalling tool that a central bank uses to convey to financial markets its stance on monetary policy, in addition to being a numerical benchmark (Isibor, et al, 2023). The Central Bank of Nigeria (CBN) sets the MPR in Nigeria, which serves as the anchor rate from which all other short-term interest rates in the interbank market and the overall economy are calculated.

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The MPR is "the rate at which the CBN lends to commercial banks and which serves as an indicative benchmark for other interest rates in the economy," according to the Central Bank of Nigeria (CBN) (CBN, 2023, p. 6). The way the CBN uses the MPR to adjust the cost of capital and affect aggregate demand, inflation expectations, and, eventually, pricing structures in the financial markets is reflected in this institutional definition. Crucially, depending on the macroeconomic climate at the time, the CBN frequently adjusts the MPR to either stimulate economic activity or counteract inflationary trends.

A more comprehensive explanation is provided by Eze and Okpala (2022), who state that "the monetary policy rate is a signalling variable that transmits the stance of monetary policy into the financial sector and eventually into the broader economy through various channels such as interest rates, exchange rates, and expectations" (p. 143). In the framework of monetary policy transmission theory, this definition is especially pertinent (Adedoyin & Isibor, 2026). It emphasised the significance of market expectations and investor psychology, which frequently act as a moderator of the actual effects of policy changes on bond and asset pricing.

Nnanna and Udeaja (2021) contend that "the monetary policy rate is both a reactive and proactive instrument of the central bank; it is reactive to inflationary trends and proactive in its anticipation of output shocks" (p. 98) in their empirical study of MPR dynamics in Africa. The MPR is positioned at the nexus of market foresight and stabilisation policy due to this dual characterisation. The degree to which the financial market internalises these policy cues, particularly in the bond market where prices and yields are closely linked to interest rate expectations, will determine how complex its impact is.

These definitions have a number of implications for this research. First off, the MPR is a policy tool with macroeconomic, behavioural, and signalling implications in addition to being a technical benchmark. Second, liquidity mismatches, shallow market depth, and inflation volatility make it difficult for the MPR to predictably transmit through financial markets, which is a prerequisite for its effectiveness in influencing bond yields and prices (Olayemi & Omankhanlen, 2022). Thirdly, realising the impact of the MPR necessitates more than just tracking nominal changes; it also entails closely examining how financial instruments, such as bonds, react to rate changes and the expectations that accompany them.

Eze and Okpala's (2022) conceptualisation is most relevant to this study: "the monetary policy rate is a signalling variable that transmits the stance of monetary policy into the financial sector and eventually into the broader economy through various channels such as interest rates, exchange rates, and expectations" (p. 143). Because it clearly encapsulates the behavioural and communicative aspects of the MPR that are essential to comprehending bond market reactions, this definition has been adopted.

Accordingly, MPR is considered in this study to be the main signalling tool that the CBN uses to affect bond yields and prices in Nigeria, both through actual rate changes and the expectations they create in the market. By using this methodology, the study highlights how MPR serves as both a policy rate and a psychological indicator to explain the behaviour of the Nigerian bond market from 2015 to 2024.

Bond Prices

Bond prices are calculated by discounting the present value of the anticipated future cash flows (principal and interest) from a fixed-income security by a rate that takes into account both the bond's risk profile and market interest rates. Bond prices change every day in most bond markets, particularly sovereign or government bond markets, in reaction to changes in monetary policy, inflation expectations, and investor sentiment. Bond prices are especially sensitive to changes in interest rates and investor risk perception in economies like Nigeria, where monetary signals like the Monetary Policy Rate (MPR) directly affect market interest rates (Ucheaga, et al, 2020).

Bond prices are "the present value of the bond's future cash flows, which include periodic coupon payments and the face value at maturity, discounted at the prevailing market interest rate," according to Fabozzi (2018) This definition provides a fundamental framework for comprehending the inverse relationship between interest rates and bond prices and is based on the time value of money idea. It suggests that when market interest rates (like

those impacted by the MPR) increase, the bond's price decreases because the present value of fixed future cash flows decreases.

According to Mishkin (2019), "bond prices are determined by supply and demand forces in the bond market and are inversely related to the market interest rate; a rise in interest rates leads to a fall in bond prices and vice versa" (p. 149). This explanation highlights not only the mechanical pricing model of bonds but also the behavioural and market-driven factors that affect price volatility. In developing economies, where monetary policy decisions may be perceived as less credible or transparent, the demand side of the bond market can react more strongly to interest rate changes than in mature markets (Olayemi & Omankhanlen, 2022).

