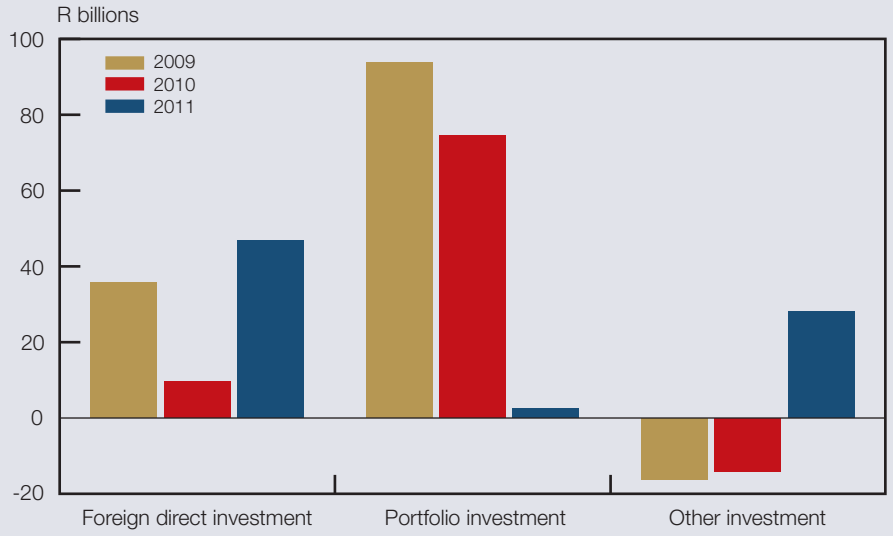
Box 2: Composition of net capital flows

An analysis of the composition of gross inward capital flows into South Africa in 2011 relative to similar flows at the start of the recovery in global financial markets, seemed to suggest a shift away from portfolio investment to foreign direct and other investment inflows. The deficit on the current account of the balance of payments in 2009 and 2010 was primarily financed by net portfolio flows into the country.

As the shift in domestic trading patterns materialised throughout 2011, South Africa registered a visible increase in net foreign direct investment, mainly emanating from the United Kingdom and the North American, African and Asian regions. Simultaneously, other investment flows to the domestic private banking sector switched from an outflow in 2009 and 2010 to an inflow in 2011, partly related to foreign loan finance secured to finance increased spending on infrastructural development and to support trade finance. Net portfolio flows receded gradually from 2009 to 2010 but declined abruptly in 2011 as international investors became more risk-averse amid uncertainty in global financial markets.

Composition of net capital flows