**The Coronavirus and the Economy of Zimbabwe**

In December 2019, Wuhan, Hubei province, one of China’s six megalopolises with a population of 14 million, became the centre of an outbreak of COVID-19, which the World Health Organization (WHO) declared a global pandemic on 11 March 2020. Countries have taken multiple and varied measures to mitigate against the spread of the pandemic virus, including prohibition of large gathering, social distancing and complete country lockdowns. Important economic and social events and activities have been cancelled or postponed indefinitely with significant job and revenue losses. On the sporting front, the Tokyo 2020 Olympics, the French Open as well as popular football leagues such as the English Premier league, the Spanish La Liga, the Bundesliga and Italy’s Serie were cancelled. Critical international conferences that include the 46th G7 Summit which was scheduled for June 2020, in the United States, will now be held via video conference while the 36th ASEAN Summit which was due to take place in April 2020 has been postponed indefinitely. At home, the 2020 Zimbabwe International Trade Fair (ZITF) and the Premier Soccer League matches were postponed also with significant direct and indirect losses and costs on revenue, jobs and potential investment. The country’s independence celebrations previously scheduled for April 18; a major event for the country since attainment of independence in 1980, were also cancelled.

As of 05 April 2020, there were 1,174,652 confirmed cases of COVID-19 globally including 64,400 deaths. Despite the early myth among many in Africa that the continent was going to be spared, the virus has already invaded the continent and its level of preparedness is still to be tested as the number of infections and deaths increase. The numbers for the continent had reached 8,293 confirmed cases, with 61 deaths as of the 5th of April 2020. Zimbabwe is among the African countries with slow and low rates of infection and deaths since the beginning of the outbreak compared with other African countries that include South Africa with 1 585, Algeria with 1 300, Egypt with 985, Morocco with 919, Cameroon with 555 and Tunisia with 495 cases. The country had its first confirmed infections in March 2020 and since then, the number of confirmed infections is at 11. However, there are fears of inadequate preparedness for the country should the rate of infection accelerate. Already, there are 3 deaths from the pandemic. China, which accounts for at least five percent of Zimbabwe’s foreign trade has been hit hard while South Africa which accounts for at least 40 percent of the country’s trade is among the most affected African countries; escalating the fears on Zimbabwe with regard to both the spread of the virus and the magnitude of the potential negative trade shocks on the economy.

Several measures have been put in place globally to control and reduce the spread of the Coronavirus pandemic, ranging from travel restriction and compulsory testing and quarantining for inbound travellers; to complete closure of borders as well as banning of large gatherings and country lockdowns. The government of Zimbabwe instituted Statutory Instrument 77 of 2020 which introduced a blanket ban on large gatherings around recreational facilities such as night clubs, bars, beerhalls, movie houses, swimming pools, gymnasiums and sporting activities. The government also announced a 21-day national lockdown whose enforcement commenced on 30 March, 2020.

It is no doubt that the Coronavirus outbreak and the subsequent measures to mitigate against it are already impacting the global economy. The impact is channelled through the effects of reduced global incomes, trade, investment, productivity and exports. The World Health Organization has noted that the adverse effects of the pandemic are likely to be larger and magnified for the highly indebted, fragile and poor countries in the developing world, where measures such as country lockdowns and social distancing are difficult to implement and where such measures are likely to plunge the countries into further poverty. Zimbabwe cannot be spared from these challenges. This article seeks to assess the possible economic and social challenges of the Coronavirus pandemic on Zimbabwe’s economy, with special attention on its impact on trade, manufacturing, travel and tourism, the financial sector and the informal sector, including cross border trading, the micro to small and medium enterprises.

**Impact on Trade and Exports**

According to the World Bank’s World Development Indicators, world trade accounts for about 60 percent of the global Gross Domestic (GDP) or US$50 trillion. This means that 60 percent of the world output is either exported or imported and a decline in global output necessarily leads to a decline in trade. The Oxford Economics projects a decline in world output of at least US$1.1 trillion in 2020 while the International Monetary Fund (IMF) also points to a major decline slowdown in the world output from the initial 2020 growth projection of 2.9 percent due to the effects of the Coronavirus pandemic. Given the projected decline in world output, global trade will fall by at least US$700 billion, with countries that trade with the worst affected countries likely to be affected more.

