8

2025 BUDGET REVIEW

FINANCIAL POSITION OF PUBLIC-SECTOR INSTITUTIONS

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

FINANCIAL POSITION OF PUBLIC-SECTOR INSTITUTIONS

In brief

- State-owned companies remain distressed due to weak governance, financial pressures and ongoing operational challenges.
- Eskom is making progress on its recovery plan, although its finances remain weak and operational performance requires significant improvement.
- Transnet is hampered by high debt levels and needs to make faster progress on its recovery plan to improve operations and finances.
- Development finance institutions continue to support economic growth. Social security funds remain critical for social protection, with the Unemployment Insurance Fund and Compensation Fund showing financial resilience.

OVERVIEW

This chapter reports on the financial position of major state-owned companies, development finance institutions and social security funds. Many state-owned companies continue to operate at a loss and have become dependent on substantial government support.

STATE-OWNED COMPANIES

For over a decade, most state-owned companies listed under schedule 2 of the Public Finance Management Act (1999) have not met the legal requirements to maintain sustainable profitability, manage risks effectively and generate returns while ensuring prudent use of public resources. Various initiatives, including turnaround plans agreed with government, are under way, but progress has been mixed. Notably, Eskom and Transnet are implementing recovery plans agreed to during 2023/24.

Table 8.1 summarises the financial position of major state-owned companies. Total assets grew by 2.6 per cent to R1.35 trillion in 2023/24. Total liabilities, however, grew by 6.4 per cent, mainly due to R76 billion in debt relief – recognised as a liability – disbursed to Eskom. This amount was converted to equity in 2024/25 after being assessed for compliance with the debt-relief arrangement.

Table 8.1 Combined balance sheets of state-owned companies[1]

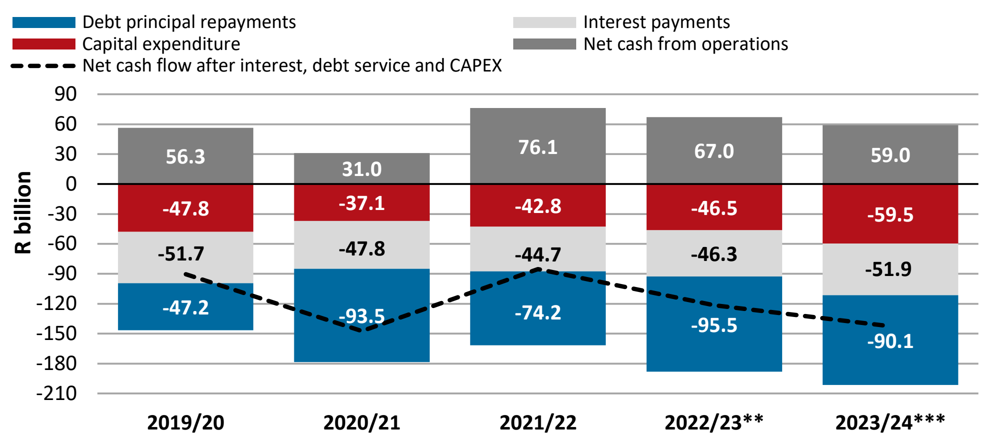
R billion/per cent growth	2019/20	2020/21	2021/22[2]	2022/23[2]	2023/24[3]
Total assets	1 313.4	1 251.9	1 283.4	1 314.7	1 348.9
		-4.7%	*2.5%*	*2.4%*	*2.6%*
Total liabilities	960.7	871.7	864.4	892.7	950.2
		-9.3%	*-0.8%*	*3.3%*	*6.4%*
Net asset value	352.7	380.2	419.0	422.0	398.8
	3.1%	*7.8%*	*10.2%*	*0.7%*	*-5.5%*
Return on equity (average)	-9.9%	-13.1%	-2.7%	-7.5%	-15.6%

1. State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions
2. Numbers may differ from earlier publications due to restatement or error
3. Due to reporting delays, unaudited financial results or quarter 4 reports for 2023/24 were used
Source: National Treasury

In 2023/24, state-owned companies reported a negative return on equity of 15.6 per cent, highlighting an ongoing inability to turn a profit. Sales were subdued owing to operational constraints and inefficiency, while costs remained high. In the context of persistent weakness, government has to make difficult choices on the future of these companies. Options include closures, mergers and withdrawal of financial support. Poor quality management and the adoption of mandates that are not financially feasible should also be addressed. Failure to make proactive decisions will result in continued fiscal pressure or financial collapse, leading to service disruptions and large job losses.

