

Review of Scientific Publications on Money Laundering and Terrorist Financing in Major Hungarian Law Enforcement Journals over the Last 20 Years

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International and nation-state action against money laundering is of paramount importance, as this activity poses a major threat to the economic stability and public security of certain countries. The danger of money laundering is demonstrated by the fact that it is closely linked to organised crime, as organised crime groups seek to legalise their illicit proceeds through various methods of money laundering. The effective prevention, detection and proof of money laundering offences is therefore the basis for effective action against organised crime. The main objective of my literature research is to provide a comprehensive picture of the scientific results published in the last twenty years in the most prestigious law enforcement journals in Hungary. The research method was an online database search between 2004 and 2024, which contains articles from three Hungarian journals (*Belügyi Szemle*, *Magyar Rendészet*, and *Rendészeti Szemle*). As a result of the search and filtering, 13 relevant articles were found in the period under study. The published articles point out the harmful economic effects of money laundering, its history in Hungary, the changing Hungarian and European Union legal background, the various legal interpretations and dogmatic issues related to money laundering, the methods and trends of money laundering in practice, and some articles also discuss the crime of terrorist financing related to money laundering. It provides an excellent summary for both researchers and practitioners.

Keywords: money laundering, terrorist financing, organised crime, metrics of science

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Introduction

According to some theories, money laundering as a term dates back to the infamous mafia boss Al Capone, who ran self-service laundromats throughout Chicago.² He laundered the proceeds of illegal activities (bootlegging, prostitution, drug trafficking) through laundromats.³ This theory has not been confirmed, but it is a fact that in the 1920s it was common for criminals to run large cash-flow businesses such as laundries and car washes, which mixed legal revenues with illegal income to legalise the wealth generated by crime.

According to the economics of money laundering, “money laundering is a financial service in the economic sphere that converts dirty money into money from an apparently legitimate source”.⁴ The danger of money laundering lies in the fact that the operations are not aimed at realising profit but at disguising the illegal origin of the money, which almost always results in significant losses, i.e. they do not operate according to normal market rules, thus distorting market competition.⁵

In criminological terms, money laundering is “an illegal economic service carried out under the guise of legal economic operations, aimed at justifying the origin of the criminal wealth by getting rid of its perceived illegality”.⁶

From a criminal law point of view, money laundering is an offence covered by a special part of the Criminal Code, the protected legal object of which is the social interest in the effectiveness of the fight against organised crime and the confidence placed in the financial system of the State.⁷

International and nation-state action against money laundering is of the utmost importance, as this activity poses a major threat to the economic stability and public security of certain countries. Reports by international organisations and academic writings by some experts unanimously point to the fact that the money laundered annually from illicit sources accounts for around 2–5% of global GDP.

The Council of the European Union considers money laundering and terrorist financing to be a major threat to the security of the Union, and therefore the so-called EMPACT (European Multidisciplinary Platform Against Criminal Threats) includes combating it among its priorities.

Methodology

My research method was an online database search between 2004 and 2024, which contains articles from three Hungarian journals (*Belügyi Szemle*, *Magyar Rendészet*, and *Rendészeti Szemle*).

² UNGER 2013.

³ GÁL 2008.

⁴ GÁL 2008.

⁵ FERWERDA 2013.

⁶ HORVÁTH et al. 1999.

⁷ HORVÁTH et al. 1999.

Results

Over a twenty-year period, I found and processed 13 publications on this topic. The published papers point out the harmful economic effects of money laundering,⁸ its history in Hungary,⁹ the changing EU and national legal background, and various legal interpretation and dogmatic issues,¹⁰ the methods and trends of money laundering in practice¹¹ and finally, some papers discuss the crime of terrorist financing linked to money laundering.

According to published academic literature, money laundering accounts for around 2–5% of the GDP of all countries in the world. Because it is illegally sourced and recycled into the legal economy for the sole purpose of concealment, even at a high loss, it can pose a serious threat to the economies of countries.¹²

Already a 2005 literature source¹³ highlights the global, cross-border nature of the crime of money laundering, since it is not only the rapid transfer of funds online that enables the transfer of criminal proceeds today, but also the transfer of criminal proceeds almost twenty years ago. It therefore highlights the importance and role of international organisations such as the Financial Action Task Force (FATF) on money laundering, founded in 1989, which has developed 40 recommendations to prevent money laundering. It also mentions the APG (Asia/Pacific Group of Money Laundering), which includes the Asia/Pacific countries, the CFATF (Caribbean Financial Action Task Force), which is the financial action group for the Caribbean, the ESAAMLG (Eastern and Southern African Anti Money Laundering Group), and finally the GAFILAT (Financial Action Task Force of Latin America), which includes the Latin American countries.

The article also looks in depth at the conceptual approach to money laundering. According to the author's definition, "an illegal service in the economic sphere that converts dirty money from a previous criminal activity into money from a legal source". The article makes the interesting observation that money laundering can be seen as a complementary operation to tax evasion. While tax fraud involves concealing part of the income and making the expenses appear larger, money laundering involves the opposite: making the income appear larger and the expenses smaller, thus proving that the dirty money is from a legitimate source.