The GDP for China, which is among Zimbabwe’s leading trade partners and one of the most affected countries by the COVID-19 pandemic, is projected to grow by 5.4 percent in 2020 down from 6 percent in 2019. Although China constitutes less than 5 percent of Zimbabwe’s direct foreign trade, its indirect link to the country through its trade with Mozambique, South Africa, United Arab Emirates and Zambia, which have significant direct trade links to Zimbabwe, is significant. South Africa, which accounts for close to 70 percent of Zimbabwe’s exports, for example, has China as its top most export destination. China also ranks among the top four export destinations for Mozambique, the UAE and Zambia, which collectively account for more than 10 percent of Zimbabwe’s exports.

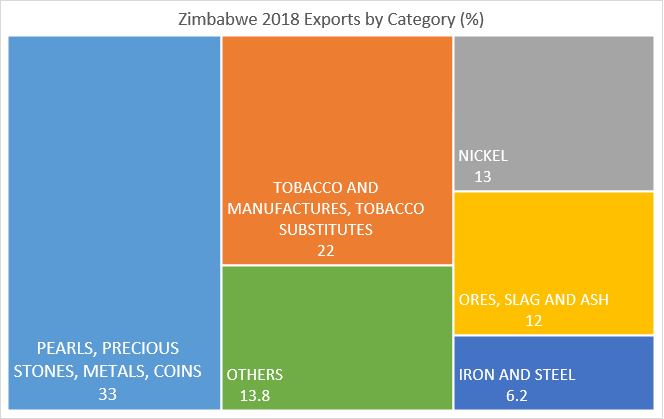
Figure 1: Zimbabwe's Export shares (2009-2019 Averages)

Source: IMF Direction of Trade Statistics

The weakening of demand conditions in China due to its growth slowdown has far-reaching direct and indirect negative shocks on Zimbabwe’s exports and its foreign currency reserve position. The direct effects of the slowdown in South Africa’s GDP growth on the country’s exports can also not be undermined given that the country is the single most dominant trading partner for Zimbabwe accounting for 70 percent of Zimbabwe’s exports and 50 percent of its imports. Already the South African Reserve Bank projects the country’s GDP to contract by 4 percent due to weaker demand for exports and domestic goods and services, and supply chain disruptions on account of its strong linkages with China’s economy.

Zimbabwe is a resource-based economy with its export earnings mainly anchored on agricultural and mineral commodities; accounting for more than 60 percent of the country’s foreign currency earnings. The country’s lockdown will directly impact on production in these important sectors, which will adversely impact on the down and upstream industries and firms in manufacturing, mineral and agro-processing, distribution and financial services sectors. Thus, the tobacco production and selling season, which coincides with the country’s lockdown period will see a major slump in both the volume and quality of the tobacco that will be produced by the country this year. In addition, the prices of the country’s major exportable commodities, except gold, have been declining in the international markets since the breakout of the Coronavirus due to depressed demand conditions, especially in China which is the major market for the primary commodities.

Figure 2: Zimbabwe 2018 Exports by category



Source: United Nations COMTRADE database on international trade.

Since December, 2019, the S&P global base metals index has fallen 35% by end of February 2020. The prices of platinum, silver and nickel have already fallen 27.3%, 20%, 18.7% respectively between January and March 2020. The price for tobacco is also expected to be depressed as income and demand conditions in China - which is the country’s largest export destination for the product - have weakened. Between January and March 2020, the price of tobacco fell 0.8%. Collectively, the country’s export revenues are projected to decline by at least 4%.

Figure 3: Weekly price of platinum, Jan - March 2020

Source: Bloomberg (2020)

Figure 4: Weekly price of platinum, Jan - March 2020

Source: Bloomberg (2020)

Figure 5: Weekly price of nickel, Jan - March 2020

Source: Bloomberg (2020)

Figure 6: Monthly price of tobacco, Jan - March 2020

Source: World Bank (2020)

Zimbabwe’s external position is, however, going to be partially cushioned by the increase in the price of gold, which has increased by 4.1% from US$1,584 per ounce in January 2020 to US$1,611 per ounce on 3 April 2020.

