Using enhanced cooperation, EU approves €90 billion loan to Ukraine. Orbán, angry about Druzhba & anxious about election, tries to veto it.

The Heads of State or Government of the EU Member States in Brussels on March 19.

On March 19 and 20, the leaders of the 27 member states of the European Union, who together constitute the EU's European Council, met in Brussels for their quarterly summit. As usual, they had a full agenda, including not only Russia's continuing war against Ukraine but also the ongoing war in the Middle East between the U.S. and Israel against Iran. As important as the latter war is for the member states, the war in Ukraine is obviously exceptionally important, not only because Ukraine is a near-neighbor and future member of the EU but also because it desperately needs very substantial financial assistance. At their meeting, the EU leaders overwhelmingly supported a €90 billion loan for Ukraine, notwithstanding the lack of support from the Belgian and Slovakian leaders and the unambiguous opposition of Hungarian Prime Minister Orbán, who tried to veto the loan (although it wasn't clear he had the power to do so since the loan was approved under the EU's rules pertaining to "enhanced cooperation"). The EU leadership and almost all of the governments of the member states intend to move forward with the loan despite the non-support of Belgium and Slovakia and opposition of Hungary, but precisely when that will happen remains uncertain. The loan is substantially less than the €135 billion the IMF estimated Ukraine will need in order to maintain its essential services and cover its military needs in 2026 and 2027. But it will at least provide ample support for Ukraine this year.

The discussion at the European Council meeting was the latest stage in nearly six months of discussion, deliberation, debate and disagreement over whether, and if so how, the EU would provide Ukraine with the financial support it desperately needs. In

her “State of the Union Address” on Sept. 9, 2025, European Commission President von der Leyen, noting the IMF estimate of Ukraine’s financial needs in 2026 and 2027, proposed that the EU use the frozen financial assets of the Russian Central Bank and other Russian financial institutions 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.” There is, of course, no reason to think Russia would ever pay for the reparations, and Ukraine obviously would not be able to pay back the loan without them, so in all likelihood the EU and its member states would be obliged to repay the Russian entities whose cash balances were used if and when their financial assets are no longer immobilized – which, of course, is a good reason why those assets are likely to remain frozen until Russia pays the reparations.

Despite the uncertainty about whether, and if so how, Ukraine would repay the loan and the Russian cash balances would be restored, a number of EU leaders immediately supported the idea and on Oct. 9 the European Parliament adopted a resolution calling on the EU and its G7 partners to immediately approve a proposal to use the Russian financial assets frozen in banks and other financial institutions as a basis for a loan to Ukraine, with repayment by Ukraine contingent on future Russian reparations. On Oct. 20, the EU foreign ministers proposed that the EU lend Ukraine €140 billion based on the frozen financial assets of the Russian central bank and other Russian financial institutions, most of which are held in Euroclear, the EU’s central financial depository in Brussels. About €260 billion in Russian sovereign assets are frozen globally and about €185 billion of the frozen assets are in Euroclear. Another €25 billion in Russian assets are held in commercial banks in other EU member states.

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 assumed Orbán would oppose the proposed loan, which would require unanimous approval. But he stayed away from the meeting for most of the day and reportedly stayed out of the discussion involving Ukraine, perhaps because he already knew the proposed loan wouldn’t obtain the unanimous approval it required. And indeed, another leader – Prime Minister De Wever of Belgium – opposed the loan at the meeting, apparently concerned that, since

Euroclear is located in Brussels, Belgium might suffer adverse legal and/or financial consequences if the proposed loan were made.

After Belgium opposed the loan, von der Leyen wrote to the 27 governments and underscored the "particularly acute" financial situation of Ukraine in 2026 and 2027 – the fact that the IMF had estimated that Ukraine would need €135 billion in 2026 and 2027 – €83.4 billion to fund the military and €52.3 billion to support the economy and cover the anticipated deficit, assuming the war ends in late 2026. She urged the leaders to reach an agreement prior to their December meeting on the amount and form of financial assistance the EU will provide Ukraine in 2026-27 and spelled out three options for providing that support: Voluntary bilateral contributions by the member states; a limited-recourse loan funded by the EU borrowing on the financial markets; or a reparations loan linked to the cash balances of the Russian immobilized assets. She said the Commission proposed that the EU cover two-thirds of the €135 billion Ukraine will need in 2026 and 2027 – €90 billion – with the remainder to be provided by international partners and suggested two ways the EU could do that. One would involve the EU, using its budget as a guarantee, borrowing on the capital markets and lending the funds to Ukraine. That would require unanimous approval by the governments of the EU member states. The other would involve a so-called Reparations Loan in which the EU would use the cash balances of the frozen Russian financial assets in the EU by requiring the Russian institutions to move their cash balances into the instrument of the Reparations Loan and then distributing the funds to Ukraine, which would, through the EU, repay the Russian financial institutions if and when Russia paid reparations to Ukraine. If Russia didn't pay reparations and Ukraine couldn't repay the loan, the member states would have to repay it. Approval of a Reparations Loan would require, she said, a "qualified majority" of the member states. A "qualified majority" in the EU is at least 55 percent of the 27 member states (i.e., 15) with at least 65 percent of the total EU population.

