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Crony Capitalism in Egypt

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Abstract

The paper studies the nature and extent of Egyptian "crony" capitalism by comparing the corporate performance and the stock market valuation of politically connected and unconnected firms, before and after the 2011 popular uprising that led to the end of President Mubarak rule. First, we identify politically connected firms and compare the corporate behavior of connected and unconnected large firms before 2011 in terms of their levels of debts, market share, and tax payment. Second, we conduct an event study around the events of 2011 and estimate the market valuation of political connections. Third, we attempt to decompose the extra value that the market attributes to political connections between a current profitability advantage, and future advantages that include higher growth opportunities and (implicit) bail-out guarantees.

Keywords: corruption; cronyism; Egypt; event study; value of political connections

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