CENTRE FOR ECONOMIC STRATEGY

INTERNATIONAL RENAISSANCE FOUNDATION

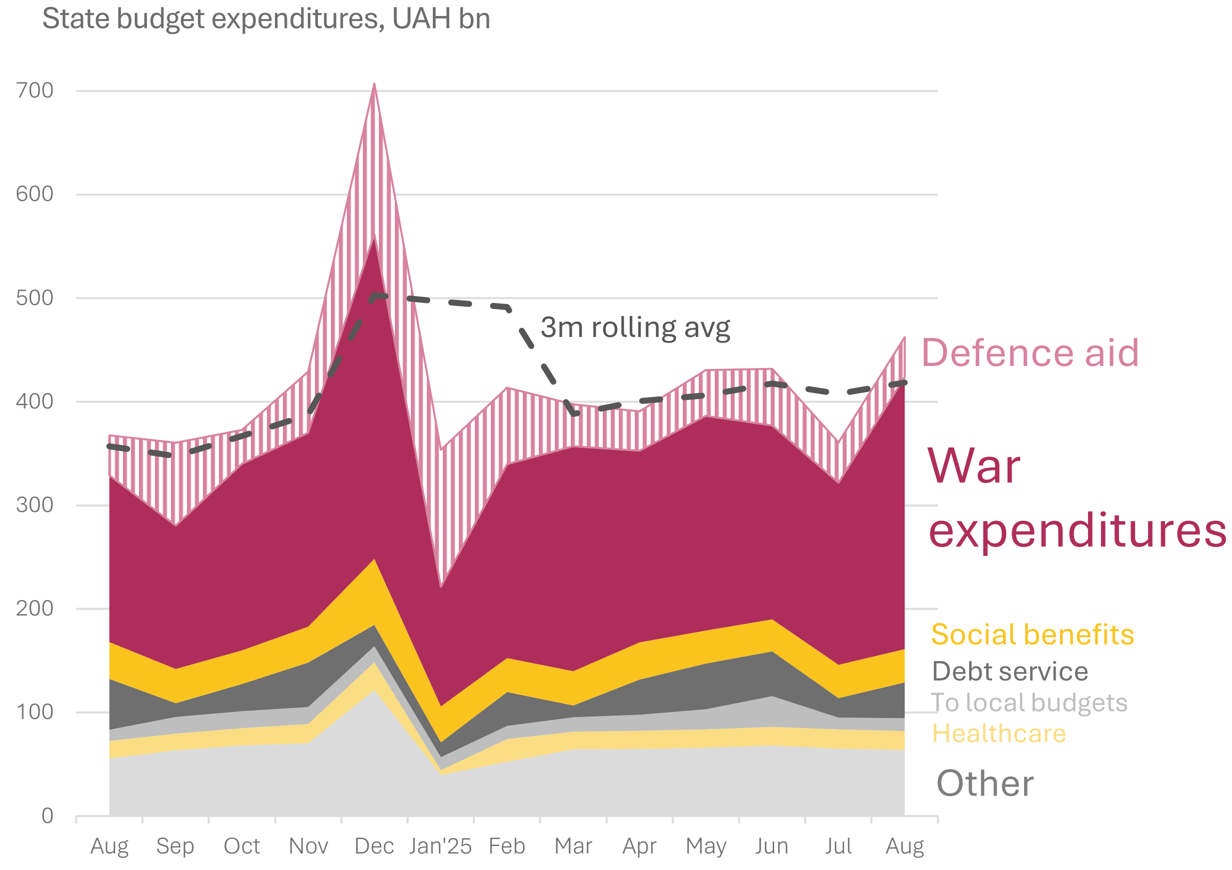
From Frozen to Functioning: Turning Russian Assets into Ukraine's Recovery Safely

Date: 22 October 2025

Authors: Iana Okhrimenko, PhD,
CES Senior Economist

Context and stakes

As the war between Russia and Ukraine continues, Ukraine needs funds to maintain its resilience