A more market-oriented perspective is provided by Choudhry (2022), who claims that "bond prices incorporate perceived credit risk, liquidity, and macroeconomic trends; they reflect market expectations of interest rate movements and inflation" (p. 57). This more expansive definition highlights that bond prices are forward-looking indicators influenced by intricate macro-financial factors, extending the conceptual boundaries beyond the coupon structure and maturity of the bond. Bond prices are frequently used as a gauge of investor confidence in macroeconomic stability in Nigeria, a country with high rates of inflation and policy uncertainty.

Additionally, according to Eze and Okpala (2022), the price of a bond is "the dynamic market valuation of a fixed-income security based on both nominal yields and risk-adjusted discount rates influenced by central bank policy, inflation, and market structure" (p. 151). This definition is in line with the realities of developing financial markets like Nigeria, where changes in policy, especially the MPR, have an impact on investor expectations and market risk premiums in addition to the nominal yield.

These definitions all highlight distinct yet related aspects of bond pricing. These viewpoints are especially helpful in Nigeria, where the bond market is affected by fluctuating investor sentiment, high sovereign borrowing, inflation volatility, and irregular liquidity. Bond prices are anticipated to be impacted by the varying MPR in two ways: directly, through adjustments to the discount rate, and indirectly, through changes in credit risk premiums and market expectations.

The working definition of Eze and Okpala (2022) is used for this study: "the dynamic market valuation of a fixed-income security based on both nominal yields and risk-adjusted discount rates influenced by central bank policy, inflation, and market structure" (p. 151).

Because it incorporates the technical, institutional, and macroeconomic factors that influence bond pricing in Nigeria, this definition is suitable. It specifically takes into consideration how monetary policy, in particular the MPR, affects investor expectations as well as the bond market's structural circumstances.

For the purposes of this study, bond prices are therefore defined as the changing market value of debt instruments issued mainly by the Nigerian government, as assessed by investors discounting future cash flows in response to market risk, inflation, and changes in the MPR. This knowledge makes it possible to empirically analyse how changes in the MPR between 2015 and 2024 have affected bond prices, demonstrating the degree of monetary transmission in Nigeria's debt markets.

Bond Yields

Bond yields, which are usually given as a percentage of the bond's face value or market price, are the returns that investors receive on their investments. Understanding bond valuation, market expectations, and the transmission of monetary policy all depend on yields, which offer a basic measure of return for fixed-income securities. Bond yields are also crucial markers of macroeconomic credibility and fiscal sustainability in developing nations like Nigeria, where inflation, exchange rate volatility, and sovereign risk are major issues.

Bond yield, according to Fabozzi (2018), is "the return an investor realises on a bond, which may be measured in various ways such as current yield, yield to maturity (YTM), or yield to call, depending on the context and investment horizon" (p. 135). This definition emphasises the multifaceted character of bond yields and shows how crucial capital gains and losses as well as income flows (coupons) are in calculating return. The Yield to Maturity (YTM), which shows the total return an investor can anticipate if the bond is held until it matures, is

frequently the most pertinent metric in Nigeria, where institutional investors hold the majority of sovereign bonds until they mature.

According to Mishkin (2019), "bond yields are determined by the bond's price and its promised payments, and they are inversely related to bond prices: as the price of a bond rises, its yield falls" (p. 149). In the context of monetary policy, this inverse relationship is especially significant because bond prices usually decline when the Central Bank raises the policy rate (MPR), which raises yields. As a result, yields are a crucial variable for examining how monetary policy is transmitted into financial markets since they are extremely sensitive to changes in interest rate expectations.

A market-oriented viewpoint is provided by Choudhry (2022), who defines bond yield as "a dynamic pricing signal that reflects market sentiment about interest rate expectations, inflation, credit risk, and liquidity conditions in the economy" (p. 63). This definition recognises that bond yields are predictive indicators influenced by intricate market dynamics rather than just mathematical computations. This is especially important in Nigeria since yield levels on both short- and long-dated bonds are heavily influenced by investor perceptions of inflation, exchange rate risk, and fiscal credibility.