Meanwhile, state-owned companies continue to use the majority of their cash to meet debt obligations. Cash flows remain insufficient to cover operational costs, financial obligations and capital requirements. Consequently, these companies are unable to effectively fulfil their mandates. With government support, capital expenditure increased by 28 per cent from 2022/23 to 2023/24. However, major backlogs persist.

Figure 8.1 Consolidated cash flows at state-owned companies*



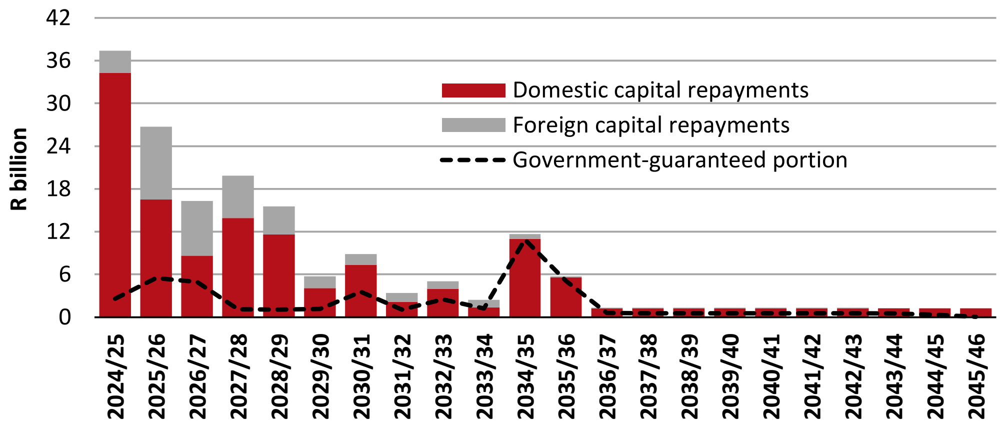
**State-owned companies listed in the PFMA schedule, excluding development finance institutions*
***Numbers may differ from earlier publications due to restatement or error*
****Due to reporting delays, unaudited financial results or quarter 4 reports for 2023/24 were used*
Source: National Treasury

DEBT OBLIGATIONS

Figure 8.2 shows state-owned company debt maturing over the medium term. It excludes Eskom, South African Airways, Transnet and Denel because their quarterly reports are outstanding. Debt repayments of R37.4 billion are expected in 2024/25, of which R2.6 billion is guaranteed by government. Over the medium term, aggregate debt maturities are expected to amount to R62.9 billion, of which R11.5 billion (18 per cent) is government guaranteed.

Restrictions on Eskom borrowing as part of the debt-relief arrangement alongside weaker balance sheets in other state-owned companies have resulted in a large reduction in borrowing (Table 8.2). Over the medium term, state-owned companies expect to prioritise domestic funding with long-term maturities to address their financing needs.

Figure 8.2 Debt maturity profile of major state-owned companies*



**Eskom, Transnet, South African Airways and Denel are excluded because their reports are outstanding*
Source: National Treasury

Table 8.2 Borrowing requirement of state-owned entities[1]

