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بنك الكويت المركزي
CENTRAL BANK OF KUWAIT

Artificial Intelligence

"Advantages and Challenges"

Index

Forward

In continuation of the series of quarterly reports issued by the Central Bank of Kuwait since November 2022, the sixth edition (March 2024) comes under the title **"Artificial Intelligence: Advantages and Challenges"**. The first section of the report, entitled **"Artificial Intelligence and the Economy",** reviews the most important channels through which AI technology impacts gross domestic product and offers a comprehensive overview of global companies' investments in the field of AI technology. The second section, entitled **"Channels of the Impact of Artificial Intelligence Technologies on the Labor Market,"** examines how AI technology impacts the labor market in particular, and the extent to which aspects of its impact vary between advanced economies, emerging market and developing countries. The third section, entitled **"Potential AI Applications for Central Banks' Business,"** presents the most significant AI capabilities that can potentially enhance central banks business at various levels to achieve financial stability and avoid systemic risks. The fourth section, entitled **"Recent Examples of AI Applications in the Field of Banking and Financial Services,"** sheds light on various aspects of AI applications to enhance banking and financial services quality, while presenting some examples of AI applications by a number of world banks. The fifth section, entitled **"Challenges and Risks,"** addresses the most important challenges posed by use of AI technology on economic and social level. An explanatory box on the monetary trends of the major global central banks is also included herein. This report is the first in this series issued for the year 2024.

The Central Bank of Kuwait issued a series of quarterly reports within its continuous effort to stay abreast with the latest trends among the world's central banks in the field of bolstering disclosure and transparency practices. The reports cover economic, monetary, and banking topics carefully selected to increase awareness of CBK's efforts vis a vis monetary stability and financial stability in an abbreviated and simplified manner. The first issue (November 2022) was titled "Overview of The Key Economic, Monetary and Banking Developments" and reviewed key developments in the State of Kuwait and shed light on the main indicators associated with selected countries. The second issue (February 2023), titled "Overview on Inflation, Monetary Policy and Sustainable Finance", discussed key indicators on monetary policy trends in advanced economies, gradual tightening of CBK monetary policy, as well as green (sustainable) finance. The third issue (May 2023) was titled "CBK Efforts on AML/CFT and Customer Protection". That issue shed light on CBK's supervisory role and efforts in the field of countering money laundering and the financing of terrorism and protecting the rights of customers of regulated entities. The fourth issue (September 2023) came under the title "A Glimpse into the Impact of Digital Transformation on Financial Stability, the Foremost Global Developments and Monetary Policy Trends" and reviewed digital transformation within the banking system on both local and global level, and also shed light on global developments and monetary policy trends among select central banks. The report also included a brief review of CBK monetary policy trends. As for the fifth issue, titled "Nature of Central Banks" (December 2023), it discussed the nature and functions of central banks and addressed the concept of central banks' autonomy and bolstering of their financial resources. It also pointed out the channels through which monetary policy impacted economic activity. The issue also discussed key experiences by international central banks following financial and economic crises and the recent pandemic and the importance of bolstering financial resources, and it stressed the significance of exchange rate as the key channel through which monetary policy impacts macro-indicators.

Introduction

Artificial Intelligence (AI) is an advanced field in computer sciences that includes a wide range of technologies designed to enable machines to perceive, interpret, react, and learn with the ultimate objective of imitating human intellectual capacities, i.e., it focuses on creation of intelligent machines that are capable of carrying out tasks that usually require human intelligence, starting with problem solving and learning all the way to language comprehension and interpretation. John McCarthy, one of the founders of AI in 1956, defined it as "the science and engineering of making intelligent machines", especially when it came to software associated with the task of using computers to understand human intelligence.

Before adopting a specific definition for AI, Alan Turing, a mathematician and leading computer scientist often described as the father of computer science, presented his famous paper in 1950 addressing the question "Can Machines Think?" and this was later called the Turing Test. In his paper, Turing predicted that by the year 2000, it would be possible to design a computer program that would answer questions within five minutes, with 30% probability that the users would believe their interaction was with human and not a machine. Thus, the Turing Test became the basis for development of AI programs.