Figure 7: Weekly gold prices, Jan - March 2020

**Impact on Imports and Production**

Zimbabwe’s production is highly import intensive. The manufacturing sector imports raw materials, intermediate goods, capital components and capital equipment. According to the World Bank Enterprise Survey, the country’s manufacturing sector imports at least 40 percent of its production value most of which are sourced from China, Europe, South Africa, UAE and Zambia. The disruption of production by the Coronavirus in these countries has an adverse bearing on Zimbabwe’s production processes.

Figure 8: Zimbabwe import shares

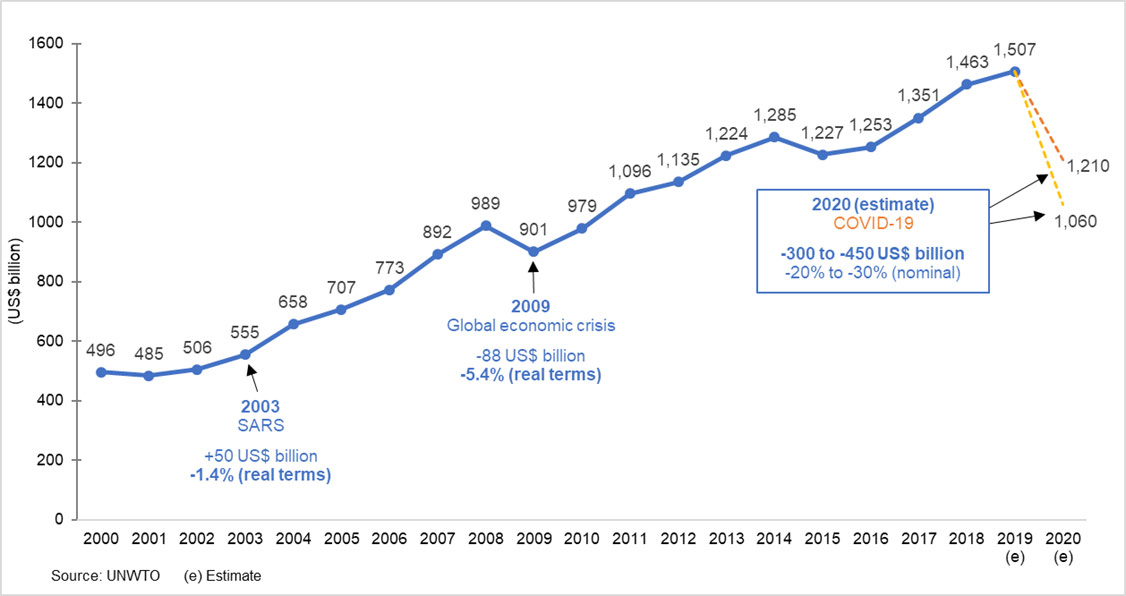
Source: IMF & World Integrated Trade Solution Data

The presented chart shows that Zimbabwe also imports a significant proportion of finished products for final consumption whose supply disruption in the source countries through production stoppage due to the Coronavirus has adverse shocks on domestic supply and prices. As of 2018, mineral fuels, oils and distillation products made up 30% (US$ 1.9 billion) of the country’s imports. The closure of borders will, therefore, delay the sourcing of critical inputs from outside the country and will result in significant capacity underutilization by industry as well as causing direct shortages of imported finished products. Already, according to the Confederation of Zimbabwe Industry (CZI)’s manufacturing sector survey, industry capacity utilization had fallen to about 36 percent in 2019 down from 48.2 percent in 2018. A further fall in the capacity utilization due to supply disruption in input supply countries will aggravate domestic capacity underutilization and unemployment.