R billion	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28[2]
	Budget	Outcome	Budget	Outcome	Revised	Medium-term estimates[3]		
Domestic loans (gross)	**60.0**	**29.1**	**17.9**	**1.8**	**36.9**	**46.4**	**29.0**	**24.8**
Short-term	–	5.6	3.0	1.8	3.0	3.0	3.0	3.0
Long-term	60.0	23.5	14.9	–	33.9	43.4	26.0	21.8
Foreign loans (gross)	**34.5**	**29.3**	**18.4**	**–**	**11.2**	**2.8**	**6.7**	**16.6**
Long-term	34.5	29.3	18.4	–	11.2	2.8	6.7	16.6
Total	**94.5**	**58.4**	**36.3**	**1.8**	**48.1**	**49.2**	**35.7**	**41.4**
Percentage of total:								
Domestic loans	*63.5%*	*49.8%*	*49.3%*	*100.0%*	*76.7%*	*94.3%*	*81.2%*	*59.9%*
Foreign loans	*36.5%*	*50.2%*	*50.7%*	*0.0%*	*23.3%*	*5.7%*	*18.8%*	*40.1%*

1. ACSA, SANRAL, TCTA, Transnet, Denel, Eskom (excludes actuals for 2022/23 and 2023/24) financial years
2. TCTA did not provide forecasts for 2027/28 financial year
3. Eskom, Transnet, SAA and Denel are excluded because their reports are outstanding
Source: National Treasury

Denel

Denel remains unable to meet its financial obligations. As outlined in the 2024 *Budget Review*, Denel was granted R3.4 billion in the Special Appropriation Act (2022) to implement its turnaround plan. It was permitted to access a portion of the funds after meeting certain milestones, although the completion of some targets – particularly the sale of non-core assets – remains outstanding. As Denel has implemented aspects of the plan, government is granting access to the remaining ring-fenced funds. After debt repayments in the past year, these amount to R914 million. These funds will help Denel to cover legacy obligations, invest in essential capital projects and optimise restructuring.

Eskom

Eskom continues to rely on government support through the debt-relief arrangement in order to operate. Revenue grew by 14 per cent to R295.8 billion in 2023/24 due to an 18.7 per cent tariff increase, while sales fell by 3 per cent. Losses doubled to R55 billion in 2023/24 due to tariffs that do not reflect costs, poor operational performance, nonpayment by municipalities and high finance costs. Municipal debt to Eskom rose from R74.4 billion at end-March 2024 to R94.8 billion at end-December 2024.

Progress on unbundling has been slow. After Eskom failed to dispose of the Eskom Finance Company by the agreed deadline, government reduced the debt-relief allocation by R4 billion. Chapter 7 outlines the current status of the Eskom debt-relief agreement.

The Department of Electricity and Energy is preparing to issue a request for proposals for a pilot independent transmission project in November 2025. This will invite the private sector to assist the National Transmission Company in expanding transmission lines.

South African Post Office

The South African Post Office (SAPO) was placed in business rescue on 10 July 2023. In 2023/24, SAPO reduced costs and met some operational targets, yet it remains financially stressed due to high net losses and low revenue. SAPO used the R2.4 billion allocated in 2022/23 to implement a business rescue plan, including cutting costs and paying creditors. As part of this plan, it closed 354 branches and retained 657 branches. The National Treasury and the Department of Communications and Digital Technologies are working with the business rescue practitioners to ensure the effective implementation of the plan.

Transnet

With the support of Operation Vulindlela, Transnet is addressing a years-long financial and operational decline. Rail volumes fell from 226.3 million tonnes in 2017/18 to 151.7 million tonnes in 2023/24 due to derailments, inefficiency and infrastructure damage. Transnet has made some progress in implementing its recovery plan, and estimates indicate that rail volumes will reach 165.4 million tonnes by the end of 2024/25.

In 2023/24, Transnet reported a net loss of R7.3 billion, relative to R5.1 billion in 2022/23, largely due to increased finance costs. Additional debt and higher interest rates pushed finance costs to R14.3 billion in 2023/24, placing further strain on cash flows. Transnet's earnings before interest, taxes, depreciation and amortisation declined from R22.8 billion in 2022/23 to R22 billion. Revenue gains were offset by rising net operating expenses.

