

## **Seven things to know about the EU's €90bn loan to Ukraine**

*di Agathe Demarais*

European Council meetings are rarely nerve-racking, but the one that took place on 18th-19th December broke the mould. Two topics were at the top of the agenda: a long-awaited free-trade agreement with the Mercosur economies and a loan to Ukraine using Russia's EU-held immobilised central bank reserves.

The discussion did not unfold as planned. The signing of the Mercosur deal was postponed to January, and while the EU will provide a €90bn loan to Ukraine for 2026-27, the bloc will finance the scheme through EU debt—leaving Russia's immobilised central bank assets untouched.

Here are seven takeaways on what the EU's decision to grant a €90bn loan to Kyiv using the EU budget means for Europeans, Ukraine and the fate of Russian reserves.

### **1. The quick, big picture take: Ukraine gets a much-needed financial lifeline**

The main take away from the European Council meeting is that Ukraine has secured a much-needed financial lifeline. The IMF projects that Kyiv faces a funding gap of roughly €130bn for 2026-27. This means that without the EU loan, Ukraine would have run out of money to finance the war in Spring 2026. Such a development would undoubtedly weaken Kyiv's position in the ongoing peace negotiations between the US and Russia. From that perspective, the EU loan is brilliant news.

### **2. The underappreciated good news: Russia's central bank reserves are immobilised indefinitely**

The €90bn EU loan to Ukraine is grabbing the headlines, but another recent European move around Ukraine may be almost as consequential. To understand it, it is crucial to know that EU sanctions, including the immobilisation of around \$300bn in Russia's

central bank assets, need to be renewed every six months with the unanimous approval of 27 member states.

This situation gave Russia-friendly member states like Hungary leverage to extract concessions from Brussels in return for their backing—with the drama unfolding every six months. Now, Brussels has stripped Budapest of this leverage: in mid-December the EU immobilised Russia's central bank assets indefinitely, putting an end to Hungary's blackmailing.

### **3. The intriguing stuff: The EU is exploring alternatives to unanimity**

In theory, the EU's decision to immobilise Russia's central bank assets indefinitely should have required the unanimous approval of EU member states, as is customary for sanctions-related policies. To get around Hungary's and Slovakia's vetoes, the EU Commission made an unexpected move: it invoked crisis-times powers (Article 122 of the Treaty of the European Union) to adopt the measure with the backing of only a qualified majority of member states (15 countries representing 65% of the EU population).

The fine print of the EU loan to Ukraine further shows how Brussels is increasingly manoeuvring to sidestep the veto of reluctant member states on foreign policy. EU lawyers drafted a workaround using another obscure clause (Article 20 of the Treaty of the European Union) that allows some form of “enhanced co-operation” among a coalition of willing member states. In practice, only 24 member states will contribute to financing the loan for Ukraine—Hungary, the Czech Republic and Slovakia are out of the scheme.

### **4. The not-so-great: Fear of Russian retaliation influences EU policy**

It was not just Russia-friendly states that opposed using Russia's immobilised central bank reserves to grant a loan to Ukraine. Belgium, where 86% of EU-held Russian assets are located, was particularly vocal. “Moscow made it clear that if confiscation happens, Belgium and I personally will feel the consequences for eternity. That seems like a rather long time,” said prime minister Bart De Wever. As Russia ramps up sabotage operations across Europe to instil panic, such fearful declarations must have been music to the ears of Vladimir Putin.

Italian prime minister Giorgia Meloni also opposed the issuance of the loan using Russia's immobilised assets. This was a surprise: Italy holds negligible amounts of Russian central bank reserves and Rome has never been a major player on this matter. The explanation for this U-turn could lie with Italian banks: UniCredit is the second-largest foreign investor in Russia, holding more than \$10bn in assets on Russian territory. Kremlin threats to confiscate the assets of EU firms still present in Russia may well explain Meloni's surprise stance.

#### **5. Also worrying: Russia's central bank reserves are still not out of America's reach**

The first draft of the proposed US-Russia peace deal showed how US president Donald Trump sees Russia's immobilised central bank reserves: as a signing bonus. The plan proposed allocating \$100bn from these assets to American firms to spend on Ukraine's reconstruction, with the US government receiving 50% of the profits. Meanwhile, the remainder of the immobilised funds (roughly US\$200bn) were to be invested in a joint US-Russia investment fund. One way to put these assets out of America's reach is a EU loan to Ukraine using them. It is safe to assume that the White House will come back with more demands to the EU regarding Russia's assets.

#### **6. A pending question: Could the EU loan pave the way for Eurobonds?**

The bloc will issue a €90bn loan to Ukraine by raising joint EU debt on capital markets. This is huge, since it means that European member states are taking one more step towards the issuance of Eurobonds. That Germany agreed to this decision is particularly significant, considering Berlin has long opposed the issuance of common EU debt. The move paves the way for the issuance of more joint EU debt for other purposes, like defence spending or future financial schemes supporting Ukraine's war effort or the country's reconstruction.

#### **7. The forward-looking take: €90bn is not enough for Ukraine, so this is not the end of the story**

A €90bn loan is a great first step, but it will not be nearly enough to plug Ukraine's €130bn funding gap over the next two years. This means that more wrangling over the fate of Russia's immobilised reserves likely lies ahead. The conclusions of the European Council support this assumption: "The Union reserves its right to make use

of [Russia's immobilised reserves] to repay the loan." Such a clause may come in handy if and when the discussion shifts to the reimbursement of the loan (Kyiv does not have to worry about this until Russia pays Ukraine some war reparations). In other words, this is probably not the last chapter of the story of Russia's central bank reserves.