PRESIDENTIAL ELECTIONS AND STOCK RETURNS IN EGYPT

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ABSTRACT

This paper examines the relationship between two Presidential elections and Stock returns in Egypt. The available literature showed mixed results on the relationship between Presidential Elections and Stock Returns. The author examined daily data and used an OLS regression. Each Event Window covered 90 days around the Presidential Election. The results showed that both elections had positive impact on the stock returns in Egypt.

JEL: F30, G14, G17

KEYWORDS: Egypt, Event Studies, Presidential Elections

INTRODUCTION

This paper examines the relationship between two Presidential Elections and the Stock Returns in Egypt. The Egyptian Exchange (EGX), one of the oldest and largest stock exchanges in Africa, lists 145 member firms. It touts itself with a vision to be a world-class and premier stock market in Africa and the Middle East. The listed firms are divided into several industries (Financial Services, Chemicals, Construction, Real Estate, Telecommunication, Food/Beverage, Healthcare, Retail, Media and Utilities). From 2005 until 2010, fifteen companies had their initial public offerings on the EGX. Table 1 shows the market indicators of the EGX for the last 3 years. The Market Capitalization is the number of listed shares multiplied by the Market Price at End of Year.

Table 1: Market Indicators of the EGX

Indicator	Year 2010	Year 2011	Year 2012
Number of listed companies	212	212	212
Market Capitalization End of Year (Billion LE)	488.2	293.6	375.6
Turnover Ratio (%)	42.89	34	34.12
Number of Trading Days	247	207	245
Number of Transactions	9,793,720	5,516,916	6,160,985
Volume	27,955.10	16,896.20	32,804.10
Value Traded	272,904.20	130,536.40	166,459

This table shows the market indicators of the EGX. The Market Capitalization is the number of listed shares multiplied by the Market Price at End of Year. The Turnover Ratio is the Value Traded of listed shares divided by the Market Capitalization. The Number of Trading days is lower for 2011 as the EGX closed during the "Revolution" (January 2011). This historical data was pulled from the EGX website www.egx.com.eg.

The first presidential elections were held on September 7th 2005. The incumbent President Hosni Mubarak won 88% of the final votes. Several other candidates such as Ayman Noor and Fawzi Ghazi contested the elections. These elections were the first multi party elections in Egypt. Before the 2005 elections, the Egyptian voters were subjected to a referendum on the ruling party`s candidate. With this referendum, President Mubarak won several presidential terms and stayed in office from 1981 until 2011.

A popular uprising removed President Mubarak from office in February 2011. During the three week "Revolution", millions of Egyptians demonstrated and asked that President Mubarak resigns as Head of State. The "Revolution" was mainly due to high unemployment, low wages, corruption and lack of free speech in Egypt. The demonstrations and strikes negatively affected the Egyptian economy. The tourism sector, an important revenue generator for Egypt, was affected as tourists feared for their safety. The civil

strikes also affected the food and transportation sectors. The second President elections were held on June 17th 2012. The first Post-Mubarak elections were reportedly the first "democratic" elections and registered twelve candidates. Mohamed Morsi, candidate of the Muslim Brotherhood, won the election with 51% of the votes. The motivation of this paper is to examine the relationship between Presidential Elections and Stock Returns in Egypt. The available literature showed mixed results on the Impact of Presidential Elections on Stock Returns. This study is therefore a contribution to the literature on this topic. This study used an OLS regression and the daily data was retrieved from DataStream. The Event Windows covered 90 days around the Presidential Elections. The results showed a positive impact for both Presidential elections on stock returns in Egypt. The rest of this paper is as follows: Section 2 reviews the literature on the topics of this paper. Section 3 describes the data and methodology used in the study. Section 4 provides the results and Section 5 concludes the study.

LITERATURE REVIEW

This paper covers the topics of Egypt, Standard Event Methodology and the relationship between Presidential Elections and Stock Returns. This section reviews the different studies on these topics. Egypt is a North African country with rich history. Several books and research studies have focused on Egypt`s history, religions and geology. Grimal (1992) and Trigger (1983) thoroughly reviewed the Egyptian history and society in general. The Egyptian Stock Exchange (EGX) has also received some attention on its market efficiency and its reaction to external events. In terms of efficiency, Mostafa (2007) noted that the performance was sub-optimal for top listed companies in the EGX. There are other research studies on the impact of external events and factors on the EGX stock returns. Shahid (2003) found no evidence of a relationship between the ownership structure and the performance of firms in Egypt. Omran (2001) found that the inflation rate had an impact on the Egyptian stock market performance. Bennaceur (2009) found that the monetary policy does not impact the equity prices in Egypt.

