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Can Russia’s Money Help Ukraine Win the War?

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Seizing frozen Russian assets would help European countries reconcile military support for Kyiv with tightening national budgets, but it risks deepening the global dimension of the Russia-Ukraine conflict.

EU leaders are soon expected to finalise plans to use around 3 billion euros in annual proceeds from frozen Russian assets to support Ukraine’s military efforts. With no end in sight to the conflict in Ukraine, the prospect of Donald Trump’s reelection in November, and tightening national budgets, the EU is under pressure to devise financial strategies to sustain Ukraine’s defence.

While the war has a human and economic cost for Russia too, time plays in favour of the Kremlin. Trump has expressed his intent to settle the conflict in Ukraine “in one day”, potentially by cutting off military aid to Ukraine, as suggested by Hungarian Prime Minister Viktor Orbán after a meeting with Trump in March.

Between January 2022 and January 2024, the US has provided over 42 billion euros in military aid to Ukraine, compared to 36 billion euros mobilised by EU institutions and member states. According to the Kiel Institute for the World Economy, fully replacing US military aid in 2024 would require the EU to double its current level and pace of arms assistance.

Meanwhile, global pressure to end Russia’s war on Ukraine is mounting. The conflict has worsened economic issues for many countries, disrupting grain and food supplies. Some of the most affected regions are sub-Saharan Africa, the Middle East, and North Africa. Most people in non-Western countries want the conflict to end as soon as possible, even if it means Kyiv ceding territory.

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This is not a position the EU can afford: Russia’s victory could embolden further aggression against other European nations, and force millions of Ukrainians to flee the country, intensifying pressure on the EU’s borders.

If it wants to avoid that scenario, the EU needs to truly start treating the Ukraine conflict as its own security concern and put its money where its mouth is. However, the need to step up support for Ukraine is hard to reconcile with squeezing national budgets across the EU: the German government announced a mix of spending cuts and tax rises at the end of 2023, and France is looking for more ways to reduce spending after February’s emergency budget cuts to keep its deficit-reduction plans on track.

Russian assets, frozen since the beginning of the war in 2022, could provide the EU with the resources it needs to support Ukraine. Euroclear, a Brussels-based financial services company, holds around 200 billion euros of Russia's foreign reserves, mostly belonging to Russia's Central Bank. EU leaders and institutions have so far resisted US pressure to seize those reserves, focusing instead on their accumulated proceeds.

Before tapping into Russian funds or profits, however, the EU should carefully weigh the legal, geopolitical, and financial risks involved.

The legal territory is murky. International law grants immunity to central bank foreign reserves, protecting them from legal actions in host countries. While exceptions exist, their applicability to the current situation is debatable. Seizing windfall profits, as the EU seems willing to do, would raisefewer issues. However, while not irrelevant to Ukraine's war efforts, 3 billion euros annually in military aid is unlikely to turn the tide against Russia.

Before urging the EU to seize Russia's assets, the US was considering doing the same. This wouldn't have been a first: following its invasion of Iraq in 2003, the US seized 1.4 billion dollars in Iraqi funds, frozen in US bank accounts since Iraq's invasion of Kuwait in 1990. At the time, the justification was that the funds would be used for rebuilding Iraq after toppling Saddam Hussein's regime.

This time around, Russia has decried the potential confiscation as 'theft", claiming that it would violate international law, undermine reserve currencies and the global financial system, and compromise other countries' confidence in the US and the EU as economic guarantors. The Kremlin also threatened to seize EU and US assets on its territory in retaliation.

Financial shift underway

Seizing Russian reserves or, to a lesser degree, their windfall profits, could also have global financial consequences. Countries that are at odds with the West or are subject to economic sanctions could fear similar repercussions. This could further fracture the international financial system, paving the way to a global shift towards non-Western securities depositories, to the benefit of countries like China, the United Arab Emirates, and Singapore.

In particular, such a shift would feed into China's ambition to establish a global financial infrastructure independent of Western influence. Collaborative efforts with Russia to develop alternatives to the SWIFT financial transaction processing system have set the stage for this transition after key Russian banks were excluded from SWIFT in 2022.

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China is also pursuing a broader strategic goal: elevating the yuan to a major reserve currency. This would also protect China against potential freezes or seizures of its foreign reserves if tensions with the US and the EU escalated, for example over Taiwan. Beijing currently has an enormous 3 trillion US dollars in foreign reserves.

In 2009, China proposed a global reserve currency detached from individual nations and controlled by the International Monetary Fund. The proposal was not adopted, and China eventually shifted strategy.

Since 2016, the yuan has gained recognition as a global reserve currency, with its share rising from 1.08 per cent in 2016 to 2.88 per cent by the second quarter of 2022.

China's economic structure and capital controls still hamper the broader adoption of the yuan as a reserve currency, though Beijing is moving towards further internationalisation.

The de-dollarisation of the global financial market will be a gradual process. China and Russia are leading this change, but other countries around the world, especially in the BRICS bloc, are joining their efforts. The US and the EU ramping up their economic war on Russia could accelerate this trend.

Double standards?

The annexation of Crimea in 2014 and the full-scale invasion of Ukraine in 2022 were blatant violations of the rules-based international order – a fact that has been used to justify economic measures against Russia, including the possible seizure of its foreign reserves.

However, the EU has been selective in applying the principles of international order, losing credibility before the rest of the world. Despite mounting evidence of war crimes and crimes against humanity in Gaza, with civilian casualties nearly tripling those in Ukraine, the bloc has so far failed to impose sanctions on Israel, and several EU countries are still supplying weapons to the IDF.

This double standard could fuel a perception in non-Western countries that Europe is only interested in its strategic interest, and that the conflict in Ukraine is simply a proxy war between Russia and the West.

All this leaves the EU in a difficult position. To avoid global repercussions, the bloc needs to show adherence to its professed values without opening another front in the financial war with Russia. Long-term support for Ukraine, especially if Trump returns to the White House, should come from the EU's own financial resources.

The Union should mobilise its member states, particularly those who have the capacity, to increase their funding for Kyiv. It could also encourage European arms manufacturers to provide weaponry for Ukraine at discounted rates, given the enormous profits they have already reaped from the conflict.

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