ABSTRACT

Zombie firms are business entities that exhibit an inability to generate adequate cash flows to meet their debt servicing obligations, yet persist in their operations with the backing of creditors, thereby impeding the efficacy of the economy. This phenomena has gained importance in recent years due to the increase in the share of zombie firms around the world. This study investigates the relationship between zombie firms and the number of banks that they borrow from and the average non-performing asset (NPA) ratios of these banks. We use the logistic regression model on a panel data spanning 10 years to assess the impact of these independent variables on the likelihood of a firm becoming a zombie firm. Our findings indicate that the number of banking relationships, as well as the average NPA ratios of these banks, are both significant predictors of a firm becoming a zombie firm and there exists a positive relationship between the dependent and independent variables. These empirical results are in line with the theoretical background proposed by this paper. This study has several policy implications including the necessity for banks to implement stronger risk management practises and for regulatory bodies to closely track corporate financial distress and the loan portfolios of stressed banks. Regulators can help prevent the formation of zombie firms and create a more stable and sustainable economy by monitoring the number of banks from which firms borrow as well as the quality of such banks' loan holdings and zombie lending practises.

Keywords: Zombie firms, banking relationships, NPA ratios, risk management, financial distress, zombie lending, stressed banks

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