

2.8 Money Laundering process and its impact on Sri Lankan Economy

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ABSTRACT

Money laundering is the practice of engaging in financial transactions in order to conceal the identity, source, and destination of money, and is a main operation of the underground economy. Money laundering is often described as occurring in three stages- placement, layering, integration. This paper analyses the impact of money laundering on Sri Lankan economy with the objective of considering money laundering process. Research was mainly based on information gathered through secondary data from various sources.

As findings money laundering the infiltration and sometimes saturation of dirty money into legitimate financial sectors and national accounts can threaten economic and political stability. Its impact is felt on financial behavior and macro-economic performance in a variety of ways including policy mistakes due to measurement errors in Sri Lanka national account statistics, volatility in exchange and interest rates due to unanticipated cross border transfers of funds the threat of monetary instability due to unsound asset structures, effects on tax collection and public expenditure allocation due to misreporting of income, misallocation of resources due to distortions in asset and commodity prices; and contamination effects on legal transactions due to the perceived possibility of being associated with crime.

Key words: Money Laundering, Inflation, Expenditure, National Accounts