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## **MONEY LAUNDERING AS A CRIMINAL PHENOMENON: A CASE STUDY – THE REPUBLIC OF NORTH MACEDONIA**

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### **ABSTRACT**

Money laundering refers to the process of concealing the origins of illicitly obtained income derived from unlawful activities, with the aim of integrating such proceeds into the legitimate financial system. This criminal phenomenon affects all countries without exception, including the Republic of North Macedonia (RNM). Given the substantial adverse effects that money laundering imposes on economic stability and integrity, states must devote particular attention to developing effective mechanisms for its prevention and suppression.

This paper examines the concept of money laundering and the principal methods through which it is perpetrated, with specific emphasis on the situation in the Republic of North Macedonia. It analyzes the detrimental economic consequences of this phenomenon, as well as the legal framework regulating and sanctioning such conduct.

In addition, the paper presents the most recent data published by the State Statistical Office of the Republic of North Macedonia concerning this issue. These data are displayed in tabular form, illustrating the dynamics and volume of money-laundering-related indicators over a five-year period.

Based on the analysis conducted, the paper concludes with a set of findings and recommendations directly related to the researched topic.

The methodological approach of the study incorporates a range of research methods, including analysis, deduction, comparison, statistical techniques, and observation.

The significance of this paper is reflected in both its theoretical and practical contributions. Theoretically, it enriches the existing scholarly literature in the field; practically, it provides

professionals employed in institutions responsible for combating economic crime with insights that may enhance their work and inform evidence-based practice.

**Keywords:** Money laundering, Illicit income, Economic crime, Financial system, Legal framework, Republic of North Macedonia

## INTRODUCTION

Money laundering is a criminal phenomenon that threatens economic stability and integrity. Understanding its methods, legal implications, and impact is essential for effective prevention and suppression. This paper explores money laundering in general, with a focus on the Republic of North Macedonia.

### Money laundering as a concept

The term “money laundering” has been in use since the 1930s, when organized crime groups in the United States sought to legitimize financial resources obtained through criminal activities such as prostitution, gambling, extortion, and violent coercion. These groups attempted to justify their illicit proceeds by channeling them through networks of ostensibly lawful businesses, most notably laundromats, claiming that the funds originated from legitimate commercial operations. This practice aimed to obscure the criminal origins of the assets and thereby avoid legal accountability.

In this context, the figure of Al Capone is often cited, as he invested in laundromats using profits derived from the illegal production and distribution of alcohol.

There are numerous scholarly and legal definitions of money laundering. One of the most widely accepted and comprehensive definitions characterizes money laundering as *the process of concealing the origins of illegally obtained income derived from criminal activities in order to integrate such proceeds into the legitimate financial system*. The actors involved in this process may be either natural or legal persons whose objective is to introduce the proceeds of the aforementioned activities into the lawful economy.

### The method of money laundering, with a particular emphasis on the Republic of North Macedonia.

Money laundering is carried out through various methods. One traditional approach involves introducing illicit funds into cash-intensive businesses, where transactions are predominantly conducted in cash. Such businesses often lack rigorous invoicing or formal income-recording procedures, enabling them to declare arbitrary levels of revenue and expenditure. Examples include taxi services that do not utilize meters, or hotels and similar establishments that, despite having a limited number of customers, report significantly higher income, taking advantage of the fact that most payments are made in cash.

In these cases, the clientele pays for services at a level far below the amounts ultimately reported as revenue. The discrepancy allows the operators to mix illicit proceeds with legitimate earnings, thereby obscuring the criminal origin of the funds. A similar pattern can be observed in casinos and other gambling establishments, which may declare profits that exceed their actual business performance, effectively combining illicit funds with lawful income generated through their operations (Halili, 2023, p. 299).

In the context of gambling, another method of money laundering involves a client who possesses funds derived from criminal activities and seeks to legitimize them through a casino. This can occur through an arrangement between the client and a responsible individual within the casino, whereby the casino records the client as having won a substantial amount of money. In reality, however, the reported winnings are fictitious, serving solely to provide a legitimate justification for the illicit funds (Halili, 2023, p. 300).