Artificial Intelligence and the Economy

Historically, technology has been a main force in development of societies. However, studies covering transitional periods in the industrial sectors indicate that the introduction of main technologies took several years to impact economic growth and productivity, partially due to the length of time firms and institutions need to systemically shift towards implementing and application of technology. AI can impact the Gross Domestic Product (GDP) through three main channels, namely productivity, investment, and consumption, as follows:

1 Improving productivity

This is the most commonly covered channel in studies conducted on the topic of AI and the economy, and this is the ability to improve production per working hour utilizing the same existing resources. AI technologies enhance the production process through improving workers' hourly productivity or automating certain processes and roles, which saves time and effort and enhances efficiency. For example, one joint study by The Stanford Digital Economy Lab and Massachusetts Institute of Technology in April 2023 – conducted on call centers – showed that AI had increased productivity of customer support agents, who were given access to it by an average 14%, taking into account the number of problems resolved within one hour. It should be noted that AI had also increased productivity of the least experienced customer service agents.

2 Bolstering firms' activity in the private sector

When firms adopt artificial intelligence technologies, this allows for the collection and analysis of data on a wide scale and at high speed and efficiency, which improves the quality of products, and services, and helps design them them in a manner that better fits customer expectations. This also motivates firms to develop new innovative products that creates new markets and industries, which at the end generates new sources of revenue.

3 Encouraging demand

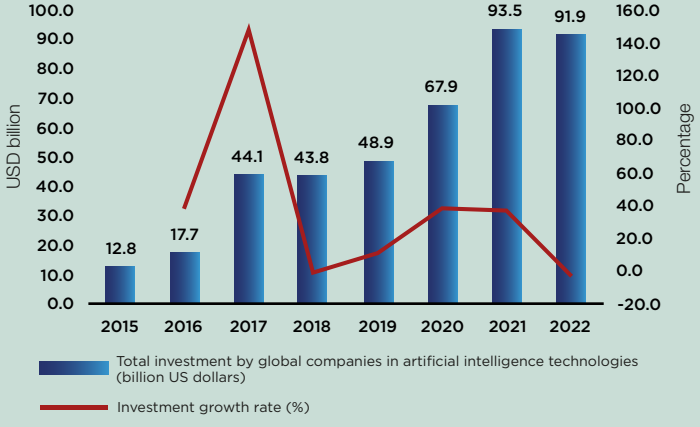
It is expected that the improvement in products and services offered by firms would lead to growth in demand and in consumer spending on products that are more attractive and efficient. AI technology can impact and stimulate customer appetite on several fronts: (1) feasibility of designing products and services as per customer expectations and enhancing quality to achieve customization /personalization, which in turn leads to higher customer satisfaction and utility; (2) saving consumers time, since AI technology can reduce the cost of research as well as the effort needed for performing certain tasks, which results in enhancing consumption and higher consumer utility.

AI and the Global Economy

Total global private sector firms' investment in AI stood at USD 91.9 billion in 2022	Global GDP to grow by USD 7 trillion	Productivity forecast to grow 1.5% annually in the next decade

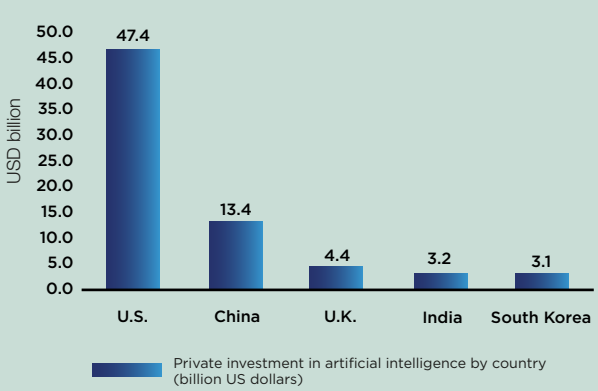
It is expected for AI will help boost global GDP by USD 7 trillion, as well as increase productivity by an annual 1.5% over the next decade, as per Goldman Sachs estimates in April 2023. It is also notable that global private sector investment in AI reached USD 91.9 billion in 2022, up from USD 12.75 billion in 2015, which is a growth of 621% (chart 1). The United States is the world pioneer in private sector AI investment, reaching USD 47 billion in 2022, which is three times the AI investment by Chinese and 11 folds that by the United Kingdom (chart 2).

Chart (1): Total global private sector firms' investment in AI technology for the period (2015-2022)



Source: Artificial Intelligence Index Report 2023, Stanford University.

