

The impact of money laundering on economic growth

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Money laundering is the process of concealing the illicit origin of proceeds of crimes. This process is carried out mainly through the country's financial system and institutions.

Most countries have been urged to entrench costly measures to eradicate the scourge of money laundering. Some have questioned whether addressing money laundering should be a priority in view of pressing macro-economic objectives such as job creation and economic growth.

Credible multilateral organisations (e.g, IMF, World Bank, FATF, BIS) have warned of dire economic consequences for not complying with anti-money laundering (AML) recommendations, implying that the prioritised objective of economic growth will be negatively affected or compromised by the phenomenon of money laundering if appropriate action is not taken.

Money laundering, by eroding the confidence in the financial markets and institution poses a considerable risk to the stability and soundness of financial systems. In addition, empirical analysis such as one done by Quirk (1996) concluded that money laundering has a negative impact on economic growth. Notwithstanding these consequences, there is a lack of rigorous work on the extent and magnitude of money laundering in emerging market, let alone its impact on growth.

This paper seeks to determine the nature and extent of money laundering on emerging-market economies, with special reference to South Africa. It further analyzes quantitatively the impact of money laundering on economic growth in emerging market economies. In this regard the paper expands on the model developed by Unger, B et al (2006) in which money laundering is an explanatory variable in the growth regression model. Conclusion and policy implications are derived from the results obtained.

Our preliminary hypothesis is that money laundering by its distortionary effect on economic data and thus on economic analysis and policy, is likely to have a negative impact on economic growth.