The client then has proof that this money was won in the casino and can subsequently invest it in regular financial circulation. Other activities that are particularly attractive to money launderers, especially in the countries of the Western Balkans—with particular emphasis on Albania, Kosovo, and North Macedonia—are the construction and real estate sectors. The main principle in this context involves purchasing a real estate property below its market value and then selling it at its actual market value. The declared profit is the amount reported at the time of selling the property that was initially purchased (Halili, 2023, p. 300).

To illustrate this more clearly, let us present an example: Person AA has earned 20,000 euros through legitimate means and an additional 30,000 euros from the sale of narcotics, so in total, he has 50,000 euros.

On the other hand, we have person BB, an investor who is in the process of constructing an apartment building and offers apartments for pre-sale at a given price. The apartment which person AA wishes to purchase costs 50,000 euros. The issue arises with the 30,000 euros which person AA has obtained through illegal means. In such a situation, person AA, as the buyer, and person BB, as the seller, conclude a contract in which the sale price is set at 20,000 euros, while in reality person AA pays person BB the full amount of 50,000 euros.

Once the property is constructed, the individual who purchased it can sell it for the same amount, namely 50,000 euros, thereby effectively laundering the 30,000 euros of illicit funds by legitimizing them through the sale of the property. The same money can then be deposited into a bank account and used for any purpose the individual desires. This arrangement benefits both parties: the investor benefits by avoiding the need to take out a bank loan with interest, instead relying on the funds provided by person AA; meanwhile, the buyer benefits by successfully laundering illicit proceeds.

The same method applies to cash payments for other types of assets, such as land parcels or movable property, including vehicles. In summary, this type of transaction used for money laundering involves purchasing real estate or movable assets with cash while drafting a sales contract that states an artificially low price, below market value. Subsequently, the actual payment—close to the market value—is made in cash, and the asset is later sold at its full market value.

Another example can be illustrated by a case in which an individual involved in criminal activity possesses 2,000,000 euros obtained through illegal means. This individual selects three suppliers of construction materials and pays them in cash, while the documentation falsely indicates that the materials were provided on credit, with the debts to be settled through the sale of future apartments. Once the building is completed, the apartments are sold and the proceeds are deposited into a bank account. By depositing these funds, the individual has effectively legalized the illicit money, making it available for use within the legal economy.

As mentioned earlier, the construction sector—particularly in the Western Balkans, with emphasis on Albania, Kosovo, and North Macedonia—is highly attractive and widely utilized for money laundering. Construction activity in North Macedonia and especially in the Republic of Albania continues to grow, despite the decline in purchasing power among apartment buyers since 2016.

Moreover, apartment prices remain notably high, suggesting that an average citizen with a stable income cannot afford such properties. Despite the reduced demand for apartment purchases, construction projects continue unabated, and prices do not decrease. This contradicts the principles of a free market, where prices under normal conditions are regulated by supply and demand. In this situation, prices should decrease due to the lack of demand. How can this be explained? The answer is straightforward: many of the builders or investors involved in these projects are not genuine entrepreneurs whose primary objective is profit. Instead, they are individuals engaged in criminal activities who possess large amounts of illicit funds, and their main objective is to launder this money by converting it into real estate and effectively “parking” their assets in these properties (Halili, 2023, p. 301).

Even though many buildings remain unoccupied on the market—particularly in capitals such as Skopje and Tirana—the issuance of construction permits continues to grow. This trend lacks any plausible justification other than the influence of the informal economy, which includes revenue generated from criminal activities. Perpetrators of such activities often attempt to launder illicit funds through the construction sector.

In principle, money laundering in construction occurs through economic entities with high cash turnover, which complicates investigations and makes it more difficult to distinguish between illicit and legitimate financial flows. However, there are also cases in which tenders are awarded to newly established companies or firms with only a few months of operational experience, often closely connected to individuals in power and characterized by weak financial performance. These entities then recycle and channel illicit funds into construction projects through various mechanisms, thereby concealing their unlawful origins.

