

Design principles for the Ukraine Reparations Loan Initiative

On 25 September 2025, the Commission services have circulated a note outlining the key parameters of an initiative for a Reparations Loan to Ukraine. To finance the Reparations Loan, the EU would borrow the cash balances of Euroclear that have accumulated because of the immobilisation of the Russian sovereign assets.

To this end, the EU would issue a tailor-made debt contract to Euroclear, backed by Member States. The proceeds of this EU borrowing from Euroclear would be used to provide a Reparations Loan to Ukraine, which it in principle should only repay when Russia ceases its war of aggression against Ukraine and compensates it for the damage caused by this war.

The initiative has been discussed in Coreper, EFC, the Financial Councillors group, and Ecofin, with an overall favourable reception. Member States also highlighted some points to be addressed in the further design of the initiative. This note provides an overview of these points and could serve as a basis for the formulation of a set of design principles.

Respect of European and international law

Sovereign immunity is an important principle in international law and must continue to be respected. Furthermore, to stay within the limits of both European and international law, restrictive measures must respect the right to property, be proportional, temporary and reversible.

The Reparations Loan scheme as outlined in the note from the Commission services is fully in line with these principles. The Russian Central Bank claim on Euroclear (i.e. the Russian asset) remains untouched: the assets are **not** confiscated. It should be noted that as regards the Russian Central Bank claim, the only difference between the Reparations Loan and the ERA loan initiative is that the cash balances accumulated because of the immobilisation of the Russian sovereign assets are invested by exchanging them for an EU debt instrument rather than making a deposit with the ECB¹. This has no impact, either *de jure* or *de facto*, on the claim that the Russian Central Bank holds against Euroclear. In addition, the measure is proportionate given the ongoing aggression against Ukraine and the grave violation of the UN charter. The measure is by its nature temporary as there are clear triggers for the reversal of the measure: once *Russia ceases its war of aggression against Ukraine and compensates it for the damage caused by this war*, the claim of the Russian Central Bank on Euroclear would be honoured.

Mutualisation of risks

Even though the Reparations Loan would be designed in full respect of European and international law, it carries financial risk associated to the end of the immobilisation of the assets of Russia – decided by the Council – without Russia having paid at least equivalent compensation to Ukraine. To protect against such a risk, a robust framework needs to be in place ensuring that the Union will always be able to pay Euroclear, where such framework should ensure that risks are spread collectively amongst Member States.

¹ Whilst the majority of the cash balances are in the euro and are deposited with the ECB, some amounts are in other currencies and are accordingly deposited elsewhere.

An associated risk is that Belgium has to pay compensation under its bilateral investment treaty regarding the continued immobilisation of the Russian sovereign assets in Euroclear – which underpins the Reparations Loan. The Commission services assess this latter risk as very limited. The immobilisation of the Russian assets is firmly based in EU and international law and, as such, is not imputable to the Belgian State but to the Union. Further, any potential award could not be enforced in the EU (Council Regulation (EU) No 833/2014 Article 11(2a)) and if enforced against assets outside of the EU, the exposure towards the Russian Central Bank would be reduced correspondingly. This results in a remaining residual risk that is both low in probability of materialising and low in value. As though the continued immobilisation of the Russian sovereign assets until such time Russia ceases its war of aggression against Ukraine and compensates it for the damage caused by this war is a critical part of the Reparations Loan initiative, it is appropriate that this residual risk is also mutualised amongst Member States.

Safeguarding financial credibility

To ensure financial credibility, Euroclear should always have timely access to its cash balances when needed to repay the Russian Central Bank. In this context, it should be noted that under the Reparations Loan initiative, Euroclear's exposure is to the Union (as cash balances would be exchanged against a Union debt instrument). A solid guarantee and liquidity structure should be put in place to ensure that the EU can always honour its obligations to Euroclear. For that purpose, it is suggested to build a system of bilateral guarantees from Member States to the Union, which will also embed a liquidity mechanism to the Member States' guarantees, ensuring access to the required liquidity when needed to satisfy any guarantee call. The guarantees would be released once a new MFF and a new Own Resources Decision - with an adequate cover under the headroom - come into place.

