Belgium and the ECB object to Commission proposal to lend Ukraine €140 billion using frozen Russian financial assets

Belgian Prime Minister De Wever & EU Commission President von der Leyen on Nov. 14.

The leaders of the 27 member states of the EU will meet as the European Council in Brussels on Dec. 18-19 and decide how much financial assistance the EU will provide Ukraine in 2026-27. The leaders will face a decision whether, as European Commission President Ursula von der Leyen has recommended, they approve a so-called "reparations loan" based on the cash balances of the assets of the Russian Central Bank and other Russian financial institutions that are currently frozen in financial institutions in the EU.

In her "State of the Union Address" on Sept. 9, von der Leyen proposed that the EU use the frozen Russian financial assets for a substantial loan to Ukraine: "We need more support for Ukraine. No one has contributed as much as Europe – close to €170 billion of military and financial aid so far. More will be needed. And it should not only be European taxpayers who bear the brunt of this. This is Russia's war. And it is Russia that should pay. That is why we need to work urgently on a new solution to finance Ukraine's war effort on the basis of the immobilized Russian assets. With the cash balances associated to these Russian assets, we can provide Ukraine with a Reparations Loan. The assets themselves will not be touched. And the risk will have to be carried collectively. Ukraine will only pay back the loan once Russia pays for the reparations."

On Oct. 9, the European Parliament adopted a resolution calling on the EU and G7 member states to immediately approve a proposal to use the Russian financial assets that are currently frozen in banks and other financial institutions for a loan to Ukraine, with repayment by Ukraine contingent on future Russian reparations. It said it "reiterates its call on member states, together with their G7 partners, to immediately

approve the Commission's proposal to use all frozen Russian assets as a basis for a significant grant and loan to Ukraine, with repayment contingent on future war reparations paid by Russia, as a legally sound and financially significant way to maintain and increase EU support for Ukraine's military needs, including combating drones."

On Oct. 10, Chancellor Merz, President Macron, and Prime Minister Starmer announced they had reached an agreement on using the frozen Russian assets to support the Armed Forces of Ukraine. They said the decision would be implemented in cooperation with the U.S. In their announcement the leaders said, “We condemn Russia’s escalatory attacks in Ukraine and systematic targeting of critical national infrastructure that remains vital to provide light and heat to Ukrainian civilians through the winter. We will increase pressure on Russia as President Putin continues his stalling tactics and abhorrent attacks in response to peace talks. To that end, we are ready to progress towards using, in a coordinated way, the value of the immobilized Russian sovereign assets to support Ukraine’s armed forces and thus bring Russia to the negotiation table. We aim to do this in close cooperation with the United States of America. We agree to develop further bold and innovative mechanisms to increase the cost of Russia’s war and ramp up pressure. This includes driving forward action on the Russian shadow fleet. Our countries will remain steadfast in their support for Ukraine, including through the Coalition of the Willing.”

On Oct. 20, the foreign ministers of the EU member states met in Luxembourg and agreed on a 19th package of sanctions on Russia. Importantly, they also agreed on a €140 billion EU loan based on the frozen financial assets of the Russian central bank and other Russian financial institutions, most of which are held at Euroclear, the EU’s central financial depository in Brussels. On Oct. 23, the leaders of the EU member states, meeting as the European Council, reaffirmed their “continued and unwavering support for Ukraine’s independence, sovereignty and territorial integrity within its internationally recognized borders” and said they “will continue to provide, in coordination with like-minded partners and allies, comprehensive political, financial, economic, humanitarian, military and diplomatic support to Ukraine and its people.”

Most observers had assumed Hungarian Prime Minister Orbán would oppose the proposed loan which, like the package of sanctions, required unanimous approval. But he stayed away from the Oct. 23 European Council meeting for most of the day and in the portion of the meeting he attended he reportedly stayed out of the discussion of Ukraine. Nevertheless, the proposed loan did not obtain the unanimous approval it required. Prime Minister Bart De Wever of Belgium opposed the loan, apparently concerned that, since Euroclear, which holds almost €41 trillion in custody for more than 4,000 clients, is located in Brussels, Belgium might suffer adverse legal and/or financial consequences if the proposed loan were made.

On Dec.2 vdL

In a statement at a press conference on Dec. 2, European Commission President Ursula von der Leyen said the IMF estimates that Ukraine will need €135 billion for 2026 and 2027 to keep the state and the basic services running on the civilian side and enable the Ukrainian military to continue defending the country against Russia's continuing attack. She said the Commission was proposing that the EU cover two-thirds of Ukraine's financing needs for the next two years – €90 billion – with the remainder provided by international partners. She put forward two possible solutions for the Member States to agree on. One was EU borrowing – that is, raising capital in the capital markets and using the EU budget as a guarantee for that and providing it to Ukraine as a loan. That solution, she said, would require unanimous approval by the Member States. The other solution, she said, was a so-called Reparations Loan in which the EU would use the cash balances from immobilized (i.e., frozen) Russian financial assets in the EU. She said the Commission proposed that those institutions would have to move the cash into the instrument of the Reparations Loan, which Ukraine would have to pay back if and when Russia paid reparations to Ukraine. That solution, she said, would require approval by a qualified majority.