**Travel and Tourism Sector**

Tourism contributes significantly towards Zimbabwe’s Gross Domestic Product (GDP). It contributes at least ten (10) percent towards the country’s GDP. The sector has been booming for Africa, growing at 5.6 percent in 2018 compared to the global average growth of 3.9 percent. This places Africa as the second-fastest growing region in tourism receipts, behind only Asia-Pacific. In Zimbabwe, international tourists reached 2.6 million in 2018, generating US$ 1,060 billion. An average of 6,000 domestic and international tourists visit the Victoria Falls alone on holidays. At least 30 percent of the country’s tourists arrive through South Africa which is a major gateway for international tourists in the region. The cancellations of international flights by the South African Airways and the South African Civil Aviation Authority has significant adverse effects on the tourism industry in Zimbabwe. The South African Airways has suspended all international flights until 31 May 2020. Emirates and RwandAir have also followed suit. On 26 March, 2020, Air Zimbabwe suspended all regional and domestic flights. This will result in falling employment in the country’s tourism sector. The United Nations World Tourism Organization (UNWTO) estimates international tourist arrivals could decline by 20% to 30% in 2020. This would translate into a loss of US$ 300 to 450 billion in international tourism receipts (exports) – almost one third of the US$ 1.5 trillion generated globally in the worst-case scenario.

Figure 9: Estimated loss in tourism revenues due to Coronavirus



Source: United Nations World Trade Organisation (UNWTO)

Tourism is a major job creator, especially for more vulnerable groups - women and youth who are more likely to be employed in the hospitality industry. Already the World Travel and Tourism Council (2020) has gloomily warned that the pandemic could see 50 million employees in the global travel and tourism sector losing their jobs. Globally, the airline industry is set to lose between $63 billion and $113 billion, according to the International Air Transportation Association (IATA). For Zimbabwe, tourist arrivals during the 2020 first quarter have already dropped by close to 20 percent compared to the same period in 2019 and the dip is projected to continue if the spread of the Coronavirus continues. The revenue from tourism will be expected to fall as arrivals and hotel occupancy rates plummet. Some hotels across the country such as Cresta Hotels and Rainbow Towers have taken the decision to close to safeguard staff and customers. It is estimated that across the country, hotels are operating at only 20 percent capacity. The development presents a challenge to the National Tourism Sector Strategy which had targeted a seven-fold growth in tourism earnings, as much as US$7 billion by 2030. This target will not likely be met. Bus and taxi operators who frequently transport cross-border traders between Zimbabwe and neighbouring countries such as Botswana, South Africa and Zambia will also feel the economic pain from COVID-19 as they go through a period of no activity.

**The Informal Sector, Cross-Border Trading and the Micro to Small and medium enterprises**

The International Monetary Fund report of 2018 suggests that Zimbabwe has got the second largest informal sector in the world, contributing about 60 percent to the country’s total output. To the extent that the sector involves more personal interactions and involvements at both production and marketing stages, it is likely to be affected most by the country’s lockdown and social distancing requirements for mitigating the spread of the Coronavirus. Given its size for Zimbabwe, the sector is a source of and base for life sustenance for the majority of the country’s population. Already the WHO has warned that country lockdowns and social distancing will have significant adverse effects on poverty and livelihoods in the poor countries. In Zimbabwe, the majority of the women and youth- are involved in MSMEs and cross-border trading. It is estimated that 5.7 million people worked in the sector as of 2012 with 85% operating informally. We expect this figure to have significantly grown in 2020 due to shrinkage of the formal sector over the years. The markets for second-hand clothing, electricals and food are vibrant due to low incomes in Zimbabwe and the closure of borders and the current national lockdown may see poverty levels rising among cross-border traders, vendors and small and medium enterprises. This is especially hurtful to the Zimbabwe economy in light of their contribution in job creation and providing commodities that are unavailable in the country or at cheaper prices than similar goods supplied by local producers and the formal retail sector.