Chart (2): Private sector firms' investment in artificial intelligence by country in 2022



Source: Artificial Intelligence Index Report 2023, Stanford University.

The International Monetary Fund (IMF) experts believe that it is difficult to accurately predict the exact impact of AI on economies and societies, and this uncertainty is at its most when it comes to the labor market and productivity. However, it is likely the impact would vary between countries according to their degree of development and economic structure. As such, advanced economies countries with the latest industries and service-based economies are at a great advantage to benefit from AI technology, although they are, simultaneously, more prone to the risks stemming from changes in labor market dynamics. To the contrary, emerging markets and developing economies, which are often still reliant on conventional industries, might miss out on the early productivity gains associated with AI, since they are lacking in infrastructure and skilled workforce. However, these countries are less exposed to the risks posed by change in labor market dynamics. Generally, IMF experts are of the opinion that capital deepening and increased productivity, driven by the AI would boost output and lead to higher wages for workers, if there is integration between human resources and artificial intelligence technologies.

Therefore, AI's ability to complement jobs is positively connected to income level, and enhanced economic activity and demand for labor which is stimulated by AI can compensate for some of the negative repercussions of canceling some jobs and positions.

The Impacts of Artificial Intelligence on the Labor Market

There has been a significant concern in the recent years about the extent to which AI will impact employment and labor market dynamics. Indeed, the issue of the technology's effects on employment has been a long -standing debate, particularly when it comes to certain types of jobs and skills that are expected to be replaced. Opinions can be summed up in that the impact would most probably be seen in terms of "job replacement" where technology replaces human labor, and in "job augmentation" where technology assists and complements human skills, as well as "job creation" where AI leads to creation of new jobs.

AI and the Labor Market

- Job Replacement
- Job Augmentation
- Job Creation

Historically, automation and technology tended to impact routine and repetitive tasks, thus technology has always had a complementary role to human work and enhanced productivity. Economic studies in many manufacturing sectors that had undergone major automation in the 1980s showed varying impact on jobs. While some routine jobs were automated, new jobs had also been created in other sectors. It is likely, therefore, that AI would have a job augmentation impact on some jobs, replace some altogether, and play a big role in creating demand for new sets of jobs and skills in the labor market. Some believe that AI's impact on employment depends, first and last, on the employer's ability and willingness to embrace the technology. Job replacement is also difficult in fields of sensitive and highly specific specializations, in view of the required training and development of AI software involving an expansive set of accurate data.

Accordingly, there are several possible scenarios when considering AI's potential impact on the labor market. The first scenario relates to routine jobs in case firms adopt AI programs to perform routine tasks, which would cut demand for labor to handle these tasks in particular, thus reducing employment and wages rates for these jobs. In extreme cases, these jobs would be scrapped altogether. The second scenario relates to companies adopting such technology to complement human skills, which would enhance efficiency and productivity, as well as cut production cost and average prices. This would boost real income and bolster demand by consumers, thus boosting demand for labor. The third scenario deals with creating and enhancing demand for new specializations and skills in the labor market that are related to specialized technologies connected with development, enhancement, and maintenance of AI programs, which would require public and private sector institutions to develop AI capabilities of their staff. Educational institutions would also need to adjust to the new specializations by developing and offering fields of study specifically designed to meet the emerging demands of professions involving AI.

IMF experts predict that AI would affect 40% of all jobs globally, where some jobs would be cancelled, and others complemented. In advanced economies, 60% of all jobs in the labor market would be affected by AI technology, as it is more widespread and utilized in these economies, whereas the figure is 40% for emerging economies and 26% for developing economies. IMF experts also believe there is a possibility that staff with higher studies qualifications would feel the impact of changes in the labor market stemming from AI incorporation. However, it would be possible to achieve maximum benefit through consolidation of human resources and AI. AI-related training is expected to be easier for new graduates, while more established staff could find adjusting to the new technology challenging.

Potential Applications of AI on Central Banks' Work

Since the global financial crisis in 2008, central banks have been facing additional burdens that are not connected to maintaining stability of prices and exchange rates of national currencies and the financial sector only, but also to aspects of systemic risk assessment, digital currencies, and climate change. These responsibilities rely heavily on the gathering of and access to new sources of data, known as big data, characterized by being extensive and massive as well as multi-dimensional and irregular.