Several research studies used the Event Study Methodology in assessing the markets` reaction to events such as monetary policies, mergers, earnings announcements, change of accounting rules and change of regulations. Binder (1998) reviewed the methodology`s evolution and how it can be used in Financial Research. In the case of Mergers, Hackbart (2006) stated that acquiring firms earn negative returns after a merger. In regards to macroeconomic policies, Darrat (1990) found a significant relationship between fiscal policies and stock returns. The market reaction to earnings announcement has led to what is referred to “post earnings announcement drift” in Finance. Studies such as Atiase (1985) and Ball (1993) found significant abnormal returns around earnings announcements. A change of regulations might affect the way companies do business and to some extent affect the stock prices. Bowman and Navissi (2000) investigated the impact of regulatory threats on the pharmaceutical industry. They found significant negative abnormal returns around regulatory threats events. There is an extensive literature on the impact of political events on stock returns. The existing literature has mostly covered presidential elections. A change of regime brings new economic and foreign policies. This would likely affect some stock prices.

For the case of Germany, Pierdzioch (2005) found no impact of elections but Fuss (2008) found that German small-firm stock returns were positively impacted by the election of right-leaning coalitions. For the case of the United States, Gibbs (1970) stated that the stock market performed better under Republican Presidents. But Siegel (1998) did not find abnormal stock market performances under Republican and Democrat Presidents. As reviewed in this section, the results are mixed in the case of Presidential Elections and Stock Returns. This study is therefore a contribution to the available literature on this topic.

DATA AND METHODOLOGY

This research examined the relationship between Presidential Elections and Stock returns in Egypt. This study used an OLS regression, similar to Floros (2008). There are two events (Presidential Elections) and the dates are as follows:

Event 1: September 7th 2005

Event 2: June 17th 2012

The EGX30 index data was obtained from DataStream and from the websites www.marketwatch.com and www.investing.com. Table 2 shows the EGX30 Data around Event 1. Event 1 was the first Presidential Election on September 7th 2005. On September 7th 2005, the EGX30 gained 1.5% (from the previous trading day) and was at 5064.75.

Table 2: Selected EGX30 Data around Event 1 (September 7th 2005)

Date	EGX30 index
September 1st 2005	4907.3
September 5th 2005	5023.25
September 6th 2005	4990.01
September 7th 2005	5064.75
September 8th 2005	5091.57
September 12th 2005	5058.16
September 13th 2005	5078.3
September 14th 2005	5075.91

This table shows the EGX30 Data around Event 1. Event 1 was the first Presidential Election on September 7th 2005. On September 7th 2005, the EGX30 gained 1.5% (from the previous trading day) and was at 5064.75. This data was pulled from DataStream.

Table 3 shows the data around Event 2. Event 2 was the second Presidential Election on June 17th 2012. On June 17th 2012, the EGX30 gained 0.02% (from the previous trading day) and was at 4419.04.

Table 3: Selected EGX30 Data around Event 2 (June 17th 2012)

Date	EGX30 index
June 6th 2012	4484.71
June 7th 2012	4489.55
June 10th 2012	4471.83
June 11th 2012	4394.32
June 12th 2012	4448.84
June 13th 2012	4421.38
June 14th 2012	4410.01
June 17th 2012	4419.04
June 18th 2012	4267.87
June 19th 2012	4087.45
June 21st 2012	4031.6
June 24th 2012	4166.32
June 25th 2012	4482.48
June 26th 2012	4612.14

This table shows the data around Event 2. Event 2 was the second Presidential Election on June 17th 2012. On June 17th 2012, the EGX30 gained 0.02% (from the previous trading day) and was at 4419.04. This data was pulled from DataStream.

Table 4 shows Summary Statistics used in the study. There are 342 observations used. The skewness measures the asymmetry of the series` distribution around its mean. A negative skewness shows that the series is skewed to the left. The kurtosis measures the peakedness of the distribution of the series.