In early December von der Leyen proposed that the EU cover two-thirds of the €135 billion the IMF projected Ukraine will need in 2026 and 2027 – €90 billion – either by borrowing the funds in the capital markets and using the EU budget as a guarantee, which would require unanimous approval by the member states; or by using the cash balances of the frozen Russian financial assets in Euroclear and other financial institutions in the EU, with the loan to be repaid by Ukraine if and when it received reparations from Russia for the damage inflicted by the war. Perhaps not surprisingly in view of the location of Euroclear, Belgium 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 – 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 obliged, with the other member states, to repay the loan if Russia refused to pay reparations to Ukraine or if Ukraine, even with the reparations, couldn't afford to repay it. Perhaps not

coincidentally, the leaders of those three states – Prime Ministers Orbán, Fico and Babiš – are regarded by many in the EU as friends of President Putin.

The EU leaders gathered in Brussels for their usual two-day, end-of-the-year meeting on Dec. 18-19, 2025, and after holding an exchange of views with President Zelenskyy, considered the options presented by the Commission for addressing Ukraine's financial needs in 2026-27. After debating the pros and cons for fourteen hours, the leaders issued a statement in which they said they had agreed to provide a loan to Ukraine of €90 billion for the years 2026-2027 based on the EU borrowing on the capital markets backed by the EU budget headroom. Importantly, they also said that by means of "enhanced cooperation," any mobilization of resources of the Union's budget as a guarantee for the loan wouldn't have an impact on the financial obligations of the Czech Republic, Hungary and Slovakia. And they said the loan would be repaid by Ukraine only after it has received reparations from Russia. Until then, the Russian financial assets will remain immobilized and the EU reserves the right to make use of them to repay the loan if need be, in full accordance with EU and international law. In short, the Czech Republic, Hungary, and Slovakia won't be obliged to contribute any resources as a guarantee for the loan, which will be repaid by Ukraine only after it receives reparations from Russia. And until it does receive reparations, the Russian financial assets will remain frozen.

"Enhanced cooperation," as defined in Article 20 of the Treaty on European Union (TEU) and Title III of the Treaty on the Functioning of the EU (TFEU), is a procedure in which nine or more member states may establish advanced cooperation or integration in a particular field within the EU when it has become clear that the EU as a whole cannot achieve the goals of such cooperation within a reasonable period. It allows the member states to move at different speeds and toward different goals than the member states which decide to stay outside the field of enhanced cooperation. It is designed to overcome stalemate where a particular proposal is blocked by one or more member states who do not want to take part. Authorization to proceed with enhanced cooperation is granted to the Council as a last resort, on a proposal from the Commission and after obtaining the consent of the Parliament.

On Feb. 4, the foreign ministers of the EU member states agreed on the legal framework implementing the European Council's agreement to provide a €90 billion loan to Ukraine for 2026-2027. The loan will be financed through EU borrowing on the capital markets, will be backed by the EU budget, and will become repayable only once Russia has paid war reparations to Ukraine. On Feb. 11, the European Parliament approved the loan of €90 billion to Ukraine by a vote of 458 to 140, with 44 abstaining. The loan will consist of €30 billion in macroeconomic and budgetary support to Ukraine and €60 billion to support Ukraine's investment in defense industrial capacity and the procurement of military equipment.

Following the formal approval of the loan by both the Council and the Parliament, on March 19 the EU leaders formally approved the loan on the basis of "enhanced

cooperation," notwithstanding the non-support of Belgium and Slovakia and the opposition of Hungary. It was at that point, and despite the fact that "enhanced cooperation" requires the approval of only nine member states and that it had been agreed that Hungary, like Slovakia and the Czech Republic, wouldn't be obliged to contribute any resources as a guarantee for the loan, that Orbán vetoed the loan. Orbán's opposition to the loan appears to have been motivated by two issues – the failure of Ukraine to repair the Druzhba (Friendship) pipeline that delivers Russian oil to Hungary and Slovakia, and the possibility that Orbán may lose the upcoming election on April 12. On March 19 as he arrived at the European Council meeting, Orbán said, "We would like to get the oil which is ours from the Ukrainians and which is blocked by the Ukrainians. I will never support any kind of decision here which is in favor of Ukraine if the Hungarians are not able to get the oil which belongs to us." And on March 25, he announced that Hungary will stop supplying gas to Ukraine if the westward movement of Russian oil through the Druzhba pipeline is not restored. But as difficult as it may be for Hungary and Slovakia that the pipeline remains closed for repairs and they aren't able to receive Russian oil, it is of course not surprising that Ukraine is taking its time in repairing the pipeline, given that the delivery of Russian oil to Hungary and Slovakia would result in payments to Russia that would support its war against Ukraine.