Transnet needs to stabilise and reduce its debt. Since 2018, Transnet has shifted funds from capital expenditure to debt servicing. While this prevented default, the shift has come at the expense of maintaining and expanding critical infrastructure. Government provided a R47 billion guarantee in December 2023, which Transnet used to refinance maturing debt and take on new debt. Government is now providing direct support to critical infrastructure projects, such as the expansion of the land-side container terminal in Cape Town, while avoiding debt relief or general balance sheet support. Total borrowing increased by R7.6 billion to R137.7 billion between end-March 2023 and end-March 2024, underscoring the need for better debt management.

DEVELOPMENT FINANCE INSTITUTIONS

Development finance institutions (DFIs) support government's strategic objectives by channelling investments into critical sectors and developing small- to medium-sized businesses. Table 8.3 summarises the financial position of selected DFIs.

Table 8.3 Financial position of selected development finance institutions

R billion	2019/20	2020/21	2021/22	2022/23[1]	2023/24
IDC					
Total assets	**109.7**	**135.8**	**164.0**	**159.3**	**154.8**
Loan book	29.1	25.5	24.3	38.9	40.6
Equity and other investments	80.6	110.3	139.7	120.4	114.2
Total liabilities	**49.4**	**53.3**	**52.9**	**50.1**	**46.3**
Net asset value	**60.3**	**82.5**	**111.1**	**109.3**	**108.5**
DBSA					
Total assets	**100.5**	**100.0**	**100.0**	**108.6**	**118.3**
Loan book	86.2	82.7	84.2	93.7	99.3
Equity and other investments	14.3	17.3	15.8	14.9	19.0
Total liabilities	**62.9**	**60.9**	**57.1**	**60.9**	**66.3**
Net asset value	**37.6**	**39.1**	**42.9**	**47.6**	**52.0**
Land Bank					
Total assets	**44.1**	**40.0**	**34.4**	**34.6**	**29.1**
Loan book	39.5	30.7	20.5	14.8	13.3
Equity and other investments	4.6	9.3	13.9	19.8	15.8
Total liabilities	**43.8**	**37.6**	**30.8**	**28.2**	**23.5**
Net asset value	**0.3**	**2.4**	**3.6**	**5.0**	**5.6**

1. Numbers may differ from earlier publications due to restatement or error
Source: National Treasury

As at 31 March 2024, the Industrial Development Corporation (IDC) accounted for 65 per cent of the net asset base of national DFIs, followed by the Development Bank of Southern Africa (DBSA) at 31 per cent.

Table 8.4 Borrowing requirement for development finance institutions[1]

	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28[2]
R billion	Budget	Outcome	Budget	Outcome	Revised	Medium-term estimates[3]		
Domestic loans (gross)	**17.2**	**10.4**	**17.6**	**9.7**	**15.4**	**12.3**	**10.9**	**8.8**
Short-term	1.6	–	2.5	–	2.2	2.6	1.0	1.0
Long-term	15.6	10.4	15.1	9.7	13.2	9.7	9.9	7.8
Foreign loans (gross)	**12.2**	**2.7**	**6.9**	**11.7**	**8.1**	**12.8**	**7.0**	**2.1**
Long-term	12.2	2.7	6.9	11.7	8.1	12.8	7.0	2.1
Total	**29.4**	**13.1**	**24.5**	**21.4**	**23.5**	**25.1**	**17.9**	**10.9**
Percentage of total:								
Domestic loans	*58.5%*	*79.4%*	*71.8%*	*45.3%*	*65.5%*	*49.0%*	*60.9%*	*0.0%*
Foreign loans	*41.5%*	*20.6%*	*28.2%*	*54.7%*	*34.5%*	*51.0%*	*39.1%*	*0.0%*

1. Land Bank, Development Bank of Southern Africa and Industrial Development Corporation
2. DBSA has not provided forecasts for the 2027/28 financial year
3. Land Bank was excluded due to non-submission of forecasts
Source: National Treasury

Development finance institutions borrowed R21.4 billion in 2023/24, slightly below the planned R24.5 billion. In 2024/25, the DBSA and IDC are projected to borrow R23.5 billion. Domestic borrowing is expected to constitute 65.5 per cent (R15.4 billion) of total funding.