Since 1991, the European Union has adopted a total of six directives to ensure a coherent and effective fight against money laundering. These directives have been the subject of a number of papers.¹⁴ The first paper, published in 2009, dealt with Directive III,¹⁵ which introduced, among other things, a risk-based approach, enhanced customer due diligence and a mandatory prohibition on the transfer, concealment and acquisition of criminal assets. The subsequent Directive IV and its impact on the economic background

⁸ GÁL 2005.

⁹ DÁNOS 2023.

¹⁰ BÁLINT 2016; CZINE 2005; GÁL 2023; JACSÓ 2009; NAGY 2020; POLT 2023; SZENDREI 2018.

¹¹ LUDÁNYI 2023; NAGY 2022; SZENDREI 2008.

¹² GÁL 2005; CZINE 2005.

¹³ GÁL 2005.

¹⁴ JACSÓ 2009; JACSÓ 2023; NAGY 2020.

¹⁵ JACSÓ 2009.

of organised crime was examined in another publication.¹⁶ According to the paper, Directive IV allowed, inter alia, that all assets derived from dirty money should be brought to the attention of reporting agents, who are obliged to investigate such reports and to forward the results to the competent authorities.

A later paper from 2023¹⁷ already examines the then Directive VI, which, among other things, extended the offence of money laundering to include property and provided that the definition of the predicate offence should be uniformly regulated by the Member States and that it was not necessary to establish criminal liability for the predicate offence, but still provided for double incrimination.

According to the source on the emergence and history of organised crime and related money laundering as closely related phenomena in Hungary,¹⁸ both appeared in Hungary in the 1980s. On the one hand, certain crimes against property (burglaries) were committed by organised groups, and on the other hand, international smugglers appeared in Hungary. The former laundered the proceeds of their crimes by buying and operating small commercial and catering establishments. The source refers to the author's 1990 dissertation on *The Emergence of Elements of Organised Crime in Domestic Crime* in which he pointed out that organised crime could have been reduced if the legislator had regulated the financial and economic legal situation of money laundering and emphasised the role of 'nonpenal private law', i.e. instruments other than criminal law. He also drew attention to the fact that the key to effective action would not only be increased penalties, but also the confiscation of the assets of criminal organisations.

As regards the doctrinal issues raised by money laundering, the first issue to be highlighted is the dilemma of the predicate offences. Although the wording of the offence of money laundering has undergone numerous amendments in recent years, it has always been a so-called "ancillary offence", i.e. the commission of another offence is necessary to establish the offence. Accordingly, a source¹⁹ raises dogmatic questions in relation to the predicate offence. On the one hand, he questions whether an offence committed abroad can be a predicate offence, and on the other hand, at what stage must the predicate offence be? The answer to the first question, according to the author, is yes, while in his answer to the second question he explains that even an offence that has reached a pilot stage can be a predicate offence.

Before answering the first question, it analyses in detail the double incrimination requirement and the doctrinal issues involved: whether the predicate offence is a criminal offence in the country where it was committed, whether there is a bar to criminal liability in that country (e.g. statute of limitations), or whether a final conviction for the predicate offence is required. He explains in detail that some views hold that the absence of criminal liability on the grounds of statute of limitations may be a barrier to double incrimination, while others disagree, but there is a consensus that childhood or mental illness should not be a barrier. It also states that a final judgment is not required in a case of a predicate offence.

¹⁶ SZENDREI 2008.

¹⁷ JACSÓ 2023.

¹⁸ DÁNOS 2023.

¹⁹ BÁLINT 2016.

In a 2005 article analysing the judicial practice of money laundering,²⁰ the author analyses through final court judgments which basic crimes are most commonly associated with money laundering: human trafficking, extortion, tax evasion, illegal waste trafficking, smuggling of tobacco and alcohol, corruption. It also explains how the three phases of money laundering (placement, layering, integration) are put into practice and the two main models of anti-money laundering: the American and the Continental model, whereby in the American model, financial institutions are required to identify their customers above a certain threshold, while in the Continental model, certain professions are also required to identify themselves in the event of suspicious transactions. It can be said that the anti-money laundering law in force today applies elements of both models.

The latest amendment to the wording of the offence of money laundering in the Criminal Code has been adapted to the sixth Money Laundering Directive 2018/1673,²¹ which also criminalises the laundering of own money. In this context, some sources²² mention that the criminalisation of laundering one's own money is dogmatically questionable, since the perpetrator of a crime against property, e.g. theft, can be prosecuted for money laundering by concealing the stolen property and not reporting it.

Other sources²³ also mention that the prohibition of double counting in connection with the laundering of own money is in conflict with the punishment of the offender who covers it up, which was the requirement of the already cited sixth Directive.

