Frozen Russian Assets

The EU's plans for a "reparations loan" for Ukraine

→ The EU's innovative proposal to leverage frozen Russian assets for a €140 billion "reparations loan" to aid Ukraine has hit a significant legal and political impasse, as Belgium blocked the plan over concerns of litigation and financial liability.

→ The EU's central challenge is to mobilize funding to support Ukraine meaningfully, preserve the euro's credibility as a reserve currency, stay within the law, and avoid legal and financial liability for Belgium and other EU member states holding assets if Russia successfully retaliates.

Introduction

Russia's invasion of Ukraine in 2022 triggered sanctions that immobilized approximately €300 billion in Russian central bank assets worldwide.

As Ukraine's financing needs grow and U.S. support has waned, the European Commission floated a "reparations loan" that would raise €140 billion by leveraging the frozen principal as collateral. Ukraine would repay the loan if Russia eventually provides war reparations.

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However, the EU plan hit an impasse when Belgium blocked it from moving forward at a 23 October European Council leaders meeting.[1] A follow-up technical meeting was held on 7 November, but it failed to break the deadlock.

The proposed loan

The proposed vehicle would sit on top of the G7 "Extraordinary Revenue Acceleration" loans, which are backed by windfall profits generated by the immobilized assets.[2] It would raise about €140 billion from the roughly €210 billion of Russian assets held in the EU after settling a prior €45 billion loan.[3] Rather than confiscating funds, it would channel maturing cash balances into EU instruments. Proceeds would be lent to Ukraine with repayment contingent on future reparations.

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Belgium's position and impact on Ukraine

Belgium, as custodian of the Euroclear depository, holds nearly €170 billion of Russian cash reserves.[4] Leading up to the 23 October meeting, Belgium requested guarantees that it would not face legal or financial consequences if Russia successfully retaliated against the reparations loan.[5] Specifically, it sought protections in the event of an adverse judicial ruling and burden-sharing if it was forced to repay the money.[6]

EU diplomats tried to address Belgium's concerns while still including language in the draft joint statement to instruct the Commission to develop a legal proposal for the reparations loan. Belgium was dissatisfied with the EU's assurances and watered down the statement. Leaders agreed on 23 October to make a final decision on the issue at the next summit, currently scheduled for 18 December, after exploring alternatives.

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The impasse reveals a broader collective action dilemma within the EU. Belgium's concerns illustrate the tension between national financial stability and collective EU solidarity; while some countries may prefer stronger, more ambitious action, Belgium's significant exposure makes it more vulnerable to Russian retaliation.

Moreover, Belgium's opposition undermines the Commission's goal of approving additional financial support for Ukraine by the end of the year.[7] It also complicates Kyiv's budget planning as it seeks help to cover its $60 billion budget gap for 2026-2027.[8] The Ukrainian government spent more than 60% of its total budget on the army in the first nine months of the year.[9] The country is heavily reliant on financial support from its Western partners to meet its social and humanitarian spending.[10]

Policy precedent and legal trade-offs

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There are few modern precedents for confiscating a central bank's assets when the sanctioning states are not at war. The handling of Iraqi assets in 2003 followed authorization by the UN Security Council, which directed the release of frozen funds to the Development Fund for Iraq.[11] In 2011, the UN Security Council voted to impose sanctions on Libya, including an asset freeze on certain individuals and entities, but it was not a wholesale collateralization or redistribution.[12] In the case of Afghanistan, a Swiss-based trust was created in 2022 to hold part of the frozen central bank reserves for macroeconomic stability, yet those funds were not securitized.[13] By contrast, the EU proposal is neither a UN-sanctioned reallocation nor a conventional countermeasure under international law.

The use of windfall profits (extraordinary revenues) collected by Euroclear has passed legal muster. It is servicing the existing G7 loan to Ukraine.[14] By contrast, de facto principal confiscation—or collateralization that functions similarly—would be vulnerable to litigation.[15]

Freezing state assets as a countermeasure can be justified under international law when responding to grave breaches such as aggression; collateralizing or monetizing those assets, however, moves beyond traditional countermeasure doctrine. Specifically, the UN Charter authorizes collective security measures, and the Vienna Convention on the Law of Treaties imposes limits on interfering with sovereign property.[16] However, the EU proposal risks blurring the line between lawful restraint and *de facto* expropriation without UN Security Council authorization.