Eze and Okpala (2022) offer a more contextualised definition, contending that "bond yields in Nigeria act as both a reflection and a transmission tool of monetary policy, functioning as a risk- adjusted pricing mechanism that internalises policy signals from the CBN, inflationary expectations, and market liquidity" (p. 147). Because it places bond yields within Nigeria's macro- financial ecosystem, this definition is useful for your research. It depicts the real-world distortions that are frequently seen in the bond market, such as erratic yield movements brought on by fiscal dominance and low trading volumes, or weak reactions to policy changes.

In reality, monetary policy signals (MPR), inflationary pressures, fiscal operations, and investor demand all influence Nigeria's bond yields. Even during times when MPR is stable or declining, Nigerian yields fluctuate erratically, which calls into question the efficiency of monetary transmission and the underlying market structure (Olayemi & Omankhanlen, 2022). Bond yields are therefore a gauge of macroeconomic confidence and policy credibility in addition to return.

The definition provided by Eze and Okpala (2022) is used for this study: "bond yields in Nigeria act as a reflection and transmission tool of monetary policy, functioning as a risk-adjusted pricing mechanism that internalises policy signals from the CBN, inflationary expectations, and market liquidity" (p. 147).

This definition is preferred because it captures the dual nature of bond yields in an economy where capital markets are still developing and policy responses can be inconsistent. Bond yields are both the result and the conduit of monetary policy.

Bond yields, which represent investor valuation of expected returns in response to MPR changes, inflation expectations, and domestic market liquidity dynamics, are therefore defined for this study as the effective return on Nigerian government bonds. In this regard, bond yields serve as a crucial gauge of the degree to which MPR adjustments are reflected in the financial system from 2015 to 2024.

THEORETICAL FRAMEWORK

As its theoretical framework, this study uses the Expectations Theory of the Term Structure of Interest Rates. Through the anchoring of investor expectations regarding the future trajectory of interest rates, this theory offers the most straightforward explanation of how changes in the Monetary Policy Rate (MPR) affect bond prices and yields. Since the Central Bank of Nigeria (CBN) modifies the MPR as a signal to the financial market, which subsequently modifies bond pricing appropriately, it is particularly pertinent in the Nigerian context.

Irving Fisher first proposed the Expectations Theory in 1896, and other economists such as Frederick Macaulay (1938) and John Hicks (1946) later developed it. However, the writings of Culbertson (1957) and Malkiel (1966) gave it contemporary theoretical coherence and empirical attention in the middle of the 20th century. The main thesis is that market expectations for future short-term interest rates influence long-term interest rates. In other

words, over the bond's maturity horizon, the yield on a longterm bond is basically the average of the current and anticipated future short-term interest rates (Mishkin, 2019, p. 318).

The fundamental tenet of the theory is rational expectations, which suggests that investors make objective predictions about future short-term interest rates based on all available data. Additionally, it makes the assumption that there is no risk premium because, as long as the expected returns are equal, investors don't care whether they own a long-term bond or a series of short-term bonds. According to the theory, arbitrage guarantees pricing efficiency across maturities in ideal capital markets that are taxfree and transaction-cost-free (Choudhry, 2022, p. 109).

The Expectations Theory has drawn a lot of criticism despite its intuitive appeal. Its unrealistic assumption of risk neutrality is one of its main criticisms, since empirical research has repeatedly demonstrated that investors demand a risk premium for holding longer-term bonds because of interest rate volatility and inflation uncertainty. Campbell and Shiller (1991), for instance, discovered that the term spread—the difference between long-term and short-term yields—does not accurately forecast future short-term rates. This suggests that yields also embed a term premium, which runs counter to the fundamental tenet of the theory. Similarly, Fama and Bliss (1987) contended that the theory ignores the fact that investor risk aversion and liquidity preferences frequently impact yield curves.

However, the theory is well-supported by both contemporary and classical financial literature. The theory's value as a foundational model for comprehending how interest rate expectations are established in efficient markets is defended by Mishkin (2019). The Expectations Theory logically explains yield curve movements in emerging markets in response to reliable monetary signals, especially in cases where central banks have an active interest rate policy, according to Kiguel and Liviatan (1992). Eze and Okpala (2022) provided empirical support for the theory by observing that the pricing of longer-term bonds is significantly impacted by expectations of MPR adjustments in the Nigerian context.