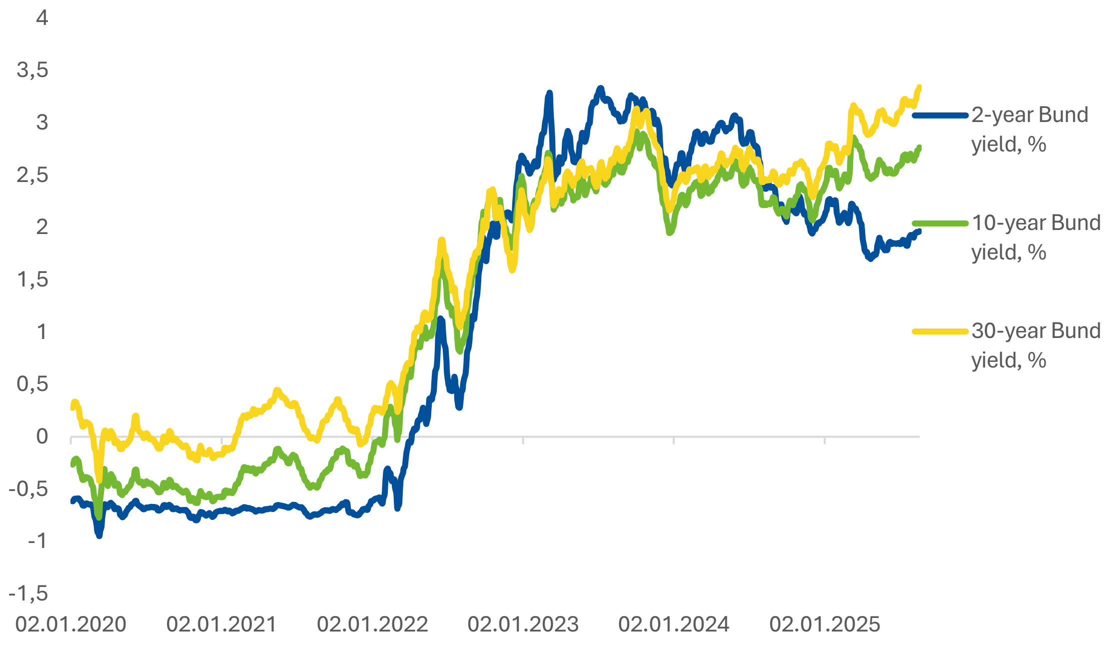
- Around [72% of frozen Russian assets are concentrated in the EU, with 62% of these in Belgium](#).
- ERA are used to support Ukraine, but the fiscal gap persists.
  - **Big funding gap**: Jan–Aug 2025 budget deficit was UAH 822 bn, mostly covered by foreign loans (UAH 981 bn); domestic borrowing was much smaller.
  - **Rising needs:** In August, spending climbed to UAH 462.5 bn; war costs from own revenues jumped 49% m/m to UAH 263 bn, and debt payments almost doubled – meaning Ukraine still needs a lot of financing.
- The debate is moving beyond windfall revenues to next steps (such as a 'reparations loan').
- Some EU officials warn it could still trigger market turbulence and financial-stability risks.

Source: OpenBudget, CES calculations.

Puzzle we attempted to solve

If the EU confiscates frozen Russian state assets and transfers them to Ukraine, will financial markets cope? Will the EU sovereign debt remain sustainable?

Yields on German Sovereign Bonds by Maturity (2Y, 10Y, and 30Y Bunds), 2020-2025 (5-day centred moving average)



Source: CES visualisation; Data were collected from open sources, including Investing.com, and Stooq.com.

- Common concerns: Russian assets (quasi-) confiscation will trigger financial markets instability
  - Higher perceived legal & retaliation risks
  - → Higher risk premia
  - → Higher borrowing costs
- Rising yields mostly reflect war-driven uncertainty and ECB tightening.
- To separate these factors from the EU political decisions on Russian assets, we used **event study**.
- Key area of interest: how EU sovereign bond yields reacted to the news about Russian assets immobilisation & usage.

