

The presence of zombie firms in Central East European countries

1. Angol nyelvű rezümé

This study focuses on small but rather meaningful participants of the global economies, which are none other than the zombie firms. These special companies have already goaded the curiosity of leading countries like the United States, the UK, and China, as their prevalence is considered to be capable of causing long-term economic stagnation. This time, the paper is limited to the scope of Central East Europe (hereinafter referred to as ‘CEE’), where, first, the share of zombie companies is determined during the period 2014-2020 so that the extent of the problem could be assessed. Secondly, it specifies the country-level tendencies of the region to see if policy measures are needed in some nations to deal with this phenomenon. Finally, the research aims to explore those characteristics of the firm level data that causes differences between the results on the country level.

For the identification of zombies, the model of Banerjee & Hofmann (2020) is applied, which requires unprofitability and low stock market valuation for 2 consecutive years. The research questions are answered by analysing annual observations from 1,746 publicly listed companies from Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and Slovakia.

The results show that between 2014 and 2020 the trends of the zombie ratio in the CEE are similar to previous findings about developed western countries. However, the share of zombies is lower by about two percentage points in CEE. Moreover, on the country level, it turns out that the tendencies deviated quite a bit over the examined years. Bulgaria, a significant increasing trend was experienceable over the years from 12% to 23%, while for Romania and Croatia a similarly relevant decreasing could be seen landing at 16% and 15% in 2020. The most consistent curve was performed by Poland with only a few movements in the range of 6.5% and 9.5%. Finally, the analysis proved that firm age is the most important factor that causes deviation between countries. The smaller share of zombie companies in Poland is consequently explained by the fact that most publicly listed firms are relatively young, being less likely to be classified as zombies.