Financial and geopolitical implications

The European Central Bank warns that repurposing sovereign reserves can erode trust in the euro as a reserve asset.[17] The euro's share of global foreign-exchange reserves averaged 19.7% in 2024, compared with 21.2% in 2013, when the euro area was emerging from the sovereign debt crisis.[18] This long-term erosion in the euro's international role suggests that even modest shocks to legal credibility could accelerate diversification away from euro-denominated assets.

Moving from immobilization to collateralization of principal could be seen as a step change, prompting some central banks—especially in non-aligned countries—to trim euro exposures or shift custody. Reserve managers are currently diversifying, notably via steady gold purchases.[19] Crypto, though, is not a meaningful reserve alternative for sovereigns.[20]

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When compared with the potential risks posed by the post-2012 crisis, the current plan would test the euro's legal credibility. In contrast, the driver of the post-2012 crisis was financial fragmentation risk as doubts emerged about the stability and future of the monetary union. The post-2012 crisis resulted in a 1.9% loss (from 23.1% to 21.2%) in currency shares in foreign exchange reserves from 2010 to 2013. A similar shift away from euro-denominated holdings would imply a capital reallocation of nearly $250 billion, based on the $13 trillion in foreign-exchange reserves disclosed globally in 2025Q2.[21] The EU's proposal appears to pose a subtler risk, suggesting that if the EU implemented it, the losses would be smaller.

Because Euroclear holds the largest share of these assets, aggressive measures without ironclad legal protection could trigger lawsuits, impair the Central Securities Depositories' balance sheet, and force public backstops. For many non-Western creditors, commandeering sovereign assets—even indirectly—looks like expropriation. Normalizing such use of immobilized reserves lowers the barrier to similar steps in future crises and erodes trust in Western legal frameworks.[22]

Possible scenarios include:

- The EU limits actions to windfall profits, and any cash balance measures are tightly ring-fenced and sunsetted; the markets remain calm, and disputes play out in court.

- Litigation creates uncertainty, causing some reserve managers to diversify incrementally into gold or non euro custody. Funding costs tick up but remain manageable if guarantees are mutualized and risk limits are clear. However, clear, joint communication and backstops help prevent a systemic turn.

- If Russia escalates counter-sanctions and China condemns principal action, leading official investors limit their exposure to the euro.[23]

The proposed reparations loan, in its current form, is a high-stakes gamble that risks undermining the euro's standing and creating contingent liabilities for EU Member States and taxpayers, in return for a temporary funding boost unlikely to match Russia's resource mobilization or to determine the war's military trajectory

Policy recommendations

The EU wants to make Russia, the aggressor, pay and provide increased financial support to Ukraine. However, the proposed reparations loan is a high-stakes legal and financial gamble that risks undermining the euro's standing and creating contingent liabilities for EU Member States and taxpayers, in return for a temporary funding boost unlikely to match Russia's resource mobilization or to determine the war's military trajectory.

Instead, the EU should consider a more credible and conservative path.

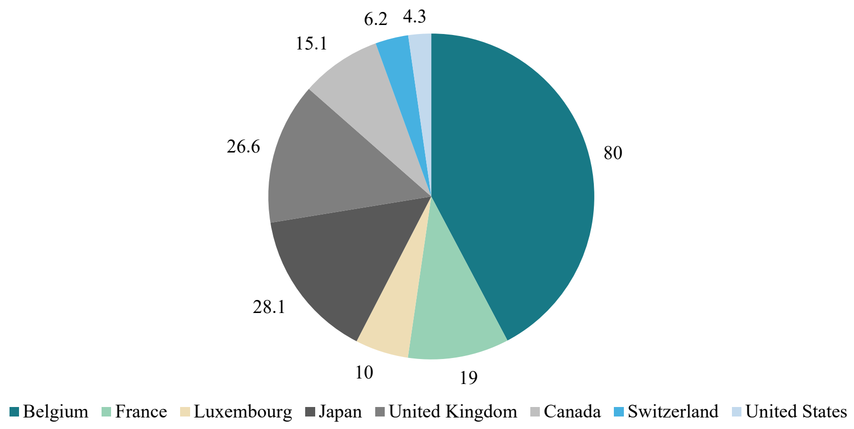
1. Preserve the legal line between principal and the windfall profits the immobilized assets generate. Direct the windfall profits to the Ukraine support mechanism and avoid principal confiscation or collateralization.

