

Funding the Future

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I have, I admit, been struggling as to how to explain issues around the potential use of Russian sequestered central bank and oligarch funds that were held with mainly European central and other banks at the time Putin attacked Ukraine in 2022.

Discussion is being had on the use of these funds to support Ukraine. In the end, I have resorted to using ChatGPT as I have too many other issues to address today. My question to it provided this response:

*The issue of **sequestered Russian funds**—frozen assets of the Russian central bank and oligarchs held by Western countries—has become a major geopolitical and economic debate since Russia’s invasion of Ukraine in 2022. These funds, estimated at around **\$300 billion**, are largely held in European and U.S. financial institutions. The discussion revolves around whether and how these funds should be used, with strong arguments on both sides.*

Arguments for Using Sequestered Russian Funds

1. Compensating Ukraine for War Damages

- Proponents argue that Russia’s aggression has caused massive destruction in Ukraine, and it should pay for rebuilding efforts.**
- The World Bank estimates Ukraine’s reconstruction cost at over \$400 billion,** far exceeding the international aid provided so far.

2. Deterrence Against Future Aggression

- Using Russia’s frozen assets could serve as a precedent, warning aggressor states that financial consequences will follow violations of international law.**

3. Legal and Moral Justification

- Some legal experts argue that international law allows for the confiscation of assets belonging to a state that has violated fundamental global norms (e.g., aggression against a sovereign country).**

- **The United Nations General Assembly** has called for Russia to provide reparations.

4. Ukraine's Immediate Financial Needs

- **Directing these funds to Ukraine could reduce dependency on Western taxpayers** and ease the financial burden on donor countries.

- **Ukraine faces ongoing military and humanitarian expenses that require significant funding.**

Arguments Against Using Sequestered Russian Funds

1. Legal and Financial Precedents

- **Confiscating sovereign assets could set a dangerous precedent, making countries hesitant to hold foreign reserves in Western financial systems.**

- **International law currently does not provide a clear legal basis for confiscating state reserves in peacetime.**

2. Risk of Retaliation by Russia

- **Moscow has threatened to seize Western-owned assets in Russia** (such as investments by multinational corporations) in retaliation.

- **This could escalate economic tensions and harm global financial stability.**

3. Impact on Global Financial System

- **Freezing and confiscating central bank reserves could undermine trust in the U.S. dollar and euro as reserve currencies**, potentially accelerating de-dollarization.

- **Countries like China, India, and Saudi Arabia** might seek alternatives to Western banking systems.

4. Political and Diplomatic Challenges

- **Some Western allies, including Germany and France**, have expressed reservations about outright confiscation, fearing unintended consequences.

- **Instead, some propose using the interest generated from frozen Russian assets** rather than seizing the principal.

Compromise Solutions Being Discussed

- **Using Only Interest Earnings:** The EU has been exploring whether the interest on

Russian frozen assets could be directed toward Ukraine without confiscating the principal amount.

- **War Reparations Through Legal Channels:** Some experts argue that a proper international tribunal ruling could provide legal backing for using Russian funds.
- **Gradual Release Tied to Russia's Compliance:** A phased approach could involve linking access to funds with Russia's post-war behavior, similar to past sanctions frameworks.

Current Status

As of early 2024, no major Western country has yet seized and redirected the principal amount of Russian frozen assets. However, discussions are ongoing, particularly in the **European Union and the United States**, about using the **interest generated** from these funds to support Ukraine.

Would you like me to track the latest developments on this issue?

In summary, the issues are:

- * We could alienate Russia, and risk legal action, but that action might be won anyway.
- * However, we risk alienating other states we might have difficult relationships with if we did so, and City interests think keeping their control of foreign assets more important than:
 - * any associated ethical issues,
 - * support that might be supplied to Ukraine,
 - * avoiding the cost of Ukrainian reconstruction that we might otherwise have to support.
 - * Preserving the dollar as a reserve currency trumps all (sorry).

My attitude is:

- * States banking in London, Paris, Frankfurt, Brussels and New York should know the risks from doing so.
- * Creating a new world financial order is essential - and preserving the power of the dollar and City of London is not core to that.
- * Reinforcing anti-corruption law is key, and this is what matters here.

So, should the funds in question be made available to European states now supporting Ukraine, as well as to relieve Ukrainian debt and to fund its reconstruction? Yes, in a word. But care is required to get this right. Talks on this are required, now.

Two final thoughts illustrate what needs to be discussed.

The first is that if this funding was available, the absurd cuts to UK overseas aid would have been even more unnecessary than they always were. There are domestic consequences of this debate.

Second, money is not the answer in itself. This money avoids the need for central bank money creation, but spending it without consideration of the inflation consequences makes no sense. In that case, suppressing excess consumption may still be required. There is no way around the likely need for significant increases in the taxation of those with wealth if the aftermath of the war in Ukraine is not to be profoundly disruptive. In that case, this money is not an answer to anything in itself. Money never is.