President von der Leyen noted that "We had an intense discussion also on the position of Belgium, where Euroclear, the main source, is situated. We haved listened very carefully to Belgium's concerns, and we have taken almost all of them into account in our proposal that is today on the table of the Reparations Loan. We have very strong safeguards in place to protect Member States and to reduce the risk as much as possible." nscThe Commission of all , s-is uire bs aid that could be done either by the EU going into the capital markets and using the EU budget as a guarantee and lending the funds to Ukraine. That, she said, would require unanimous approval by the 27 member states. The alternative would be a so-called 'reparations loan" in which the EU would use the cash balances of the immobilized assets of all Russian financial institutions in the EU by requiring them to move the cash balances into the instrument of the reparations loan and then providing the funds to Ukraine as a loan that Ukraine would have to pay back if and when Russia pays reparations. That option, she said, could be established by qualified majority voting.

President von der Leyen acknowledged that the Commission had "an intense discussion" lksan be into the instrument of the reparations loan. She said that and requirby requiring those institutions to move the balances into the instrument of the Reparations Loansassets in the UEraising for the next two yearsthe Russian attacktmilitary iwill be able to continue the next two yearssent a letter to the 27 governments in which she underscored the "particularly acute" amount of funding Ukraine will need in 2026 and 2027 – an estimated €83.4 billion to fund the military and €52.3 billion to support the economy and cover the anticipated budget deficit, assuming the war ends in late 2026. She urged them to reach an agreement prior to the European Council meeting on the amount of financial assistance the EU will provide Ukraine in 2026-27 and the form in which that assistance will be provided.

In her letter, von der Leyen said, “We have identified three main options, i.e., support to be financed by member states via grants, a limited recourse loan funded by the Union borrowing on the financial markets, or a limited recourse loan linked to the cash balances of immobilized assets. It will now be key to rapidly reach a clear commitment on how to ensure that the necessary funding for Ukraine will be agreed at the next European Council meeting in December. Clearly, there are no easy options. Europe cannot afford paralysis, either by hesitation or by the search for perfect or simple solutions which do not exist.”

Undoubtedly the most noteworthy element in von der Leyen’s letter, aside from the amount of financial assistance proposed, was the fact that she included as one of the three financing options a “loan linked to the cash balances of immobilized assets.” The “immobilized assets” in question are, of course, the approximately €210 billion of Russian financial assets that are currently frozen in European banks. For some time, the European leaders have been debating among themselves how they might provide Ukraine with the financial support it urgently needs in order to defend itself from Russia’s continued aggression while also supporting its people and rebuilding the country’s damaged infrastructure and public facilities, which the Russians further damage every night with their drones and missiles. One possibility that has been discussed for some time would involve using the cash balances of the financial assets of the Russian Central Bank and Russian individuals and firms that are currently frozen in European banks and other institutions as the basis for a loan to Ukraine.

It's obviously highly doubtful that Russia will ever pay for the reparations, which would mean, of course, that the EU and its member states would be obliged to repay the Russian individuals and entities whose cash balances were used to assist Ukraine. Nevertheless, a number of European leaders, perhaps most importantly Chancellor Merz in an oped in the *Financial Times* on Sept. 26, immediately supported the idea. In his oped, Merz proposed that the EU make available to Ukraine an interest-free loan of almost €140 billion from the assets of the Russian central bank and financial institutions that are now frozen in Europe – a loan that would be repaid only after Russia had compensated Ukraine for the damage it caused during the war. The loan would require budgetary guarantees from the member states which would, as soon as the EU’s next Multiannual Financial Framework is in place in 2028, be replaced by collateralization under the EU’s long-term budget. Merz suggested the decision should ideally be unanimous. But failing that – presumably because Hungary and/or Slovakia, the leaders of which are generally supportive of and aligned with President Putin, might block it – he suggested that it be adopted by the large majority of member states that are firmly committed to supporting Ukraine. He also suggested that other non-EU states that have frozen Russian assets participate in the loan. The purpose of the loan, he emphasized, would be strictly for financing Ukraine’s military equipment, rather than for general budgetary purposes, payments would be disbursed in tranches, and the member states and Ukraine would jointly decide on the use of the funds.

In yesterday's letter, von der Leyen spelled out three options for supporting Ukraine in 2026-27: Voluntary bilateral contributions by member states, joint borrowing at the EU level, and the most controversial option – a "reparations loan" based on the cash balances of the frozen financial assets of the Russian Central Bank and other Russian entities. About €185 billion of the €260 billion in Russian sovereign assets that are frozen globally is currently in Euroclear while another €25 billion is held in commercial banks in other EU member states. In her letter, von der Leyen made it clear that the balances in both Euroclear and the commercial banks should be used. But attention has focused especially on the proposed use of the cash balances in Euroclear, since Belgium declared its opposition to the proposal in the Oct. 23 European Council meeting and continues to oppose the proposal. On Friday, von der Leyen met with De Wever to discuss the issue and attempted to persuade him to support the loan. We'll soon find out whether she was successful.

David R. Cameron
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