

A bitter compromise over the EU's financial assistance to Ukraine

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During its summit on 18–19 December, the European Council did not agree to grant Ukraine the so-called reparations loan based on frozen Russian assets. However, a decision was taken to provide Kyiv with an interest-free loan of €90 billion, financed through joint EU borrowing on financial markets and backed by the EU budget headroom. Reaching unanimity within the European Council on this issue was made possible by excluding the Czech Republic, Slovakia, and Hungary from the financial guarantees for the EU-incurred loan. The remaining states are acting on the basis of Article 20 of the Treaty on European Union, which allows a group of states to engage in so-called enhanced cooperation using EU institutions, including for the purpose of protecting the interests of the EU.

The loan is intended to cover two thirds of Ukraine's need for external financial assistance in 2026–2027 (the remaining portion is to be secured by other partners from the G7 group, apart from the United States). Ukraine will be obliged to repay the loan only if it receives reparations from Russia. If this does not occur, the European Council reserves the right to use the assets of the Central Bank of Russia frozen within the EU to settle the claims.

Financial assistance for Ukraine after 2027 may be provided directly from the EU budget under the Multiannual Financial Framework for 2028–2034 (the European Commission's proposal amounts to €100 billion). Work is to *continue on* the regulation proposed by the Commission concerning the so-called reparations loan. This had previously been the instrument preferred by the Commission and most member states for the continued financing of Ukraine, but the European Council failed to reach agreement due to opposition from Belgium and other countries.

The compromise on further financial assistance for Ukraine secures part of its financial needs over the next two years and strengthens Kyiv's political position in the context of US pressure to conclude a peace agreement quickly. However, the failure to agree on a reparations loan represents a political defeat for the EU. This outcome is likely to encourage Russia to pursue a more aggressive policy and, at the same time, may be perceived as a sign of willingness on the part of at least some member states to engage in direct talks with Moscow (as suggested by French President Emmanuel Macron following the European Council summit).

Commentary

- **The European Council opted for a scenario that secures Ukraine's short-term interests but at the same time highlights the EU's failure, as it postpones decisions regarding Russian assets.** Attempts by the President of the European Council, António Costa, to reach a compromise on safeguards for Belgium in connection with the 'reparations loan' failed to gain its approval and raised legal concerns in France and Italy. Strong pressure from Germany and the European Commission to push through the 'reparations loan' also proved ineffective. Joint borrowing does not create an immediate burden on the budgets of the 24 participating member states, although it may affect credit rating. One of the conditions of the loan is the strengthening of the European and Ukrainian defence industries, which will likely involve, among other initiatives, financing Ukrainian arms purchases within the EU.
- **There is a risk that the most politically favourable moment to use Russian funds to finance Kyiv has already passed.** However, the prospect of returning in the future to the 'reparations loan' scenario may serve as a bargaining chip in the EU's relations with the United States and Russia. Since the beginning of Russian–American negotiations, the largest European states have expressed dissatisfaction with the passive role played by Europeans in this process. The EU Council regulation of 12 December extends the freezing of Russian assets until the end of the war and the payment of reparations by Russia, which minimises the risk of their unfreezing in the event that Hungary or Slovakia were to sabotage the extension of sanctions. The use of the assets to support Ukraine may nevertheless be blocked in the future by member states concerned about the prospect of the nationalisation of their assets in Russia.
- **EU assistance is of fundamental importance for Ukraine's financial stability over the next two years.** According to estimates by the International Monetary Fund (see '[Ukraine: an unrealistic budget for 2026](#)'), Kyiv's unfunded financing needs for 2026–2027 amount to \$63 billion, while existing forms of assistance have largely already been exhausted. For example, by November this year, Kyiv had received nearly \$35 billion of the \$50 billion available under the Extraordinary Revenue Acceleration Loans for Ukraine mechanism (ERA; see '[The G7 summit: \\$50 billion has been promised to Ukraine](#)'), consisting of loans from the G7, as well as €24.5 billion of more than €38 billion from the budgetary support component of the Ukraine Facility.
- **The Kremlin received the EU's decision to postpone the option of using frozen Russian assets for Ukraine's needs with satisfaction and interpreted it as a sign of weakness on the part of the member states.** In recent months, Russia has undertaken intensive efforts to sabotage EU plans to activate this option. At the beginning of December, the Central Bank of Russia filed a lawsuit with a Moscow court against the financial institution Euroclear, demanding the return of the assets and compensation for incurred losses, amounting in total to approximately €230 billion. In addition, the Russian authorities threatened to confiscate the private assets of Western entities in Russia. European intelligence agencies also reported attempts to intimidate Belgian politicians and senior executives in the financial sector. The increased activity of drones disrupting Belgian airports can also be viewed in this context.