EU leaders agree to borrow €90 billion for Ukraine in 2026-27. But keep option open of using Russian frozen financial assets.

Denmark Prime Minister Frederiksen, European Council President Costa and European Commission President von der Leyen at press conference Friday after the European Council meeting in Brussels..

Last Thursday and Friday the leaders of the 27 member states of the European Union, who together constitute the EU's European Council, met in Brussels. They had a full agenda, first and foremost being a decision about whether – and if so, how – to provide Ukraine the financial assistance it will need over the next two years. The IMF has estimated Ukraine will need €135 billion in assistance in 2026 and 2027 to enable it to maintain its basic services and cover its military needs.

In early December, European Commission President von der Leyen proposed that the EU cover two-thirds of Ukraine's financing needs over the next two years, which would be €90 billion. She proposed two possible solutions – one involving the EU borrowing in the capital markets and using the EU budget as a guarantee, a solution that would require unanimous approval by the member states; the other involving a so-called reparations loan in which the EU would use the cash balances of the frozen financial assets of the Russian central bank and other Russian entities in Euroclear, the European financial depositary in Brussels, and in other financial institutions in the EU, with the loan to be repaid by Ukraine if and when it receives reparations from Russia for the damage inflicted by its war. That alternative, she said, would require approval by a qualified majority of the member states. A qualified majority is at least 16 of the 27 member states that together have at least 65 percent of the EU population.

Perhaps not surprisingly in view of the fact that Euroclear is located in Brussels, Belgium strenuously objected to the proposal that the EU provide Ukraine with a

reparations loan based on the frozen Russian financial assets, presumably because it feared some type of Russian reprisal. But the alternative to the reparations loan – an EU loan based on it borrowing €90 billion in the capital markets – also had its opponents – most notably, Hungary, Slovakia and Czechia, which objected to being liable for having to repay the loan if, for whatever reason – for example, because it didn't receive reparations from Russia – Ukraine was unable to repay the loan. Perhaps not coincidentally, the leaders of those three states – Prime Ministers Orbán, Fico, and Babiš – are viewed by many in the EU as friends of President Putin.

The EU leaders gathered in Brussels and the European Council meeting began Thursday morning. As of 11 p.m. that night, after fourteen hours of discussion, the leaders still had not reached an agreement to provide Ukraine with the financial assistance it so desperately needs, either with a reparations loan or with an EU loan, and so the meeting continued on past midnight. Finally, at 3 a.m. Friday morning, President Costa posted a message on X: "Decision to provide €90 billion of support to Ukraine for 2026-27 approved. We committed. We delivered."

The decision was announced later on Friday. In a lengthy statement supported by 25 of the 27 heads of state or government said in part, "The European Council underlines the critical need to ensure that Ukraine remains resilient and has the budgetary and military means to continue to exercise its inherent right of self-defense and counter and deter Russia's aggression, also over the long term…..In line with the European Council's previous conclusions which underline that, subject to EU law, Russia's assets should remain immobilized until Russia ceases its war of aggression against Ukraine and compensates it for the damage cause by its war, the European Union, given the unprecedented situation, adopted on the basis of Article 122 TFEU exceptional, temporary and duly justified emergency measures immobilizing such assets on a more sustained basis. The European Council takes note of the statement of the Commission made at the time of adoption of that act. Following the Commission and the High Representative's recent proposals, the European Council calls on the Council and the European Parliament to continue working on the technical and legal aspects of the instruments establishing a Reparations Loan based on the cash balances associated with Russia's immobilized assets. In the meantime, with a view to ensuring the necessary financial support for Ukraine as from the second quarter of 2026, including its military needs, the European Council agrees to provide a loan to Ukraine of €90 billion for the years 2026-2027 based on EU borrowing on the capital markets backed by the EU budget headroom. By means of enhanced cooperation (Article 20 TEU) in respect of the instrument based on Article 212 TFEU, any mobilization of resources of the Union's budget as a guarantee for this loan will not have an impact on the financial obligations of the Czech Republic, Hungary and Slovakia. This loan would be repaid by Ukraine only once reparations are received. Until then, these assets will remain immobilized and the Union reserves its right to make use of them to repay the loan, in full accordance with EU and international law." In short, the Russian financial assets will remain frozen in Euroclear and other financial institutions in the EU and may at some point be used to

assist Ukraine. But for the time being at least, the EU will provide Ukraine the €90 billion it will need in 2026-27 by borrowing the funds in the financial markets.

David R. Cameron
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