Development Bank of Southern Africa

In 2023/24, the DBSA disbursed R16.9 billion, with 65 per cent allocated to projects in South Africa and 35 per cent to projects in other parts of Africa. The bank supported infrastructure projects valued at R2.5 billion against an annual target of R1.5 billion. The DBSA reported a strong financial performance in 2023/24, with net interest income increasing by 18 per cent to R7.7 billion, driven by higher interest rates and robust loan disbursements. Net profit fell by 11 per cent from R5.2 billion to R4.6 billion between 2022/23 and 2023/24 due to higher impairments and lower foreign exchange gains, but earnings grew to R4.5 billion (2022/23: R4.2 billion) due to resilience in core operations.

Industrial Development Corporation

Most of the IDC's funding during 2023/24 supported capacity expansion, startups, distressed businesses and working capital requirements. In 2023/24, the IDC approved funding amounting to R17.3 billion, compared with R20.7 billion in 2022/23, while actual disbursements decreased from R20.5 billion to R15.9 billion. Net profit declined to R7.8 billion from R10.7 billion in 2022/23. Revenue increased by 8 per cent to R24.3 billion, supported by favourable interest rates and a growing loan book. However, reduced investment income and operational challenges in subsidiaries, along with a weaker mining and metals portfolio as commodity prices fell, offset these gains.

The Land Bank

In September 2024, the Land Bank reached an agreement with its lenders to resolve the default triggered in April 2020. This solution includes measures to stabilise operations, strengthen finances and restructure debt. Between April 2020 and December 2024, debt was reduced from R40.6 billion to R10.8 billion.

In 2023/24, net profit fell to R21 million from R515 million the previous year. Expected credit losses in 2022/23 were based on an overestimate of loan defaults, but losses increased in 2023/24, requiring higher provisions. The non-performing loan ratio rose from 51.9 per cent to 53.1 per cent, largely because the total value of loans decreased, making non-performing loans a larger proportion of the loan book. The bank disbursed R723 million in loans and grants, falling short of its R1.5 billion target.

The Land Bank has increased its development and transformation portfolio from 10 per cent of total loans in 2017/18 to 41 per cent in 2023/24. This growth is driven by the blended finance scheme, launched in 2022, which combines grants from the Department of Agriculture, Land Reform and Rural Development with loans from the Land Bank to support emerging farmers. In 2023/24, the bank disbursed all loans and grants – totalling R723 million – through the blended finance scheme, compared to R6.9 million in 2022/23.

SOCIAL SECURITY FUNDS

Social security funds provide income support and compensation to individuals facing unemployment or those affected by road and workplace accidents. Over the medium term, these funds are projected to generate total revenue of R289.4 billion, primarily from contributions and earmarked allocations. Total expenditure is anticipated to amount to R300.8 billion, mainly designated for benefit payments.

As of 2023/24, aggregate assets held by these funds stood at R287.3 billion, with the Unemployment Insurance Fund comprising 52.7 per cent of this total. Total liabilities were reported at R416.2 billion, of which the Road Accident Fund accounted for 84.9 per cent, equivalent to R353.3 billion. Comprehensive financial data for these funds is available in the *Estimates of National Expenditure*.

Table 8.5 Financial position of social security funds

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R billion	Outcome			Estimate	Medium-term estimates		
Unemployment Insurance Fund							
Total assets	125.2	136.2	151.3	158.2	160.8	165.0	169.5
Total liabilities	20.6	21.6	20.8	20.8	21.9	22.9	24.0
Net asset value	104.6	114.6	130.5	137.3	138.9	142.2	145.5
Compensation Fund[1]							
Total assets	104.4	112.2	118.5	139.4	146.1	153.1	160.5
Total liabilities	47.0	42.1	42.1	57.6	60.4	63.3	66.4
Net asset value	57.5	70.2	76.4	81.7	85.7	89.8	94.2
Road Accident Fund							
Total assets	12.3	12.6	17.5	18.3	19.2	20.1	20.9
Total liabilities	357.0	355.5	353.3	370.3	387.7	405.5	423.3
Net asset value	-344.7	-342.9	-335.9	-352.0	-368.5	-385.5	-402.4