**The Financial Services Sector**

The pandemic forced banks to suspend some of the services and, in many cases, they can only serve few customers at a time due to social distancing rules. On March 23 2020, Stanbic Bank announced that it was no longer accepting paper-based transactions but instead customers should resort to business online. CABS, a subsidiary of Old Mutual Zimbabwe, also announced similar measures, informing its customers that hard copy instructions would not be accepted until further notice, putting additional strain on channels like telephone service, online banking and social media. In addition, some banks closed their branches. For example, First Capital Bank (FCB), formerly Barclays Bank, temporarily closed four (4) branches (Belmont, Borrowdale, Harare Street, First Street) on March 24, 2020 while Stanbic also temporarily shut down its Victoria Falls and Hwange Branches and Nedbank has announced the closure of six (6) of its branches. Hence, putting financial inclusion at the edge and reducing access to financial services to the general public.

The banking sector performed satisfactorily before the pandemic, that is, during the year ended 31 December 2019, as reflected by improved capital levels and earnings performance, as well as satisfactory asset quality and liquidity. The banking sector remained adequately capitalized with the average capital adequacy and tier 1 ratios of 39.56% and 27.87% as at 31 December 2019, respectively, above the regulatory minima of 12% and 8%, respectively. All banking institutions complied with the minimum regulatory capital adequacy and tier 1 ratios.

Loans to productive sectors of the economy constituted 82.50% of total sector loans as at 31 December 2019. This pandemic reduces the ability of economic agents in productive sectors to pay back the loan advances since the weakening of business and production will reduce loan repayment capacity and raise the rate on Non-Performing loans (NPLs) and banks’ Asset quality. In overall terms, Coronavirus will weaken the balance sheets of banks and threaten the stability of the sector.

Figure 10: Sectoral Distribution of loans as at 31 December 2019

Source: Reserve Bank of Zimbabwe

The quality of the banking sector loan portfolio continued to improve, as reflected by the decline in the non-performing loans (NPLs) to total loans, from 3.95% as at 30 June 2019 to 1.75% as at 31 December 2019. The improvement in the NPLs ratio was mainly driven by an increase in total banking sector loans and advances during the period under review, as well as decline in total non-performing loans from $245.65 million as at 30 June 2019 to $221.62 million as at 31 December 2019. However, the pandemic is worrisome as it is anticipated to reverse the trend in NPLs to total loans which has been encouraging. Coronavirus affects the bankable projects negatively by reducing productivity and profitability of businesses in different spheres. The projected outcome is increased loan repayment defaulting forcing banks to extend the repayment period, thus reducing excess reserves for the banks.

Figure 11: Non-Performing Loan to Total Loans ratio, Dec 2014 – 2019

Source: Reserve Bank of Zimbabwe

The banks are anticipated to face worsening asset quality and slowing loan growth as the [Coronavirus outbreak](https://www.aljazeera.com/topics/events/coronavirus-outbreak.html) hits trade and consumer banking because of extended disruption in economic activities. Both businesses and individuals in Africa might find they are uninsured for any COVID-19 impacts as losses related to an epidemic or pandemic would usually not be covered in insurance policies, irrespective of whether the insurance covers business interruption, property damage, product losses or personal life and non-life insurance or even travel insurance. As COVID-19 is a ‘new disease’, it would not have been specifically listed in existing insurance contracts. Many business interruption policies will include clauses for extended damage, but it is unlikely that these extensions will provide coverage under the current circumstances. As such, the wording of policies should be carefully checked.

Some insurance companies in Zimbabwe who provide cancelled event coverage that specifically includes references to epidemics or pandemics could be impacted. Reuters reported that financial services firm Jefferies estimated the insured cost of the Tokyo Olympics to be around USD 2 billion – including television rights, hospitality and sponsorship.

