

The Effect of Money Laundering and Corruption on Banking Sector Stability in Asia

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Abstract

Introduction: The rapid development of modern technology, globalization, and the speed of computer-generated financial transactions enabled by fintech, those advantages have also benefited and facilitated the tasks of criminal groups in money laundering and corruption nowadays. This study aims to empirically test the effect of money laundering and corruption on banking sector stability in Asia.

Methodology: This study collected data from 28 Asian countries for eleven years, from 2011 to 2022. The study designs a quantitative methodology, employing secondary data sources for the analysis. Corruption data were obtained from Transparency International, while the Basel Institute of Governance provided money laundering data additional variables were sourced from the World Bank database. Money laundering and corruption were used as independent variables and using Z-score measured the banking sector stability in the selected sample. Further, return on assets, non-performing loans, bank size, inflation, unemployment, and gross domestic product were used as control variables of the study. The analysis was conducted using regression analysis. Further, this study used random and fixed effects models.

Findings: The results of the study show that money laundering has a positive and significant relationship with the stability of the banking sector in Asia. whereas another hypothesis was rejected. Additionally, return on assets and non-performing loans positively and significantly impact the banking sector stability in Asia.

Conclusion: Based on the findings of the study governments should focus on raising awareness and implementing effective policies to address these challenges. The research offers useful insights for policymakers, financial institutions, and researchers, helping them to understand the knowledge areas of money laundering and corruption. It also provides a foundation for future studies to explore this important topic further.

Keywords: Money laundering, Corruption, Bank Stability, Asia, Regression Model.