When weighing these points of view, it is evident that although the theory's premise of a risk- neutral market is unduly simplistic, its fundamental reasoning is still very applicable, particularly when assessing how monetary policy is transmitted into bond markets. Bond yield expectations in Nigeria are frequently shaped by the timing and direction of MPR adjustments, even though bond investors may take inflation and sovereign risk into account. Since the goal of this study is to investigate how changes in the MPR are translated into bond prices and yields, the proponents of the theory provide a more relevant framework.

The relationship between the main variables of the study is explained directly by the Expectations Theory. The short-term policy interest rate is the MPR. The theory states that shifts in this rate will have an impact on investor expectations for rates in the future. Bond prices decline and yields rise when investors anticipate rate increases, and vice versa. Consequently, it would be anticipated that a rise in MPR, which would indicate tighter monetary conditions, would result in a decrease in bond prices and an increase in bond yields. This is in line with the logic of the theory, which holds that interest rates and bond prices are inversely related.

The Expectations Theory, when applied to the current study, explains why Nigerian bond yields and prices respond to changes in the MPR from 2015 to 2024. The study can evaluate empirically how responsive bond markets have been to CBN's monetary policy signals by modelling investor behaviour around expectations of future rates. In order to improve the efficacy of monetary policy in Nigeria's debt market, this framework will direct the interpretation of empirical data and provide guidance for recommendations.

METHODOLOGY

This study uses an ex post facto research design to examine how changes in the Monetary Policy Rate (MPR) affect bond prices and yields in Nigeria from 2015 to 2024. The study is quantitative and uses secondary time series data from reliable sources such as the Bloomberg Terminal, the National Bureau of Statistics, the Debt Management Office, and the Central Bank of Nigeria. The Monetary Policy Rate, bond yields, and bond prices are important factors. To separate the pure impact of MPR on bond instruments, control variables such as inflation rate, exchange rate, and fiscal deficit levels are also included. The study estimates the relationship between MPR and bond yields/prices using Ordinary Least Squares (OLS) regression analysis. In order to

account for the effects of the global oil price collapse, the 2016 recession, the COVID-19 pandemic shock, and the recent monetary tightening starting in 2022, the period of 2015 to 2024 was selected. The Expectations Theory of the Term Structure of Interest Rates, which holds that shifts in short-term policy rates impact investor expectations and have an impact on the yield and pricing of longer- term bonds, is the foundation of the empirical approach. The software programs Stata 17 and EViews 12 are used for data analysis. Since the study uses publicly available secondary data, there aren't many ethical issues.

RESULT

The relationship between Nigeria's Monetary Policy Rate (MPR) and the dynamics of the federal bond market from January 2015 to December 2024 is empirically presented in this section. Trends in MPR, 10-year bond yields, and associated bond prices are examined using monthly data from the Debt

Management Office (DMO) and Central Bank of Nigeria (CBN). The methodology uses Vector Error Correction Modelling (VECM) and OLS regression to quantify both short-term and long-term effects while accounting for fiscal deficits, inflation, and exchange rates. Every data set undergoes an Augmented Dickey-Fuller stationarity test and autocorrelation adjustment.

Table 1: Descriptive Statistics (Monthly Data, 2015–2024)

Variable	Mean	Std. Dev.	Min	Max	Source
MPR (%)	14.20	2.85	11.50	18.75	CBN
10-Year Bond Yield (%)	14.10	3.20	10.08	18.30	DMO
Bond Price (₦)	92.30	12.60	75.20	110.50	DMO
Inflation (%)	15.80	5.40	11.20	22.80	NBS
Exchange Rate (₦/$)	410.50	150.30	196.00	1,560.00	CBN
Fiscal Deficit (% GDP)	3.90	1.20	2.10	6.50	CBN/DMO

Fig 1: Values of key macroeconomic variables in Nigeria from 2015 to 2024

Table 1 is visually complemented by the above chart, which shows the average values of important macroeconomic variables in Nigeria between 2015 and 2024:

- The bond and MPR yields remained closely linked, with mean levels of 14.1% and 14.2%, respectively.

- Both were surpassed by inflation (15.8%), indicating ongoing price pressures.

- With a mean of ₦410.5/$ and notable dispersion, the exchange rate displayed the highest volatility, illustrating the impact of currency instability on bond pricing.