Central banks have the advantage of access to a great amount of data to facilitate monetary policy decision-making and are also able to extract data from a variety of sources. However, the bulk of data relies on small transactions among corporations and individuals (e-trade and credit card transactions). Accordingly, the value of AI lies in the field of making decisions in central banks aided by the gathering, classification, and analysis of data on economic and financial level. AI applications for central banks work can be summarized as follows:

Enhancing the processes of collecting and analyzing macroeconomic data:

AI contributes to the gathering and the analysis of a huge amount of data of macro-economic indicators efficiently, which contributes to the prediction of business cycles, through the analysis of the components of GDP and inflation rate, also enabling the monitoring of commodity prices and the conditions of the labor market.

Improving bank supervision and financial sector risk assessment:

AI can enhance the process of supervising banks through the automation of gathering and analysis of financial big data, as well as detection of trends that indicate possible risk or fraud, leading to more efficient and proactive supervision. It also helps boost compliance and accessibility of bank data in instantaneous manner, thus rendering the financial system more resilient and secure.

Strengthening aspects of countering money laundering

AI can enhance efficacy and efficiency of investigation into money laundering and financial crimes, and of risk management in both financial and non-financial institutions through the detection of suspicious activity and tracing of money flows.

Improving credit risk analysis

Artificial intelligence programs can collect and analyze data on customers' credit scores, classify them and assess the risk of default.

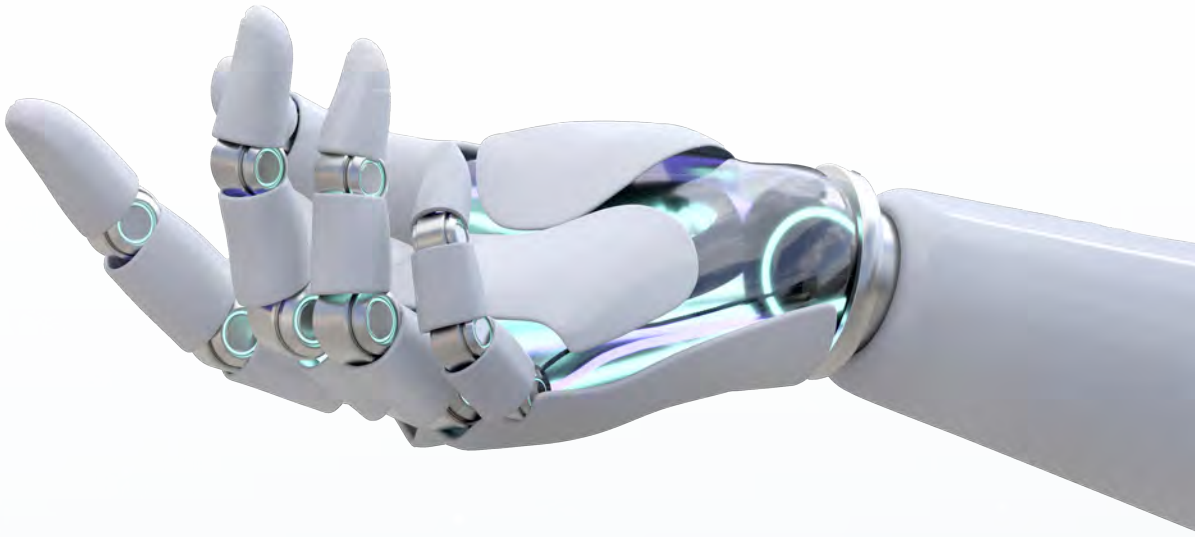
Process Enhancement

Artificial intelligence improves processes through faster reporting and analysis, which leads to increased productivity and prompt response.

For example, the European Central Bank, the US Federal Reserve, and a host of central banks worldwide utilize a set of AI and machine learning applications known as (Supervisory Technology-Sup Tech), which is a technology that supports supervisory work in central banks. This includes ability to extract data directly from banks' information technology systems, automated verification of data accuracy and unification, as well as gathering of information relating to customers' complaints from call centers. Such technology is also used to analyze data to help examine internal transaction activity, detect money laundering transactions, and monitor liquidity risk across regulated entities, as well as predict housing market conditions.