Table 4: Summary Statistics

	EGX30 index
Observations	342
Mean	0.000510
Median	0.000582
Standard Deviation	0.007363
Skewness	-0.918659
Kurtosis	3.740864

This table 4 shows Summary Statistics used in the study. There are 342 observations used. The skewness measures the asymmetry of the series` distribution around its mean. A negative skewness shows that the series is skewed to the left. The kurtosis measures the peakedness of the distribution of the series.

The daily return was calculated as:

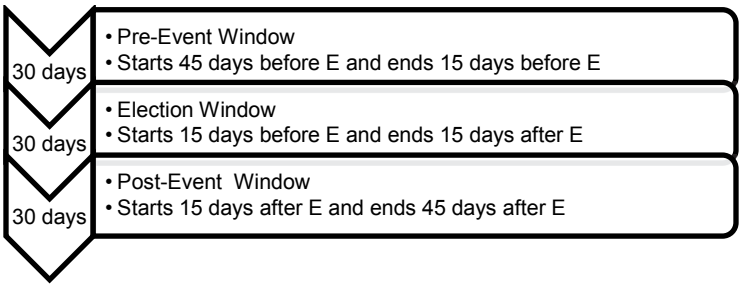
$$Rt = \log(Pt) - \log(Pt - 1) \quad (1)$$

Where *Rt* is the return of the EGX30 index on day *t*; Pt is the price of the EGX30 index on day t; Pt-*1* is the price of the index on day t-1. An ordinary least square (OLS) model was used. The OLS model was as follows:

$$Rt = a + bDt + \varepsilon t \quad (2)$$

Where R_t is the return of the index on day *t* and ε_t is an error term. The dummy variable *Dt* takes a value of 0 in non-election period and the value of 1 in an election period. The dummy variable Dt shows if the Presidential election has positive or negative effect on the EGX30 index. The event window covered 90 days (45 days before the Presidential election and 45 days after the Presidential elections). E is the Election Day. Figure 1 shows the three different phases of the event window.

Figure 1: Event Window Used in the Study (90 days)



This figure shows the Event Window and covers a total of 90 days. E is the Election and midpoint of the Event window (Day 45). The Pre-event window (30 days) starts 45 days before E and ends 15 days before E. The Election window (30 days) starts 15 days before E and ends 15 days after E. The Post-Event window (30 days) starts 15 days after E and ends 45 days after E.

On the first Presidential election, E is the Election Day (September 7th 2005). On the second Presidential election, E is the Election Day (June 17th 2012). The election window starts 15 days prior to the Election Day and ends 15 days after the Election Day. The pre-event window covers 30 days before the election window. The Post event window covers 30 days after the election window. T-tests were calculated in assessing the statistical significance of the impact of the Presidential Elections on the Egyptian Stock Returns.

RESULTS

The regression analysis was performed on the Excel program. Table 5 shows the regression estimates of the equation:$Rt = a + bDt + \varepsilon t$. The dummy variable takes the value of 0 in non-election and the value of 1 in election period. The second column represents the different coefficients (Dummy Coefficient and α Coefficient). The third column represents the coefficient values. The last column shows the T-Test.

Table 5: Regression Results on Event 1 and Event 2

Event	Coefficient	Coefficient Value	T-Test
Event 1	Dummy	0.6850	0.812
	α	0.0020	1.060*
Event 2	Dummy	0.9000	0.924
	α	0.0035	1.290*

This table shows the regression estimates of the equation:$Rt = a + bDt + \varepsilon t$. The dummy variable takes the value of 0 in non-election and the value of 1 in election period. The second column represents the different coefficients (Dummy and α). The third column represents the coefficient values. The last column represents the T-Test. indicates the significance at 5% level.*

The results show that both Presidential Elections had a positive impact on the Stock Returns in Egypt. The T-Test showed a statistical significance (at the 5% level) on both events` α coefficient.

CONCLUSIONS

The purpose of the study was to examine the relationship between Presidential Elections and Stock Returns in Egypt. The Presidential Elections took place on September 7th 2005 and June 17th 2012. This study is a contribution to the available literature on the relationship between Presidential Returns and Stock Returns. The study used an OLS regression and the daily data was pulled from DataStream. The results showed that both Presidential elections had positive impact on the stock returns in Egypt. In this paper, we mentioned the 2011 Revolution and the different studies on Egypt. Given that the 2011 Revolution was an important event in Egypt, a future study may examine its impact on the Egyptian stock returns. Other studies may examine the Impact of Presidential Elections on different industries of Egyptian Stock Exchange.

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