No rerouting to national debt

In the model outlined by the Commission services, it would be the Union that borrows the cash balances from Euroclear, with the backing of national guarantees, and it would also be the Union that provides funds to Ukraine. Given this, the expectation is that this would be considered Union debt and that there would be no-rerouting to the national debt of the Member States. The principal risk on the guarantees that would be provided until the new MFF headroom is available is the remobilisation of the Russian assets without Russia having compensated Ukraine for the damage caused by its war of aggression, for an at least equivalent amount. It is expected that such guarantees would be classified as contingent liabilities of the Member States and that only if guarantees were to be called an expenditure would be recorded in the national accounts of the Member States. EUROSTAT will only be able to give its views on this classification once the initiative has been elaborated in detail.

Contributing to the development of the Ukrainian and European technological and defence industrial base, while retaining sufficient flexibility

In the discussions regarding the Reparations Loan, several Member States have suggested that the proceeds of the loan should be used primarily for defence procurement in Europe. Others have insisted on the need for flexibility with 'no earmarking of funds'. A good middle ground would be a mechanism consisting of two legs. The first, and biggest leg, could support the development of Ukraine's defence technological and industrial base and its integration into the European defence

industry, including through the procurement of defence material. This leg would be based on the same logic as SAFE and would in principle restrict procurement to Ukraine and the EU. The second leg would consist of budget support, subject to appropriate conditionality. This part of the support would be an important contribution to the finance assurances need for a new IMF programme. It would also provide flexibility and fiscal space to Ukraine to finance its military expenditures that could not be covered from the first leg.

Fair burden sharing

To date the European Union and its Member States have provided EUR 178 billion in support to Ukraine, far more than any other country in the world. The Reparations Loan would lead to very significant additional support, indicatively of a round EUR 45 billion per year for the years 2026, 2027 and 2028. This phased approach would also allow for a proper management of risks prior to the new MFF falling into place. To maximise pressure on Russia and to ensure that Ukraine remains properly resourced for the foreseeable future, G7 and other international partners should step up their support for Ukraine alongside the EU. G7 partners should be encouraged to replicate the Reparations Loan with cash-balances associated with assets in their jurisdiction and provide additional support on top of this considering the much smaller amount of immobilised assets in their jurisdictions. Such additional support could include support to the Union's Reparations Loan. Cooperation under the first leg of the Reparations Loan initiative regarding the development of Ukraine's technological and defence industrial base could be envisaged with international partners that commit to provide substantial additional support.

Addressing the ERA exposures

To date, EUR 25.3 billion has been disbursed under the ERA loan initiative. The remainder will be disbursed in 2025 (EUR 7.9 billion), 2026 (EUR 10.7 billion) and 2027 (EUR 1.2 billion). Under the G7 ERA loan initiative, the loans plus interest are repaid from a financial contribution based on the interest that Euroclear earns on the cash balances associated with the immobilised Russian assets. This currently exposes ERA lenders to a number of risks. First, the speed of repayment depends on the evolution of the ECB's overnight rate. Second, if the sanctions are lifted – and the assets returned to Russia – the stream of revenues from Euroclear's cash balance would cease to exist. If the lifting of the immobilisation takes place without reparations being received, which would allow Ukraine to repay the ERA loans liability, the ERA lenders would be exposed.

The Reparations Loan will have additional implications for the ERA construction. Notably, as Euroclear's cash balances transition to a zero-interest claim against the EU, the interest revenues underpinning the ERA construction would fall.

To address this issue, a contribution agreement with Ukraine could be put in place where Ukraine would contribute to the repayments of the ERA loans for an amount equal to the amount that would have been available if the cash balances of EUR 185 billion were still invested as a deposit with the ECB. This contribution agreement could be structured to ensure that the risks for G7 partners do not change. Part of the Reparations Loan should be retained for this purpose.

Exploring an expansion of the scope of assets for a Reparations Loan

In addition to the amounts of immobilised Russian Central Bank assets in Euroclear, there are around EUR 25bn of immobilised Russian Central Bank assets in several EU jurisdictions. Those assets are mainly held as deposits in bank accounts in private banks, which are in a different situation than CSDs. It should be considered whether the Reparations Loan initiative could be extended to other immobilised assets within the EU. Nonetheless, as these immobilised assets are in several Member States, in a number of different banks, under a variety of contractual relationships with the Russian Central Bank, the legal feasibility of extending the Reparations Loan approach towards such assets has not been assessed in detail. Such an assessment would need to take place before taking a decision on further steps.