Illicit funds are additionally generated through corruption, whereby individuals entrusted with specific authorizations misuse their official positions for personal gain or for the benefit of close associates. The most widespread form of corruption is bribery, which is particularly prevalent in public procurement processes, where tenders are unfairly allocated to certain economic entities in exchange for financial compensation.

Unlike the criminal activities of the first group—such as drug trafficking, prostitution, and similar offenses—the proceeds derived from bribery cannot, due to the nature of their acquisition, be identified from a criminological standpoint in the same manner as the proceeds of the former category (Halili, 2023, p. 301).

But despite this, they are part of illegal activities that are sanctioned by criminal law, and as a result, the money earned in this way is also considered dirty money, which the possessor wants to launder in various forms.

One method of money laundering involves the establishment of fictitious economic entities. Consider, for example, a scenario involving a corrupt minister whose relative resides in Germany. This relative establishes a company in Germany, which subsequently opens a branch in North Macedonia. Through the relevant ministry, the North Macedonian branch

secures an inflated contract valued at 40,000 euros, even though the actual cost of the work amounts to only 20,000 euros. Since the branch lacks the equipment and capacity to execute the project, it subcontracts the work to another company for the real cost of 20,000 euros. The remaining 20,000 euros can then be transferred from the North Macedonian branch to the parent company in Germany as legitimate profit via standard banking channels. Once deposited as ostensibly lawful income, these funds can be used freely without raising suspicion.

Another money-laundering technique involves utilizing jurisdictions such as Panama, where banks permit deposits without requiring proof of the funds' origin. From these accounts, transfers are executed to banks in other countries, including local banks, thereby obscuring the traceability of the money. This process is followed by the integration phase, during which illicit funds are incorporated into the legal economy through the purchase of real estate, the establishment of businesses, or other investments. Ultimately, the perpetrator may publicly present themselves as a legitimate entrepreneur (Halili, 2023, p. 302).

### **NEGATIVE EFFECTS OF MONEY LAUNDERING**

Money laundering has profoundly negative consequences from an economic perspective. At the microeconomic level, it can lead to the bankruptcy of numerous legitimate businesses within a given sector. This effect can be illustrated as follows: suppose that in a particular neighborhood or area, several businesses operate in the same line of work. A new business is then established by an individual whose primary objective is to launder illicit funds. Because this individual is not constrained by the need to generate genuine profit, they may sell products below cost or at the break-even point. Such pricing practices distort market competition and place legally operating businesses at a significant disadvantage. As these legitimate businesses lose clientele and revenue, they may eventually be forced to close.

The consequences extend beyond the private sector. The closure of lawful enterprises results in rising unemployment, which in turn increases the financial burden on the state's social welfare system. Ultimately, this strain must be absorbed by the state budget, further amplifying the harmful economic impact of money laundering (Halili, 2023, p. 302-303).

Another negative consequence, from a macroeconomic perspective, is that illicit money circulates outside state oversight—more precisely, beyond the regulatory and supervisory control of the central bank. As the authority responsible for managing money supply and maintaining financial stability, the central bank faces significant challenges when a substantial volume of unregulated funds enters circulation. In such circumstances, the implementation of monetary policy becomes less effective, and policy measures may fail to achieve their intended outcomes. This distortion can contribute to inflationary pressures and other adverse macroeconomic effects. Money laundering operates much like a metastasis: if left unchecked, it can permeate and undermine the entire economy. It may enable criminal activities to infiltrate multiple sectors of economic activity and can even pose risks to political decision-making processes. For these reasons, states must treat this phenomenon with utmost seriousness and undertake robust measures aimed at its prevention and eradication.

### **THE LEGAL AND CRIMINAL PERSPECTIVE ON MONEY LAUNDERING IN THE REPUBLIC OF NORTH MACEDONIA**

The Republic of North Macedonia has implemented significant reforms in its legislation regarding the prevention of money laundering, based on guidelines and

recommendations from international institutions addressing this issue. This is evidenced by the research and analyses conducted by the Global Initiative, which states that the Republic of North Macedonia has adopted the legal framework for Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) following EU directives (Halili, 2023, p. 306).

