# Zombie firms: what's next?

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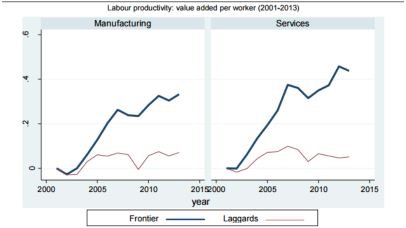
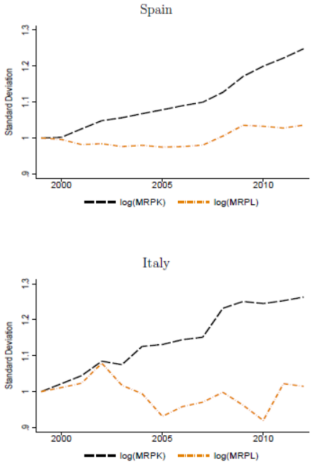
# The slowdown: breakdown in diffusion




Source:OECD

- Winner-takes-it-all and increased market concentration - but not so relevant in Europe (e.g. Autor et al., 2017; Grullon et al., 2018)
- Poor governance, increased short-termism, managerial limitations in absorbing ICT (e.g. Gutierrez and Phillipon, 2017; Pellegrino and Zingales, 2017)

# The slowdown: depressed creative destruction




Source:Gopinath et al., 2017

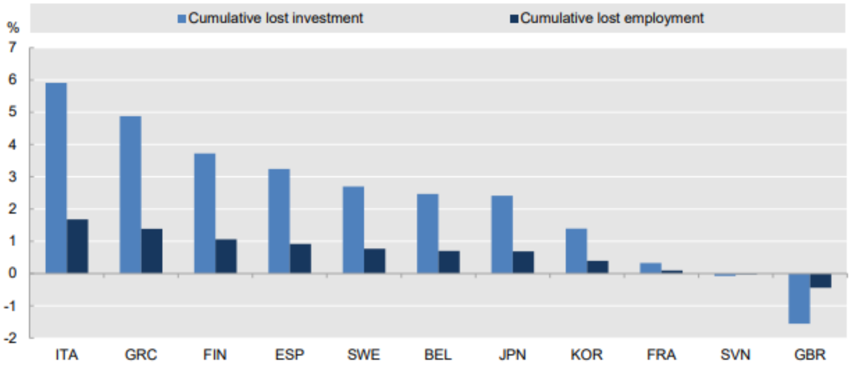
- Increased misallocation of resources, across and within sectors (e.g.Gopinath et al., 2017; Dias et al., 2014);
- Curtailed firm dynamics (Criscuolo et al., 2014; Decker et al., 2016)

# The role of zombie firms


Source:Banerjee and Hoffman, 2017

- **Direct effects**: Reduces aggregate productivity (e.g. Adalet McGowan et al., 2017; PT: Gouveia and Osterhold, 2018)
- **Spillovers**: Hamper growth of healthy firms, by crowding out financing and human capital, congesting markets, depressing prices (e.g. Caballero et al., 2008; PT: Gouveia and Osterhold, 2018)

# The role of zombie firms




Source:Adalet McGowan, Andrews, Millot (2017); counterfactual of the period 2008-2013 with zombie share at 2007 value - average healthy firm

# Public policy - financial sector

Weak banks and financial frictions:

- Harm the most vulnerable, not necessarily the least productive (Duval et al., 2017)
- Foster survival of non-healthy firms (at the expense of healthy one) as weak firms are associated with weak banks (Schivardi et al., 2017; Acharya et al., 2017; Anderson et al., 2017)

