Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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"Reparations loan" – how the EU is trying to turn Russian assets into political leverage

The European Union is seeking a new way to finance Ukraine as the war approaches its fourth year and donor fatigue becomes increasingly evident. The solution gaining traction in Brussels in recent weeks is called a "reparations loan".

The idea is to provide up to 130 billion euros using the frozen funds of the Central Bank of Russia, which have been blocked since 2022, and to make these funds available to Ukraine in advance, with the account to be settled in the long term through reparations that Moscow might one day be obliged to pay.

Unlike earlier discussions of confiscation, this proposal avoids outright seizure of property. The focus is on the assets already in the system, particularly at Euroclear (a European financial institution based in Belgium that holds and processes government bonds and other securities for clients worldwide), where many Russian bonds have matured and been converted into cash.

These funds formally remain Russian but could be used as collateral for credit. This ensures stable financing for Ukraine and provides the Union with a mechanism independent of each new political agreement.

Legal and political dividing line

The main obstacle from the outset is the legal framework. Confiscation would create a direct conflict with international law and provide Moscow the opportunity to pursue disputes that could last for years.

Therefore, a solution is being sought that does not formally change ownership but functionally enables the use of the property. This would involve a special fund or legal entity standing between the EU and the frozen funds, through which the loan would be implemented.

If the package is structured as a financial arrangement within the Union's internal rules, the decision can be taken by a qualified majority

The political challenge lies in the decision-making process. When the measure is conducted as part of the sanction regime, a unanimous decision is required, which allows for a veto by those members who have used the blockade as a means of pressure for years.

If, however, the package is structured as a financial arrangement within the Union's internal rules, the decision can be taken by a qualified majority.

Germany and France as guardians of the system

Berlin has indicated its willingness to consider such a solution, provided it does not undermine confidence in the European financial system.

The euro remains the key reserve currency, and any suggestion that the EU can arbitrarily dispose of others’ assets could jeopardise the status of European bonds.

Baltic countries and Poland do not view this loan as financial manoeuvring but as a security matter

Therefore, they insist on a formula that does not affect formal ownership but instead uses liquidity.

Paris shares this view, while also stressing the political urgency: Ukraine must receive the funds now, not in a year or two.

For the Baltic countries and Poland, the issue is even more immediate. They do not view this loan as financial manoeuvring but as a security matter. They are pushing for a swift agreement, even if it leads to legal challenges later.

The role of Euroclear

Belgium's Euroclear holds the largest share of blocked Russian assets. Over the past three years, some bonds have matured, converting into cash. This is what enables the EU to consider such a model at all.

The cash is frozen but can serve as collateral for a loan without formal confiscation. The idea is to create a fund that uses this liquidity to provide financing to Ukraine.

This could generate a credit capacity of around 130 billion euros from several tens of billions in actual funds.

For Ukraine, this instrument would provide stable and predictable financing in the coming years. For the EU, it would ease pressure on national budgets.

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However, if Moscow never pays reparations, the cost will fall on European governments. It is therefore crucial to determine now who guarantees the loan and how the burden is shared, as otherwise financial aid to Ukraine could easily become a source of internal political crises within the Union.

Another risk concerns reputation. If markets perceive that the EU is using legal improvisations to access others' assets, confidence in European financial channels could weaken.

This is why so much attention is paid to the form: it is emphasised that ownership does not change, but that frozen cash is used temporarily.

A message to Moscow and the world

If the Union succeeds in implementing this idea, the message to Moscow will be clear: the frozen funds will not remain unused and can be leveraged to finance Kyiv.

This would undermine Russia's calculation that Western fatigue will reduce aid to Ukraine.

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For the markets, it would be a test of the Union's ability to combine political decisions and financial techniques without endangering the system.

Credibility test of the European Union

What lies before European leaders is not just another aid package for Kyiv, but a decision that could shape the political and financial architecture of the Union for years to come.

If the credit mechanism is established, Europe will demonstrate that it can turn frozen funds into a long-term policy lever and link solidarity with financial discipline.

If it fails, it will be clear that internal differences still outweigh strategic goals.

The stakes significantly surpass a total of 130 billion euros

The stakes significantly surpass a total of 130 billion euros. The issue is whether the Union can show it has the capacity to act independently and consistently, or whether it will again confirm that it is constrained by its own procedures and blockades that each capital can exploit.

The question is not only the size of the loan but also whether the Union can prove it has the will and capacity to act as a whole in a war that has been shaping the continent's security order for three and a half years.