2. If borrowing beyond extraordinary revenues, back it with joint EU guarantees to share risks.[24]

3. Include an explicit, limited mandate; ring-fencing; clear beneficial use limits; robust governance; transparency; and sunset clauses that emphasize the unique nature of the response.

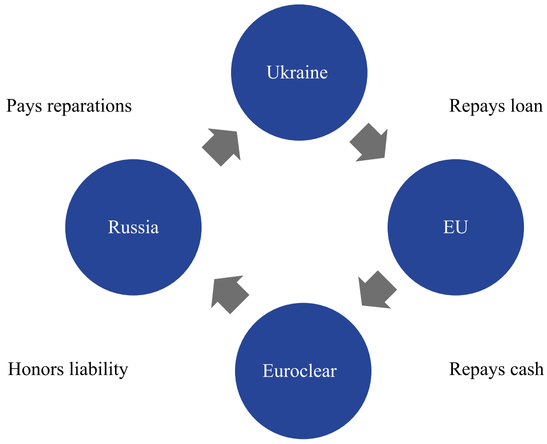
This approach could sustain EU support for Ukraine and uphold accountability while protecting the euro's credibility and the stability of Europe's financial architecture.

EXHIBIT 3.0 – MAIN EU AND NON-EU JURISDICTIONS OF FROZEN RUSSIAN ASSETS, 2025 (€ BILLION)



Source: The European Parliament.

EXHIBIT 4.0 – HOW THE PROPOSED EU REPARATIONS LOAN WOULD WORK



Source: Euronews.

Notes

[1] https://www.politico.eu/article/politico-belgian-pm-bart-de-wever-eu-summit-brussels-bad-boy-leade/

[2] https://www.euronews.com/my-europe/2025/11/07/eu-commission-and-belgium-see-no-breakthrough-in-ukraine-reparation-loan-talks

[3] https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/775908/EPRS_BRI(2025)775908_EN.pdf

[4] *Ibid.*

[5] https://www.ft.com/content/9ec35777-2dc5-48ca-97bf-ae760f06eda0?

[6] https://www.politico.eu/article/politico-belgian-pm-bart-de-wever-eu-summit-brussels-bad-boy-leade/

[7] https://www.euronews.com/my-europe/2025/11/07/eu-commission-and-belgium-see-no-breakthrough-in-ukraine-reparation-loan-talks

[8] https://www.reuters.com/business/eu-will-seek-exclude-ukraine-loan-guarantees-deficit-calculations-2025-10-10

[9] https://www.reuters.com/world/ukraine-parliament-amends-2025-budget-raises-defence-spending-wartime-record-2025-10-21/

[10] https://www.reuters.com/business/finance/ukraine-plans-2026-budget-with-184-deficit-pm-says-2025-09-15/

[11] https://2001-2009.state.gov/r/pa/prs/ps/2003/20888.htm

[12] https://main.un.org/securitycouncil/en/s/res/1970-%282011%29

[13] https://www.state.gov/wp-content/uploads/2025/08/Report-Proposed-Uses-of-the-Afghan-Fund-006158-508-Accessible-HRC1161348.pdf

[14] https://ec.europa.eu/commission/presscorner/detail/da/ip_25_827

[15] https://www.europarl.europa.eu/thinktank/en/document/EPRS_STU%282024%29759602

[16] https://legal.un.org/ilc/texts/instruments/english/conventions/9_1_1961.pdf

[17] https://www.reuters.com/world/europe/eu-must-follow-law-using-frozen-russian-assets-help-ukraine-lagarde-says-2025-10-06/

[18] https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire202206_annex.en.pdf

[19] https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr250611_1~cacafe182f.en.html

[20] https://www.bis.org/publ/arpdf/ar2025e3.htm

[21] https://data.imf.org/en/news/october%201%202025%20cofer

[22] https://www.reuters.com/world/europe/eu-must-follow-law-using-frozen-russian-assets-help-ukraine-lagarde-says-2025-10-06

[23] https://www.reuters.com/business/finance/russia-warns-europe-we-will-go-after-any-state-which-takes-our-assets-2025-09-15

[24] https://www.reuters.com/business/eu-will-seek-exclude-ukraine-loan-guarantees-deficit-calculations-2025-10-10