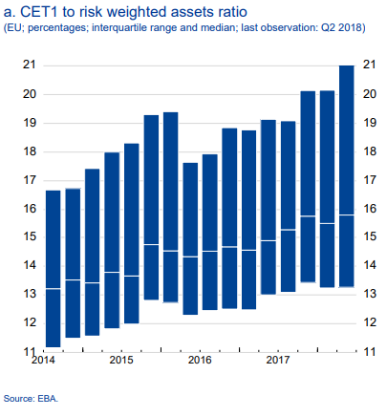
Low interest rates

- Reduce financial pressure on zombies (Borio and Hofmann, 2017; Banerjee and Hofmann, 2018)

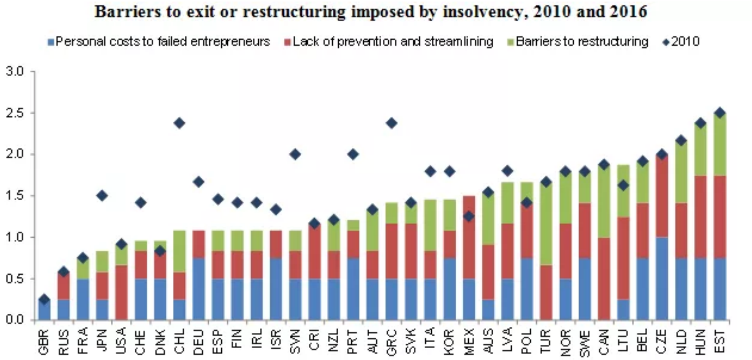
# Public policy - insolvency regimes

- Lower TFP growth for laggards, by decreasing incentives to experimentation and by hampering structural changes at the firm-level (Adalet McGowan et al., 2017b/c)
- Higher zombie congestion due to reduced incentives for banks to initiate restructuring (Andrews and Petroulakis, 2017)
- Improvements in bank health more likely to reduce zombie congestion when insolvency regimes are of better quality (Andrews and Petroulakis, 2017)

# Public policy - recent improvements



# Public policy - recent improvements




Note: The stacked bars correspond to three subcomponents of the insolvency indicator in 2016. The diamond corresponds to the value of the aggregate insolvency indicator based on these three subcomponents in 2010.
Source: Adalet McGowan, Andrews and Millot (2017).

# Public policy - recent improvements

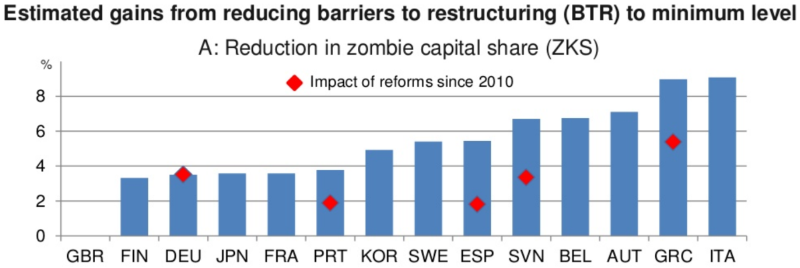
**Case-study: Portugal (Gouveia and Osterhold, 2018)**

Link between insolvency regimes & productivity :

- Increased prob. exiting for zombies by at most 2pp $\rightarrow$ virtuous market selection $\rightarrow$ free up resources sunk in zombies $\rightarrow$ intrasectorial reallocation
- Increased prob. restructuring (zombie 10% more produtive than sectorial average: 0.5pp) $\rightarrow$ improve within firm productivity growth

# Public policy - recent improvements - case-study: OECD countries

**Case-study: selected OECD countries (Adalet McGowan et al., 2017)**



# Public policy - going forward

Important progress on structural policies - more to be done, also at EU level (Banking Union, Capital Markets Union, Single Market)

**Public policy mix**

- High employment share in zombies - social cost
- Reallocation of capital?
- Bank health & insolvency regimes - zombie lending beyond evergreening? - public policy

# Going forward - what we don't know

Deeper understanding zombie nature - ex-ante v. ex-post

Cross-country trends but still large heterogeneity - country level analysis key

Zombie congestion & intrasectorial misallocation: one element of productivity slowdown; others concur to overall dynamics

# Thank you!

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