ADDRESSING THE ISSUE OF “ZOMBIE” FIRMS AND STRANDED ASSETS

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“ZOMBIE” FIRMS

- “Zombie” firms don’t pay part of their due and payable debts, seeking forbearance from their creditors
- They typically lose value, because they are unable to invest
- They threaten the financial health of competitors, because they may sell at a loss to generate revenue, and suppliers
- “Zombie” firms survive for some time because:
  - The immediate alternative for creditors is worse – creditors “extend and pretend”
  - Insider have incentives to keep the business even barely alive

TYPICAL STRANDED ASSET

32,000 square meters
Walking distance from the port of Piraeus
Bankruptcy declared 2006
Initial reserve price: 12,000,000
Latest auction 2019
Reserve price: 3,000,000

- Restructuring procedure – the "zombie" is brought back to life
  - Effective provisions since 2011, but delays in ratification by the court
  - Carrot – but no stick
  - Designed to deal with overindebted, but not fundamentally non-competitive firms
- Sale of the business as a whole or as operating units
  - Effective system since 2014
  - Also not appropriate for fundamentally non-competitive firms
- Sale of assets
  - The current system is extremely inefficient – crucially important to fix it

STRATEGIES TO ADDRESS THE TWIN ISSUES OF "ZOMBIE" FIRMS AND STRANDED ASSETS

MAIN REFORM DRIVERS

- Speed is everything – waiting destroys value
  - Proceed with sales prior to verifying creditors' claims
- Only the market determines value
  - Automatic reduction of the reserve price, leading to auctions without a reserve price
- Everything must go
  - Assets that cannot be sold even for a symbolic price, are acquired by the State
- Solving the issue of stranded assets helps with the problem of "zombie" firms
  - If creditors know that assets will be sold in a fast and efficient manner, they will use the tools of insolvency law