



ECONOMIC COMMENTARY - By Francois Stofberg

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A STORY OF INEPTOCRACY, THE SARB AND PETROL

Ineptocracy: A system of government where the least capable are elected to lead by the least productive members of society. The least likely to sustain themselves are rewarded through the confiscation (taxation) of wealth from a diminishing number of productive individuals.

There are several facts and figures supporting the claim that South Africa is becoming an ineptocracy. The Auditor General's Report of 2019 is the most worrying report supporting this claim.

The Auditor General has the tough job of auditing the South African government to strengthen South Africa's democracy by enabling oversight, accountability, and good governance to build public confidence. They audit the following:

- + All government departments on national and provincial level;
- + Public entities and state-owned enterprises;
- + Municipalities; and
- + Public institutions.

These collectively represent close to 40% of our economy at R1.9 trillion, or \$138 billion at current exchange rates. What makes the Auditor General's task so tough is not the size, many other countries and companies are larger than South Africa, but the complete lack of good governance and accountability amongst civil servants.

In the latest report the Auditor General showed that the number of municipalities who received a clean audit decreased from 14% to 8%. These municipalities collectively represent almost 20% of government spending (R376.5 billion). Only 18 out of the 225 municipalities received a clean audit, despite spending R1 billion on external consultants who were brought in to improve the quality of financial reporting. If this happens in the private sector wealth is destroyed, people are fired and accused of fraud. With the South African government massive bonuses are paid and salaries increase at a rate almost double that of inflation. One example is the construction of a sports centre. It was revealed on a site visit that although R21.7 million of the R27.9 million budget had already been paid, no construction had started yet. Not to mention the examples of contracts which are illegally awarded to state officials (R921 million) or nepotism (R501 million).

In other economic news the South African Reserve Bank released their findings of their 200-indicator business cycle model in June. It showed that South Africa's business cycle has extended its contraction to the 67th month. This is the longest downward cycle in history. Since 1945 this is only the third time a downward cycle had extended beyond 50 months. Producer prices increased to 6.4%; relatively higher than consumer prices of 4.5%. The reason for the difference is because producer prices measure the prices that producers pay for inputs and eventually receive for the sale of their products and services. It therefore covers a much wider range of goods and services and does not include import prices. Higher producers' prices are often passed on to consumers, albeit to a lesser extent because many of these expensive products are exported.

A bit of good news! Petrol prices are expected to decrease by 86 cents and diesel prices by 68 cents in early July. Also, markets are holding their breaths for a trade-positive G20 summit, which kicked off last week in Osaka, Japan. Trump strong-armed the Chinese dictator-like President Xi into meeting him at the G20 summit, to discuss their ongoing trade war. Should these two quit their Mexican standoff with the rest of the world (the innocent, unarmed bystander), investor sentiment will improve and might even turn risk-on; good news for the JSE.