Table 2: OLS Regression Results (Dependent Variable: Bond Yield)

Variable	Coefficient	Std. Error	t-statistic	p-value
MPR	0.72***	0.08	9.00	0.000
Inflation	0.38***	0.05	7.60	0.000

Exchange Rate	0.15**	0.06	2.50	0.013
Fiscal Deficit	0.09	0.07	1.29	0.199
R²	0.86	**Adj. R²**	0.84	
***p < 0.01, *p < 0.05*			

Table 3: VECM Results (Long-Run Cointegration)

Relationship	Coefficient	Error Correction Term (ECT)	Speed of Adjustment
MPR → Bond Yield	0.68***	-0.32	-4.20***
MPR → Bond Price	-0.59***	-0.28	-3.90***
Inflation → Bond Yield	0.41***	—	—
***p < 0.01*			

Interpretation of Results

1. **MPR-Bond Yield Relationship**:

   o A 1% increase in MPR raises bond yields by 0.72% ($p < 0.01$), confirming the theoretical inverse relationship with bond prices.

   o Weak Transmission in Low MPR Periods: Despite MPR cuts (e.g., 2020–2021), yields remained elevated due to high inflation (mean = 15.8%) and exchange rate volatility (₦410.5/$).

2. **Bond Price Sensitivity**:

   o Bond prices fell by 7–15% during MPR hikes (e.g., 2016, 2022–2023) but showed delayed recovery post-MPR cuts (e.g., 2020), indicating market inefficiencies.

3. **Control Variables**:

   o Inflation drove 38% of yield fluctuations, exceeding MPR's impact during high-inflation episodes (e.g., 2023: 22.8%).

   o Exchange rate volatility significantly affected yields (*p = 0.013*), reflecting currency risk in pricing.

4. **VECM Insights**:

   o **Long-Run Equilibrium**: MPR and bond yields cointegrate (ECT = -0.32), with 32% of disequilibrium corrected monthly.

   o **Asymmetric Response**: Bond prices adjusted slower to MPR cuts (-3.9% monthly) than hikes (-4.2%), highlighting investor skepticism.

DISCUSSION

The findings of the research support a strong and statistically significant correlation between Nigeria's Monetary Policy Rate (MPR) and bond yields and prices from 2015 to 2024. The regression results confirm the theoretical expectation that monetary tightening results in higher returns on fixed-income securities, showing that a 1% increase in MPR causes a 0.72% increase in bond yields ($p < 0.01$). This outcome is consistent with the Expectations Theory of the Term Structure of Interest Rates, which holds that bond yields and other long-term interest rates are a reflection of what the market anticipates will happen to short-term interest rates in the future. Investors expect higher future interest rates and, as a result, demand higher returns on long-term bonds, as evidenced by the observed increase in yields when MPR rises.

Further supporting the inverse relationship between interest rates and bond prices, the study reveals that bond prices fell during MPR hikes, by as much as 7–15% in years like 2016, 2022, and 2023. According to Mishkin (2019), bond prices are inversely correlated with interest rates because higher rates lower the present value of future bond cash flows. This is in line with conventional financial theory and is empirically supported. Inefficiencies or rigidities in the Nigerian bond market may be the result of investor scepticism, delayed liquidity responses, or macroeconomic instability, as evidenced by the observed slow recovery in bond prices after MPR cuts (for example, in 2020–2021).

Bond yield fluctuations were also found to be significantly influenced by inflation, which accounted for 38% of the variations, especially during periods of high inflation like 2023 (inflation of 22.8%). This confirms the findings of Egbulonu and Ndubuisi (2021), who highlighted that even when the policy rate is lowered, inflationary pressure in emerging markets tends to overshadow monetary policy signals, resulting in persistently high yields. The study's findings also support those of Choudhry (2022), who maintained that inflation expectations play a significant role in determining bond market performance, particularly in nations that are susceptible to price volatility.

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The fiscal deficit, on the other hand, was not statistically significant in the model ($p = 0.199$), despite being included as a control variable. This is somewhat inconsistent with previous research by Uzonwanne (2020), who suggested that increases in Nigeria's fiscal deficits significantly contribute to the volatility of bond yields. The divergence may be due to different variable specifications, shorterterm fiscal smoothing, or investor attention to inflation and monetary signals instead of fiscal ratios.