North Macedonia became a member of MONEYVAL in 1998, and in June 2004 it joined the Egmont Group, an international platform through which financial intelligence units cooperate in combating money laundering and terrorist financing. In 2021, North Macedonia adopted its first Anti-Money Laundering (AML) Law (No. 70/01). Three years later, the need arose for a new law to ensure better alignment with international standards. The new law (No. 46/04) entered into force on 20 July 2004.

In 2002, the Financial Intelligence Service was established within the Ministry of Finance. This institution is responsible for collecting, analyzing, processing, archiving, and disseminating information. It functions as an intermediary between the reporting entities—obliged under the legal framework to submit information on suspicious transactions—and the competent authorities responsible for undertaking appropriate measures based on the reports received.

Law No. 04/08 was adopted on 10 January 2008. Subsequently, efforts were made to amend the Anti-Money Laundering and Counter-Terrorism Financing Law, with the most recent amendments enacted in 2022. These amendments introduced several adjustments and additions to the existing provisions, addressing emerging challenges related to virtual cryptocurrency transactions and establishing specific regulatory requirements for entities offering services associated with virtual assets (*Republic of North Macedonia, 2008/2022*).

From a criminal law perspective, the offence of money laundering and the legalization of other criminal proceeds was introduced into the Criminal Code of the Republic of North Macedonia in 1996. With the recommendations outlined in international documents, emphasizing that money laundering is not limited to financial proceeds from drug trafficking and arms trade but includes all criminal acts that generate illegal profits, the necessary amendments were made to the legal framework. Following these changes, the offence of money laundering, as outlined in Article 273 of the Criminal Code of North Macedonia, now encompasses a total of 13 provisions (Maneski, 2005, p.380).

Formally, it cannot be said that there has been stagnation in this area, as evidenced by international institutions such as MONEYVAL, which, according to its latest assessment report from 2019, confirmed that North Macedonia had met the recommendations for the period 2014–2018 and that the legal framework complied with the given recommendations and was aligned with EU directives. However, the issue lies in the implementation of these laws. For instance, during the period 2013–2015, only five criminal groups were indicted for money laundering, despite real-world situations, particularly in the construction sector, suggesting otherwise. This indicates that the adoption of sound laws does not guarantee their effective implementation. Undoubtedly, various factors influence the application of the law. Nonetheless, according to research conducted by experts Tuesday Reitana and Kristina Amerhauser, as reported by the Global Initiative Against Transnational Organized Crime, criticism has been raised regarding vague and somewhat confusing legal provisions, which make it difficult for prosecutors and judges to interpret and apply the law in the cases they handle (Reitana & Amerhauser, 2020, p. 44).

For example, in North Macedonia, the new Law on the Prevention of Money Laundering and Criminal Proceeds from 2022 consists of 208 articles explained across 101 pages. This level of complexity makes it more difficult for actors within the criminal justice system to fully understand and effectively apply the law. Moreover, the same experts have noted that the legal and regulatory framework suffers from fragmentation among various state institutions. Supervisory institutions include the Financial Intelligence Unit, the National Bank of North Macedonia, the Insurance Supervision Agency, and several others. The state institutions authorized for criminal prosecution include the Ministry of Interior, the Financial Police, the Customs Administration, and the State Prosecutor's Office for Organized Crime and Corruption. Additionally, other anti-money laundering provisions appear in the penal and banking legislation of North Macedonia, creating further confusion and ambiguity in implementation.

Another factor contributing to the ineffectiveness of addressing this criminal phenomenon is the insufficient professional preparation of personnel employed in institutions responsible for combating such crimes, as well as the lack of political will to pursue this issue seriously and decisively. Practice has shown that, in many instances, individuals involved in money laundering activities have been people in positions of power, those who have led political affairs and wielded influence over investigative bodies. This became especially evident during the various wiretapping scandals in North Macedonia, made public in 2015 by the then-opposition leader Zoran Zaev, in what became known as "Zaev's bombs." These recordings revealed how law enforcement agencies were being influenced by politics and the executive branch of government (Prizma.mk, 2015).