Also problematic in the case of money laundering in the form of offences is that the penalty is up to five years' imprisonment, and someone who commits a petty theft offence may face this penalty, while the perpetrator of the basic theft offence faces up to two years' imprisonment.²⁴

In the last twenty years, the major law enforcement journals we have examined have published a few papers on money laundering techniques. One such publication from 2008²⁵ lists a total of 14 money laundering techniques: jewellery purchases, gambling, lawyer's deposits, life and property insurance, false invoices, the so-called "money laundering", and the use of "money laundering". "Dutch sandwiches", fake arbitration, use of underground banking systems (hawala), gold market, use of high-value euro banknotes (€500), e-cash, real estate, sponsorship of certain sports, athletes and the purchase of works of art. An article from 2023 already mentions the dangers of money laundering in cyberspace, highlighting cryptocurrencies.²⁶

Another paper²⁷ draws attention to the growing number of so-called BEC (business e-mail compromise) scams and related money laundering in cyberspace, and discusses the money laundering activities of a specific and uncovered criminal organisation. The so-called BEC scams (also known as account switching scams) are based on the hacking

²⁰ CZINE 2005.

²¹ Directive (EU) 2018/1673 of the European Parliament and of the Council.

²² POLT 2023.

²³ GÁL 2023.

²⁴ GÁL 2023.

²⁵ SZENDREI 2008.

²⁶ ZÉMAN–HEGEDŰS 2023.

²⁷ LUDÁNYI 2023.

of a financial manager's e-mail address and sending an e-mail in his name to a member of a company who is executing transfers, with the aim of sending the amount of the next payment due to the target account specified in the e-mail, which is in the name of a stooge linked to the perpetrator. The international criminal organisation uncovered was laundering the sums obtained by the fraudulent method described above through a vast network of companies using stooges.

Also, another paper²⁸ mentions money laundering through the so-called Revolut system as a new money laundering technique of our time. The Revolut system is a cheaper banking service, legal, but it has no regional offices, no branches, no ATM machines, and the investigating authority cannot obtain any information because it has no official communication channel to send a request. This publication also draws attention to a specific case of money laundering linked to a series of frauds committed during the Covid-19 pandemic, where FFP masks were fraudulently offered for sale but not sent to the victims and the proceeds of the fraud were disposed of using cryptocurrencies.

In the period under review, two papers on terrorist financing linked to money laundering were published in mainstream journals.²⁹ The 2009 source provided a detailed analysis of international terrorism and analysed international terrorist financing methods. In particular, the paper explains that while terrorist financing is similar to money laundering in many elements, there are differences. The main motive for money laundering is to hide the illegal source of the money and thus incur greater losses, in the case of terrorist financing, the money can come from both illegal and legal sources, but the main aim is to get the money to the terrorist organisation, and of course there are also significant losses in the course of operations. Another difference between these two types of crime is that typically the main motive of organised crime groups is to make a high profit from an illegal source, whereas the motive of terrorist organisations is to create fear in order to promote an idea or ideology.

In the case of terrorist financing, significant amounts come from legal sources: membership fees paid by members, donations, money provided by various "foundations", NGOs.

The illegal source of terrorism can be any crime linked to organised crime: trafficking in illegal goods (drugs, arms, etc.), smuggling of human beings, human trafficking, other financial and economic crimes, etc. This is where organised crime and terrorism are closely intertwined or even completely merged.

Finally, it is worth mentioning a 2015 source,³⁰ which analyses in detail the specific legal elements of the crime of terrorist financing. The article first provides a legal-historical overview of when the act of terrorism and the related financing of terrorism became a punishable offence in Hungary and how the wording of the offence was modified. Terrorist financing was first introduced as an independent offence in Hungarian criminal law in the new Criminal Code adopted in 2012.

The factual analysis describes that the offence can be committed by anyone. It can only be committed with direct intent, as the perpetrator collects and provides support in

²⁸ NAGY 2022.

²⁹ GÁL-DÁVID 2015; SZENDREI 2009.

³⁰ GÁL-DÁVID 2015.

order to create the conditions for committing the terrorist act. The object of the offence is the material means, which the Hungarian Criminal Code defines with reference to Council Regulation (EC) No 2580/2001 as follows: funds, other property and economic resources, any tangible or intangible, movable or immovable, assets by whatever means acquired and any legal documents or instruments in any form, whether electronic or digital, evidencing title to or interest in such assets, including, but not limited to, bank loans, travellers' cheques, bank cheques, money orders, shares, securities, bonds, promissory notes and letters of credit. The Criminal Code defines the offence of providing, collecting or supporting other material means. The analytical article explains that an attempt to commit the offence can be established as long as the support reaches the recipient.

Conclusion

As can be seen from the publications of the last 20 years, money laundering has not been present in international, EU and Hungarian legislation for very long. Its definition and relevant rules have been amended several times in the EU directives and in the domestic legislation that intends to follow them, in view of the changes in the world. As it is a crime closely linked to serious and organised crime, and one that crosses borders and continents, effective action against it would be crucial. However, organised criminals have developed a myriad of methods to conceal the illegal source of their wealth from the authorities, as explained by the sources cited above. In addition, the opportunities offered by the daily expanding online space have recently provided criminals with more and more space and made the terrain increasingly difficult for the authorities to navigate.

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Legal source

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