

Abstract

Productivity growth is diminishing among OECD countries, coupled with increased differences in productivity development among enterprises and misallocation of resources. A recent literature focuses on the role of zombie firms, defined as old firms that have persistent problems meeting their interest payments, to explain these developments. This thesis examines the extent to which zombie firms are stifling labour productivity performance. Using a rich firm-level dataset for Slovakia, we assess the role of zombies on firm dynamics. We confirm the results that prevalence of zombie firms curbs the growth of healthy firms and thus dragging aggregate productivity down. Controlling for cyclical effects, our analysis shows that zombie firms over the period 2003-2013 are significantly less productive within industries than their healthy counterparts. Furthermore, a higher share of industry capital or employment sunk in zombie firms is associated with lower labour productivity, investment and employment growth of the typical non-zombie firm, which results in less productivity-enhancing capital reallocation. These results highlight the role of public policy in addressing prevalence of zombie firms, fostering a more efficient resource allocation and enabling productivity growth.