Recent Examples of AI Applications in the Field of

Banking and Financial Services



Banks are increasingly leveraging cutting-edge technology to fulfill customer expectations, stay competitive, and enhance sustainability. This trend intensified after the COVID-19 pandemic, marking a significant turning point with the integration of Artificial Intelligence (AI) into banking operations. AI has initiated a transformative era, proving to be not just an additional technological asset, but a fundamental driver of innovation within the industry. By adopting AI, banks have improved customer service, strengthened security, optimized operations, and stayed abreast of technological advancements. As AI continues to evolve, it's anticipated that the banking sector will witness further progress, evolving into a more intelligent and responsive financial ecosystem. AI technology can be utilized in many areas of banking business as follows:

Fraud Detection	Chatbot Customer Service	Personalized Financial Recommendations

Regarding fraud detection, AI algorithms sift through vast quantities of data in real time, empowering banks and financial institutions to pinpoint and thwart suspicious activities before they result in harm. Moreover, a deeper comprehension of various fraud methodologies enhances the precision and efficacy of machine learning models in identifying questionable activities. This results in faster identification and blocking of fraudulent transactions, thereby minimizing financial losses for these institutions. AI's role in fraud detection is critical, with personal transaction analysis being a primary application. Here, we delve into some of the forefront AI technologies adopted by banks for fraud detection purposes:

Creating customers' profile

Banks are able to create personalized files on customers' behaviors, utilizing machine learning, processing an immense amount of data regarding individuals' financial and non-financial transactions.

Assigning Fraud Scores

Individuals' transactions are given a fraud score using historical transactions, fraud incidents, and risk factors laid out by the financial institution.

Real Time Analysis

Machine learning algorithms are used to analyze thousands of transactions per second, which enables the AI Neural Networks to make decisions in real time, in order to detect suspicious activity which would be reported and a summarized in a list for the user, all of which would have required more effort and verification had institutions solely relied on human capital.

On the other hand, in the case of customer service, chatbots represent a sophisticated AI solution designed to interact with customers, addressing their frequent inquiries and concerns via banks' digital platforms. These AI-driven chatbots expedite the delivery of information, including account details, transaction dates, and balances, significantly enhancing user satisfaction through prompt, accurate responses and reduced wait times. Moreover, chatbots offer the convenience of accessing assistance and information beyond regular banking hours. This innovation not only streamlines customer service operations but also allows human agents to focus on more intricate issues and requests. Consequently, chatbots have emerged as powerful instruments in fostering personal engagement within financial services, widely adopted by numerous banks and financial institutions. Examples of chatbot applications currently in use include:

Examples of chatbot applications

"Erica" By Bank of America	**"Amy"** By HSBC	**"Nomi"** By Royal Bank of Canada	**"Eno"** By Capital One Company

Finally, AI plays a pivotal role in personal financial advisory services, delivering bespoke guidance and planning by analyzing an individual's financial activities, income, spending habits, savings, investments, and risk tolerance. This deep analysis crafts tailored financial strategies and goals that perfectly align with the person's aspirations, covering areas such as educational investments, home purchase savings, or retirement planning.

In recent times, a growing number of investment and financial service providers have embraced AI to automate and refine complex, resource-intensive operations. This adoption of AI not only boosts operational efficiency but also empowers these organizations to offer more personalized and advanced financial advice and services to their clientele. Some of the examples of this include:

AI and financial services of investment companies				
One-to-one communication with customers	Enhancing investment portfolio performance	Risk management	Assessing customer willingness to take risk	Investments related to social and eco-system frameworks and governance

In recent times, several institutions that are providing such services, the table below highlights some examples:

Application	Institution	Purpose
The AI @Morgan Stanley Assistant	Morgan Stanley Bank	Providing chatbot services to enhance portfolio performance and risk management
Marketo Engage	Marketo, Inc. financial consultancy company	Customer communication, with use of other applications to provide services aimed at enhancing portfolio performance and analyzing customer risk appetite
Marketo Engage	Marketo, Inc. financial consultancy company	One-to-one communication with customers, risk management, and investments related to social and eco-system frameworks and governance

Challenges and Risks

Challenges can arise from the use of AI technology on both economic and social levels, and such risks must be addressed through planning, strategizing, and adopting a proactive approach by decision-makers. The main risks stemming from use of AI are as follows:

1	**Insufficiency of data**	AI software can create algorithmic bias as a result of insufficiency of data or due to human factors such as the decisions and judgements by AI engineers during the process of developing the AI prototype.
2	**Confidentiality**	AI technology is prone to hacking through access by unauthorized individuals to the critical data concerning individuals, companies, or government institutions. As AI applications usually process an immense amount of data, it is essential and of utmost importance to draw up strategies for protecting confidentiality of data.
3	**Cybersecurity**	AI software may be exposed to cyberattack, and may be manipulated to provide institutions and individuals faulty data. For example, a third party may give an AI prototype new commands that would trick the information generating prototype into yielding unsound output to the end user.
4	**Interpretability**	AI relies on neural networks that contain several parameters, which poses a challenge for interpreting how output data had been generated.
5	**Reliability**	It is possible that the user would get different outputs based on the same input when using AI, which, in turn, casts doubt on the accuracy and reliability of answers and output.
6	**Regulatory complexity**	In light of the development of regulatory frameworks dealing with AI, companies may face an increasingly complex environment of regulations and systems, which increases exposure to systemic risks.
7	**Non-financial risk to companies**	Operational risk increases with the inappropriate reliance on AI, this is done by neglecting the aspects of training, capacity development, governance, and data protection. These operational risks may turn into financial risks over time. This systemic risk may turn into financial risk with the passing of time.
8	**Variance in accessibility**	The adoption of artificial intelligence technologies remains uneven and unbalanced, and the possibility of access to artificial intelligence technologies is unequal for all countries, institutions, or individuals. Parties (countries, institutions, and individuals) with the proper resources (finances/infrastructure) can benefit from AI technology and reap higher income as well as gain more competitive edge over others, which further deepens the economic inequality gap between countries and companies in different economies. Furthermore, it is expected there would be a gap in wages and salaries; individuals with sufficient technology skills to develop, run, and manage AI software have more economic opportunities compared to those less skilled in this respect.

Conclusion

We are currently experiencing a great technological revolution that is capable of stimulating productivity, boosting global growth, and increasing income across the world. However, technology can on occasion replace certain jobs. Accordingly, there are many queries on the potential impact on the global economy. The net impact is hard to foresee at present, considering that AI technology can permeate across economies in a complex manner. It is therefore important to draw up a set of policies to safely utilize the immense capabilities and advantages of AI for the interest of humanity.

A thoughtful and balanced approach is essential when incorporating AI programs into economic policies, as it requires cooperation and continued dialogue among all stakeholders, including decision-makers, specialists, and technology experts. The goal here is to maintain balance between innovation and regulation; regulation needs to be flexible enough to reap the benefits of the latest advances in AI on the one hand, and must remain cautious and work on curbing possible risk on the other. Through such an approach, communities would be able to utilize AI to make better use of human potential and to realize prosperity and sustainable development, as well as guarantee a digital future that is more equitable and secure.

Explanatory Box

"The Monetary Trends of the Global Central Banks" in 2023 and so far into 2024

The International Scene:

With the decline in international inflationary pressures, central banks came to the last mile; questions began to increase over the best timing for an interest rate reduction aimed at stimulating investment and supporting economic growth. It is noteworthy that the International Monetary Fund (IMF) expects a global interest rates reduction by mid-20241, after they had reached record highs in an effort to fight inflation. Central banks are expected to vary in the timing, magnitude, and direction of change in monetary policy. While it is expected that the era of relaxing monetary policy would start soon among key central banks such as the European Central Bank, the Bank of England, and the US Federal Reserve, other banks are seen opting for stricter monetary policies such as the Bank of Japan, which can be deduced from what came in press statements issued by key international banks as follows:

Bank of Japan

Press statement (19 March 2024)

Given the current outlook for economic activity and prices, the Bank anticipates that accommodative financial conditions will be maintained for the time being.

European Central Bank

Press statement (7 March 2024)

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. The Governing Council's future decisions will ensure that policy rates will be set at sufficiently restrictive levels for as long as necessary.

Bank of England

Press statement (1 February 2024)

Monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit.

US Federal Reserve

Press statement (31 January 2024)

The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%.