The other EU leaders quickly condemned Orbán's veto. António Costa, the President of the European Council, said Orbán's effort to block the loan was "completely unacceptable" and a "clear violation of the principle of sincere cooperation. Nobody can blackmail the European institutions." He warned that it is likely to disrupt "the continuity of the decision-making process" enshrined in EU law. Speaking of the reactions of the other leaders at the meeting, he said, "The words were tough because the situation deserved these words," adding that no EU member state previously "had dared before to block a decision we had already taken. A deal is a deal. We need to honor our word. And no one can blackmail the European Council."

A number of EU leaders sharply rebuked Orbán as well, and not only at the meeting on March 19 but also publicly. Chancellor Merz, for example, called Orbán's veto "an act of serious disloyalty…This will leave its mark. This is a serious violation of the principle of loyalty of the member states amongst each other, and it damages the standing of the European Union." Speaking to reporters after the meeting, Merz said, "Colleagues who have been members of the European Council far longer than I have were deeply angered by what happened today. It is a gross act of disloyalty within the European Union. I am firmly convinced it will leave deep marks." President Macron also condemned Orbán's veto: He said the meeting's outcome was "unprecedented" and the earlier unanimous agreement on the loan "must be respected and implemented without delay, in accordance with the principle of loyal cooperation." Immediately after the meeting, 25 of the 27 leaders – all but Orbán and Prime Minister Fico of Slovakia – issued a joint statement in which they said they "look forward to the first disbursement to Ukraine by the beginning of April." Orbán for his part said his government will maintain its veto on the loan until Russian oil deliveries move westward through the

Druzhba pipeline: “I will never support any kind of decision here which is in favor of Ukraine. The Hungarian position is very simple. We are ready to support Ukraine when we get our oil, which is blocked by them.”

Orbán’s attempt to veto the Ukraine loan has already had a significant adverse financial consequence for Hungary. The EU’s SAFE (Security Action for Europe) program provides funding to the member states for the procurement of weapons. The governments of 19 of the 27 member states have expressed interest in participating in the program and receiving defense and security funding under SAFE. Approximately €16 billion has been budgeted for rearmament loans to Hungary. On March 25, a few days after the European Council meeting, the EU approved defense plans submitted by France and the Czech Republic for support through SAFE, bringing the number of member states with approved plans to 18. As of that date, there was only one member state which had not yet received approval of its SAFE plan – Hungary. As one EU official put it, “It is difficult for the European Commission to approve billions of euros for Viktor Orbán when he violates the principle of ‘loyal cooperation’ and blocks funds for a country at war with Russia.”

On April 1, the Commission, disregarding Orbán’s attempt to block the loan to Ukraine, moved forward with it. It proposed that the Council provide €45 billion in support for Ukraine by December 31, 2026, with the remaining €45 billion being made available to Ukraine in 2027. Von der Leyen said, “We will deliver on the €90 billion loan to Ukraine. Today, we are taking the necessary preparatory steps to mobilize this year's budget and procure defense equipment, with a focus on Ukraine's cutting-edge drone industry. With this we send a clear message: the Commission stands ready to move forward. As we mark four years since the Bucha massacre, we remain fully and firmly behind the brave people of Ukraine and their fight for freedom.” Bucha is a small city just west of Kyiv in which more than 500 men, women and children were killed by Russian troops in February and March of 2022.

After the EU Council approves the disbursement, the Commission said it will move as quickly as possible to pay the first tranche. The 2026 funding will include €16.7 billion in budgetary support, split equally between the Ukraine Facility program and macro-financial assistance, and €28.3 billion to bolster Ukraine’s defense-industrial capacity. The Commission said the budget support will be tied to strict conditions on the rule of law, anti-corruption measures, and economic resilience and stability. But it also noted that it allows Ukraine to use exceptions for the procurement of drones and other urgent defense purchases and that additional procurement schedules for other defense items, including missiles and ammunition, can be published in the coming months.

As important as Ukraine’s continued refusal to repair the oil pipeline was in prompting Orbán’s opposition to the EU loan, there was another important factor that contributed to his opposition to the loan – the fact that Hungary faces an election on April 12 and the latest polls by firms not affiliated with the government indicate that Orbán’s party, Fidesz, may lose to Tisza, the center-right and pro-EU Respect and Freedom Party led

by Péter Magyar. After announcing his dissatisfaction with the government and the existing opposition, Magyar assumed the leadership of Tisza, at the time a very small party, in 2024. Fidesz, which received 54.1 percent of the vote in the April 2022 election, is projected in the latest polls by organizations not connected to the government to receive 37-40 percent of the vote on April 12, which would be a very significant setback. In contrast, Tisza, which with Magyar leading it won 29.6 percent of the vote in the 2024 European Parliament election, the highest share of the vote in any election for any Hungarian party other than Fidesz since 2006, is projected to receive 49-56 percent of the vote on April 12. If Tisza in fact does as well as the latest independent polls suggest, Magyar could end up replacing Orbán as the Prime Minister of Hungary. There are many people in Hungary, the other member states of the EU, and Ukraine who think that would be a very good outcome.

David R. Cameron
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