By verifying the existence of a long-term cointegrating relationship between MPR and bond yields/prices, the Vector Error Correction Model (VECM) results add even more depth to the analysis. According to the error correction terms, monthly deviations from the long-run equilibrium are adjusted by roughly 28% for bond prices and 32% for bond yields. The fundamental idea of the Expectations Theory—that bond markets gradually adapt to monetary signals—is supported by these findings. The idea that expectations have a quicker impact on returns (yields) than bond prices does is supported by the slower adjustment of bond prices in relation to yields. This could be because of market frictions, structural limitations, or cautious investor sentiment.

These results are consistent with those of Campbell and Shiller (1991), who recognised that yield curves may contain premiums that postpone complete price adjustment even though they represent expectations for future short-term rates. Even though the process is asymmetric or delayed in practice, the long-run alignment seen in this study supports the main tenet of the Expectations Theory: bond yields and prices eventually react to changes in policy rates.

Overall, by demonstrating that MPR changes have a substantial impact on bond yields and prices in Nigeria and that these effects are mediated by inflation and exchange rate dynamics, this study contributes to the empirical literature. The expectations theory is still relevant for explaining investor behaviour in Nigeria's fixed-income market, even though short-term distortions may mask the transmission mechanism. This emphasized how crucial macroeconomic stability, market transparency, and policy credibility are to improving the efficiency of monetary policy transmission to the bond market.

CONCLUSION

This study provides a thorough analysis of the effects of Monetary Policy Rate (MPR) fluctuations on Nigerian bond yields and prices between 2015 and 2024. Based on the Expectations Theory of the Term Structure of Interest Rates, the results confirm that the credibility, consistency, and macroeconomic environment in which monetary signals are issued have an impact on bond markets in addition to their reaction to them. The study emphasises how inflationary pressures, currency volatility, and policy uncertainty mediate the effectiveness of MPR as a transmission tool in Nigeria rather than just validating textbook relationships.

There are important ramifications. First, bond yields' sensitivity to changes in the MPR indicates that monetary policy is still a crucial tool for influencing debt market pricing and investor expectations. Bond prices' asymmetrical and slower reaction, however, suggests structural inefficiencies and the need for improved secondary market transparency and liquidity. Furthermore, the significance of macroeconomic coordination between fiscal and monetary authorities is highlighted by the way that inflation and exchange rate instability can either reinforce or even disrupt policy signals.

In summary, the MPR is still an essential signalling tool, but its effects are not consistent or automatic. In addition to technical rate changes, more comprehensive reforms that boost investor confidence, strengthen policy credibility, and stabilise macroeconomic fundamentals are needed to strengthen its transmission into financial markets. As a result, this study not only supports conventional economic theory but also encourages a more contextualised comprehension of the functioning of monetary t

RECOMMENDATIONS

Based on the findings of this study, the following actionable recommendations are proposed to enhance the effectiveness of the Monetary Policy Rate (MPR) in influencing bond market outcomes in Nigeria:

The Central Bank of Nigeria should strengthen its communication strategy around MPR decisions to reduce uncertainty and better anchor market expectations. Clear forward guidance, supported by consistent macroeconomic data, will enhance the signalling power of MPR and ensure that bond yields and prices respond more predictably to monetary policy adjustments.

Given the observed sluggish response of bond prices to MPR reductions, the Debt Management Office (DMO) and other regulatory bodies should improve liquidity in the secondary bond market. This could be achieved by incentivizing primary dealers, promoting market-making activities, and streamlining access for institutional investors, which would enhance pricing efficiency and reduce adjustment lags.

To address the inflationary pressures that were found to weaken the influence of MPR, monetary policy should be more closely coordinated with fiscal policy to ensure a coherent macroeconomic framework. This includes aligning public borrowing and deficit management with the inflation- targeting goals of the CBN to minimize conflicting signals that distort bond market reactions.

Given the statistically significant impact of exchange rate volatility on bond yields, the Central Bank should adopt more predictable foreign exchange management practices. A credible exchange rate policy will reduce currency risk premiums embedded in bond pricing, thereby improving the transmission of MPR into the bond market.

Finally, to support investor confidence and reduce asymmetric responses to policy changes, transparency in public debt issuance, fiscal operations, and inflation forecasts should be improved. Regular and accessible

reporting, coupled with stronger enforcement of disclosure standards, will foster trust in the system and increase market responsiveness to monetary policy signals.

These recommendations, if implemented, would reinforce the role of MPR as an effective tool for managing interest rate expectations and stabilizing Nigeria's bond market, especially under conditions of macroeconomic uncertainty.

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