As mentioned earlier, North Macedonia has, formally, made efforts to improve the legislation addressing the issue of money laundering. However, this is not enough because, in the end, results are what determine the success of the fight against this criminal phenomenon. As will be demonstrated below, the results in North Macedonia are, unfortunately, very weak (Prizma.mk, 2015).

## **VOLUME, STRUCTURE, AND DYNAMICS OF THE CRIMINAL OFFENCE OF MONEY LAUNDERING IN NORTH MACEDONIA**

In any research project examining crime within a specific field, it is essential to consider indicators related to the volume, structure, and dynamics of the phenomenon under analysis. In this case, these indicators will be examined for the criminal offence of money laundering over a five-year period, from 2018 to 2023.

Because several institutions in the Republic of North Macedonia are involved in combating this type of crime—including the police, the prosecutor's office, the financial police, and others—their data are consolidated and processed in a summarized form by the State Statistical Office of the Republic of North Macedonia. The following table presents the data collected from this institution.

### **Table 1**

Tabular data on persons accused and convicted for the criminal offence "Money Laundering and Contributions from Other Criminal Offences," according to Article 273 of the Criminal Code of the Republic of North Macedonia, during the period 2019–2023 (State Statistical Office of the Republic of North Macedonia, 2025).

Year	Accused	Total Convicted	Convicted to Prison	Convicted to Conditional Prison Sentence	Convicted to Fine
2019	0	0	0	0	0
2020	0	0	0	0	0
2021	6	6	1	5	0
2022	10	9	3	6	0
2023	3	2	0	2	
Total	19	17	4	13	0

**Note.** Data retrieved from the State Statistical Office of the Republic of North Macedonia. Retrieved from <https://www.stat.gov.mk>

From the table, it can be observed that during the five-year period from 2019 to 2023, the total number of individuals accused was 19. Of these, only 17 individuals were convicted: 4 were sentenced to imprisonment, 13 received suspended sentences, and none were sentenced to fines.

When analyzing the data in context, we note that 2022 recorded the highest number of accused individuals, with a total of 10. It was followed by 2021, with 6 accused individuals, and 2023, with 3. Regarding convicted persons, 2022 again leads with 9 cases, followed by 2021 with 6 convictions, and 2023 with 2 convicted individuals.

According to the data presented in Table No. 1, the number of accused and convicted persons for the criminal offence of *money laundering* is notably low. Considering the significant damage this offence inflicts on the market economy and the state budget, the fight against this negative phenomenon must be relentless. Strengthening these efforts is essential for ensuring political stability and improving economic welfare, factors that would undoubtedly accelerate integration processes, including North Macedonia's accession to the European Union.

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

- Money laundering has an extremely negative impact on both the microeconomic and macroeconomic development of a country.
- The methods of money laundering are diverse, but the most prominent in the Republic of North Macedonia involve the construction sector, the establishment of fictitious economic entities, and casinos.
- The institutions most exposed to money laundering are banks, financial institutions, and other non-bank entities engaged in various financial transactions.
- From a legal and institutional standpoint, the Republic of North Macedonia has undertaken significant reforms; however, the practical results in combating money laundering remain negligible, as demonstrated by data from the State Statistical Office of North Macedonia.

### Recommendations

- The roles and responsibilities of institutions involved in combating money laundering should be clearly defined.
- Legal regulations addressing money laundering should be more precise and concise.
- The legal powers of the Financial Intelligence Unit, which operates under the Ministry of Finance, should be expanded.
- Continuous professional training should be provided for personnel employed in institutions tasked with combating and preventing this criminal phenomenon.
- Banks and financial institutions must exercise vigilance when processing deposits from individuals or legal entities, as well as during various financial transactions.
- Inter-institutional cooperation should be strengthened and maintained at an optimal level.
- Given the severe economic and social consequences of money laundering, efforts to combat it should be uncompromising and fully supported by the country's political will.

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