The Local Scene

In this context, **the decisions taken by the Central Bank of Kuwait (CBK) concerning the drawing up and implementation of monetary policy came within a gradual and balanced approach aimed to bolster monetary stability and financial stability of the banking and finance sector's units, as well as to maintain competitiveness of the national currency and its allure as a lucrative and reliable vessel for domestic savings, and to enhance a climate that supports sustainable economic growth.**

In line with CBK's continuous follow up of economic, monetary, and banking indicators locally and abroad, in addition to the geo-political ramifications and global trends regarding interest rates, the interest rate had been brought up nine times since March 2022 by a total of 275 base points, settling at 4.25% since 27 July 2023. Meanwhile, aggregate total real Gross Domestic Product data for the past three quarters of 2023 indicate a **retraction in the local economy** by 1.9% (outcome of retraction of 3.6% in the oil sector and growth of 0.1% in non-oil sectors) compared to the same period the year before. The **annual inflation rate also dropped** from its highest of 4.71% seen in April 2022, coming down to 3.28% in January 2024.

In terms of monetary indicators, local liquidity saw an increase of KD 0.4 billion (1.0%) during the period January-December 2023 to reach KD 39.0 billion at end of December 2023 compared to KD 38.6 billion by end of December 2022. The rise was a result of an increase in quasi-money (KD savings deposits, KD time deposits, and deposits in foreign currency) by KD 1.3 billion (4.9%) and decline in money supply in the narrow sense (M1) by KD 0.9 billion (7.8%). Local liquidity also saw a decline of KD 217.4 million (0.6%) in January 2024 compared to end of January the year before. Thus, money supply in the broad sense (M2) came to KD 38.9 billion.

When it comes to return on deposits, current margins between interest on deposits in the Kuwaiti Dinar and the US Dollar remain in favor of KD deposits, which boosts the bank's ability to sustain the stability of the KD exchange rate and prevent any speculation that could take place aiming to profit from the price differences between the KD and the US Dollar. Within this context, the current margin between weighted mean interest on customers' deposits with local banks in both KD and US Dollar for one-month maturity is 0.6927 points compared to 0.6696 points in January the year before, and 0.7202 points for 3-month maturity compared to 0.786 points the year before.

As for banking indicators,resident private sector balances for the period January-end of December 2023 showed an increase of KD 0.4 billion at 1.2% to reach KD 37.3 billion by end of December 2023 compared to KD 36.9 billion by end of December the year before. The bulk of the increase came from resident KD deposits (accounting for 95.2% of resident private sector deposits) which went up from KD 35.1 billion at end of December 2022 to KD 35.5 billion, i.e. an increase of KD 0.4 billion (1.1%) by end of December 2023. Resident deposits in foreign currency also increased (accounting for 4.8% of resident private sector deposits), going up from KD 1.77 billion at end of December 2022 to KD 1.81 billion by end of December 2023, i.e. an increase of 2.0%. By end of January 2024, balances of resident private sector deposits showed a decline of KD 145.7 million (0.4%) to reach KD 37.3 billion compared to KD 37.5 billion the year before. This was the result of a decline in resident KD deposits by KD 161.4 million (0.8%) and an increase in resident foreign currency deposits by 15.6 million (0.5%) compared to end of January the year before.

Credit Facilities Balances (to residents and non-residents) recorded a slowdown in the period January-end of December 2023 by KD 1.1 billion (2.2%) bringing the portfolio to KD 53.6 billion by end of December 2023, compared to a growth of KD 4.2 billion (8.6%) in the same comparative period of last year. On the other hand, balances of credit facilities (to residents and non-residents) posted an annual growth of 2.6% bringing the portfolio balance to KD 54.9 billion by end of December 2024, compared to KD 52.5 billion by end of December the year before.

The cautious and proactive policies the CBK had opted for stress the need for banks to bolster their financial buffers and enhance the banking sector to make it more resistant to external shocks so that it may continue to serve the national economy with high efficiency even under stress conditions. This was clearly seen through Kuwaiti banks' financial soundness indicators as on end of December 2023 when it comes to strength of financial conditions such as high rates of Capital Adequacy Ratio (19.9%), Liquidity Coverage Ratio (169.3%), and Net Stable Funding Ratio (113.3%), where all the figures are well-above the minimum requirements for these regulatory controls as indicated in the instructions issued by the Central Bank of Kuwait. These indicators are further supported by Asset Quality Ratio where non-performing loans are at a historical low of 1.42%..

The Central Bank of Kuwait shall follow up on all developments in economic, monetary, and banking conditions and take the necessary action whenever needed to steer all monetary policy instruments to bolster an atmosphere that supports sustainable economic growth and maintains the competitiveness of the national currency as a lucrative store of local savings, and maintain its efforts to preserve monetary stability and financial stability.

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