1. Includes Mines and Works Compensation Fund
Source: National Treasury

Unemployment Insurance Fund

The Unemployment Insurance Fund, established under the Unemployment Insurance Act (2001), offers short-term unemployment insurance to eligible workers. Over the medium term, the fund aims to enhance its provision of social insurance benefits while extending coverage to vulnerable groups and contributors. Technological advancements are central to these plans, including improvements to mobile applications. Over the medium term, R22.9 billion is allocated to implement labour activation programmes across the country, with a target of creating 2 million short-term jobs. Beneficiaries will be identified through the Employment Services of South Africa system. The fund's net asset value is forecast to rise from R137.3 billion in 2024/25 to R145.5 billion in 2027/28 as surpluses accumulate.

Compensation Fund

The Compensation Fund, including the Mines and Works Compensation Fund, provides compensation to employees for disablement or death caused by occupational injuries or diseases. Over the medium term, the fund aims to improve the efficiency of claims adjudication and processing. It has introduced an integrated employer portal, enabling registered employers to submit earnings returns, make annual assessment payments and obtain letters of good standing online. Benefit payments are projected to grow by 2.2 per cent annually, from R7.4 billion in 2024/25 to R7.9 billion in 2027/28. The aggregate net asset value of the Compensation Fund and the Mines and Works Compensation Fund is expected to improve from R81.7 billion in 2024/25 to R94.2 billion in 2027/28, underpinned by the accumulation of surpluses.

Road Accident Fund

The Road Accident Fund (RAF) compensates road users for losses or damages resulting from motor vehicle accidents, funded through the RAF levy. Long-term provisions are expected to rise from R355 billion in 2023/24 to R370.3 billion in 2024/25, and R423.3 billion by 2027/28, accounting for a large share of total liabilities. The RAF's expenditure is expected to increase at an average annual rate of 19.1 per cent, from R53.1 billion in 2024/25 to R89.7 billion in 2027/28.

GOVERNMENT EMPLOYEES PENSION FUND

Membership in the Government Employees Pension Fund (GEPF), a defined benefit pension fund for public-sector employees, grew by 0.8 per cent in 2023/24. At end-March 2024, the fund recorded its highest membership to date, with 1 777 902 active members and 544 765 pensioners and beneficiaries. The GEPF is solvent, with statutory actuarial valuations confirming that its assets exceed its best estimate of liabilities. Total benefits paid for claims increased from R137.4 billion in 2022/23 to R142.5 billion in 2023/24, primarily due to higher pensionable salaries in 2023/24. Contributions income rose from R83.1 billion in 2022/23 to R92.2 billion in 2023/24, strengthening the fund's financial position. At end-March 2024, the GEPF reported a net cash flow position of R59.7 billion.

Table 8.6 Selected income and expenditure of GEPF

R billion	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue									
Employer contributions	21.7	23.4	25.1	26.9	28.6	28.7	28.8	23.3	25.9
Employee contributions	38.6	42.1	45.3	48.2	51.7	52.8	53.2	59.8	66.3
Investment income[1]	73.4	73.7	77.3	84.8	88.6	82.1	108.6	107.0	109.0
Expenditure									
Benefits paid	83.1	88.3	94.9	102.5	110.5	110.6	135.5	137.4	142.5

1. Dividends on listed equities, interest on bonds and money market instruments and income from unlisted properties and unlisted investments excludes adjustments for value of financial assets
Source: Government Pensions Administration Agency

CONCLUSION

The financial performance of public-sector institutions remains mixed, with difficult choices required over the medium term. Government continues to support struggling state-owned companies while implementing measures to improve their operational and financial sustainability. Addressing the challenges faced by these institutions is crucial for sustained economic growth and social development.