**The other side of Coronavirus**

It is not all gloomy though for Africa. The IMF and the World Bank are making available $50 billion and US$ 12 billion, respectively, in emergency funding to help poor and middle-income countries with weak health systems respond to the pandemic. About $10 billion of IMF’s US$ 50 billion can be accessed by the poorest countries at zero (0) interest for up to 10 years, while many middle-income countries have access to a pool of about $40 billion at low interest for up to five years. The United States of America has pledged US$470,000 to combat COVID-19 in Zimbabwe and to complement World Health Organisation (WHO) efforts to prepare large-scale testing for Coronavirus in the country. The Zimbabwe Treasury has availed ZWL$ 500 million to fight against COVID-19 while the 2% Intermediated Money Transfer Tax (IMTT) will be channelled toward COVID-19 related mitigation expenditures. The Zimbabwean government has also set aside resources to cover one (1) million vulnerable households under a Cash Transfer Programme ( released in tranches of ZWL$ 200 million per month). The United Kingdom Government and the Global Fund have pledged £ 1.7 million and US$ 25 million respectively to support Zimbabwe in its fight against the pandemic. The UK’s Department for International Development also announced £ 35.4 million (US$ 43.6 million) of aid to support the COVID-19 response and help mitigate the crisis on the poorest and most vulnerable communities. A US$ 715 million humanitarian response plan has been launched by UN Zimbabwe and the Government of Zimbabwe.

Anecdotally, certain sectors such as the pharmaceutical sector are experiencing business booms as people are stampeding to purchase gloves, masks, immune system boosting tablets and other Coronavirus-proof paraphernalia. However, the lock-down in India (a major supply of generic drugs to Zimbabwe) may lead to drug shortages. Also, the health insurance sector may experience high volumes of business as more people will seek insurance against Coronavirus. In addition to that, in a worst-case scenario, funeral assurance companies may experience rise in demand for mortuary and crematorium services if cases and deaths increase in the country. Food retailers have also made quick revenues as consumers are hoarding basic commodities, unsure of when things will go back to normal. The pandemic and its resulting measures of social distancing, limiting public gatherings and working from home (WFH) have also created vast business opportunities in sectors such as EdTech, biotech and sanitary products, while employment in crucial sectors as health, homecare, virtual assistance and deliveries is expected to increase.

**Conclusion**

It is unavoidable that the novel Coronavirus pandemic will have considerable impact on Zimbabwe, the African economy and society. The United Nations Economic Commission for Africa estimated that the continent could lose up to 1.4 percentage points of GDP growth as a result of the pandemic, while [Brookings](https://www.brookings.edu/blog/africa-in-focus/2020/03/18/strategies-for-coping-with-the-health-and-economic-effects-of-the-covid-19-pandemic-in-africa/) estimates to up to 2.1 percentage points in lost GDP growth for sub-Saharan Africa if the pandemic and global disruptions are severe and endure. The areas which this paper has looked at above are not exhaustive. We already know that revenues from industries highly reliant on social interaction such as transport, hoteling, sports, bars and night clubs are likely to be plummeting, while those requiring less interaction such as agriculture and the gig economy are less affected. Poverty-stricken Zimbabwean Diaspora are highly-dependent on remittances (the country’s second source of forex after exports) and may be negatively impacted by job losses in affected countries through lower remittances. We also know that the South African Rand (Zimbabwe’s major trade partner) is trading at an all-time low rate.

As to what extent a longer global or national shutdown will impact Zimbabwe, this will require further analysis of a range of data (such as quarterly employment figures, trade, VAT, manufacturing e.t.c) between now and when these measures have been lifted. However, we expect a major change globally in terms of trade dependence, the way people work, live, learn, purchase and sell. A look at how other countries have cushioned businesses and offered social support is an area where Zimbabwe can learn some lessons. A probable follow-up exercise is a qualitative study on perceptions and adaptiveness measures of main economic actors in Zimbabwe towards Coronavirus. Coherent, coordinated, and credible policy responses at country-level will provide the best chance at limiting the economic fallout from this pandemic. A range of possible economic policies – in addition to the current ones of social assistance cash transfer program, duty relief on COVID-19 essential goods, and extension of VAT deadlines- which need to be implemented in the short, medium to long term to alleviate the adverse economic impact on the economy and livelihoods are areas to be explored.

*Holistic, Empirical and Applied Research Solutions (HEARS) is a specialist economic and development consulting firm based in Harare, Zimbabwe. For more comments, questions, partnerships and funding for more research like this, please email* [*research@hears.co.zw*](mailto:research@hears.co.zw) *. We believe in free flow of information and you can republish our knowledge products for free, online or in print on condition that HEARS is acknowledged.*