Financial Support to Ukraine

The Front-Loading Russian Reparations to Ukraine Initiative

This note sets out the key parameters of a proposal for a reparation loan to Ukraine funded by the cash balances associated to the immobilised Russian assets.

At the outset of Russia's war on Ukraine, Euroclear was holding a large amount of bonds for the Russian Central Bank (hereinafter 'Russia'). As these bonds matured, they turned into cash. However, because of the sanctions, Euroclear has been preventing from making payments to Russia, so this cash is accumulating in Euroclear. At present, the total accumulated cash balance associated with sovereign Russian assets in Euroclear stands at roughly EUR 176 billion[1]. Russia has a claim for this amount on Euroclear (the asset of Russia). Currently, Euroclear invests this amount with the ECB and hence has a claim on the ECB for the same amount (the asset of Euroclear).

The core idea is to redirect these cash balances to the EU, where to this end the EU would enter into a tailored debt contract with Euroclear at 0% interest.

The EU would use the cash to fund a 'limited recourse' loan to Ukraine, only to be repaid by Ukraine should it receive war reparations from Russia (the 'Reparations Loan'). This construction ensures that the Reparations Loan would be treated as a contingent liability by the IMF and would not be counted towards Ukraine's debt stock.

Critically, this whole operation would not touch the sovereign assets of Russia (i.e. the claim on Euroclear) and it would be temporary, as it would be reversable once the triggers for lifting the sanctions as expressed by the European Council (Russia ceasing its war of aggression and compensating Ukraine for the damage caused) are met. Specifically, the reparations that Russia would provide to Ukraine would be used to repay the Reparations Loan from the Union, where the Union in turn would repay Euroclear, ensuring that when the sanctions are lifted, Euroclear would have the necessary cash to honour its liability to Russia.

The operation would need to be fully guaranteed by Member States in order to ensure the capacity of the Union to repay Euroclear as soon as it needs to recover the amounts. The guarantees would need to be triggered if a repayment obligation towards Euroclear arises without being covered by payment by Ukraine under the Reparation Loan. This should in principle only take place if the EU decides to lift the sanctions without reparations being paid in part or in full by Russia to Ukraine.

To provide greater assurance that the sanctions would not be lifted unless the triggers for lifting the sanctions are met (Russia ceasing its war of aggression and compensating Ukraine for the damage caused), it should be recognised that the conditions of Article 31(2) TEU for the use of QMV for sanctions prolongation are met. This would significantly reduce the risks arising from the guarantees and make it highly unlikely that the guarantees would be called against the wish of the guarantors. This would require a high-level political agreement by all or most Heads of State or Government.

[1] A further EUR 10 billion of bonds will convert to cash in the coming years.

Financing the Reparation Loan by the cash balance in Euroclear depends on Euroclear investing in the tailored debt contract issued by the Union, which should be structured in a way to avoid any negative impact on Euroclear's balance sheet. At first sight, tailor-made rules necessary in this specific case to oblige Euroclear to make this investment could be set out in a Regulation on the basis of Article 215 TFEU (i.e. by QMV). Such an action would also require a derogation from applicable rules on investments by CSDs.

Using the cash balance in Euroclear would provide for a Reparation Loan to Ukraine of up to EUR 185 billion. As the cash balances of Euroclear would no longer generate the revenues on which the repayment of the ERA loans is predicated, a part of the EUR 185 billion would need to be set aside to repay the ERA loans. This would leave roughly EUR 140 billion in net funding for Ukraine.

The Reparation Loan would be disbursed in tranches, which in turn would mean that cash balances would be released by Euroclear progressively and in line with needs. Disbursement of tranches would be subject to pre-agreed conditions. A part of the loan would be related to European defence cooperation, building on the SAFE initiative. A part of the loan proceeds could also be used to cover budget needs.