The way we addressed the problem

CENTRE FOR ECONOMIC STRATEGY

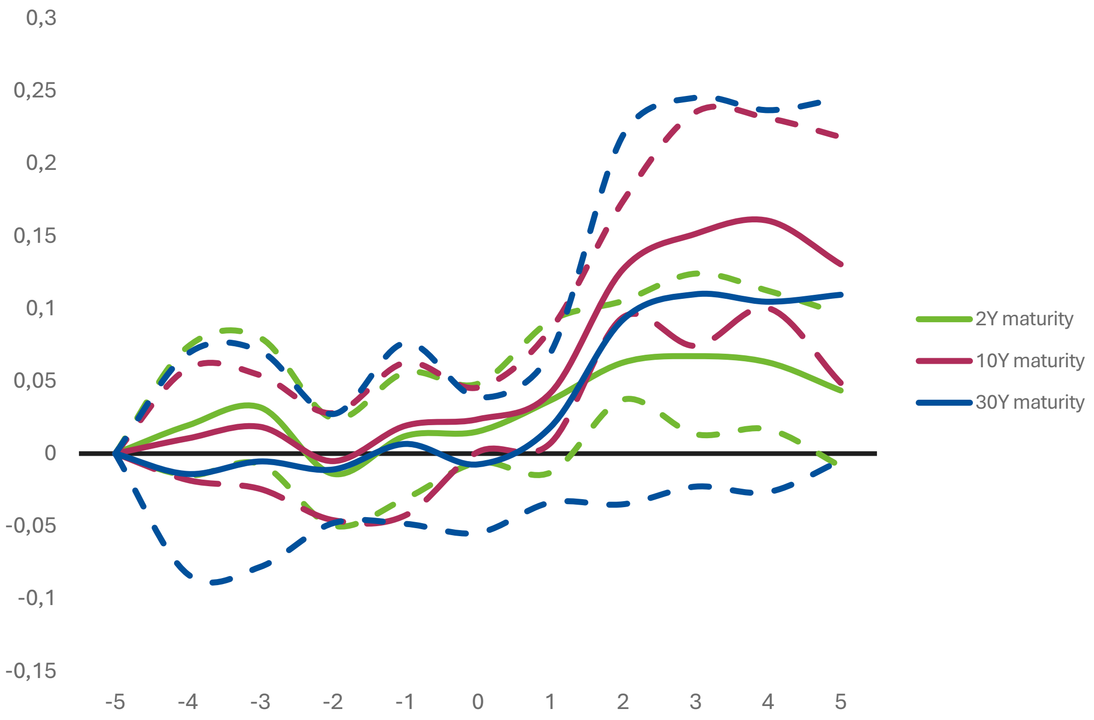
- **Baseline method:** event study (assessing cumulative yield changes around events); constant-mean model.
- **Data**: 2-, 10-, and 30-year EU sovereign bond yields (analysed in sub-samples)
- **Events**: EU milestones on Russian assets (2022-02-26 to 2025-08-13), classified as immobilisation (freeze) or usage (ERA/confiscation); dates validated by matching official announcements to Google Trends spikes.
- **Time horizon**:
  - Short-run: (-5; +5), (-2; +2); (-1; +1) windows
  - Medium-run: up to 2 moths (60 days after the event)
- **Statistical inference method**: bootstrapping
  - Short-run: two-way (nested) bootstrap (account for countries' heterogeneity & ensure intuitive interpretation)
  - Medium-run: two-way Dirichlet bootstrap (account for countries' heterogeneity & draw stable trajectories)
- **Robustness checks**:
  - Placebo tests
  - Common EU component extraction for medium-run analysis

Key findings

CENTRE FOR ECONOMIC STRATEGY

News on assets immobilisation caused no noticeable effect on the markets. Usage news caused modest and temporary effect for 10Y bonds

Total change (in pp) of EU 2Y/10Y/30Y bond yields around “usage” news. Minimum and maximum estimates shown as dashed lines



- 10Y yields rose between day 2 and day 5 after the “usage” announcement, with maximum total change of 16 bp (±6 bp) on day 4.
- **In magnitude, 10Y bond shifts look like routine, non-crisis news (think a typical rating update) – well-below the crisis episodes.**
- 2Y yields barely moved and settled quickly.
- 30Y bond yields showed no credible reaction.
- **In medium-run, shocks faded**. After 2 weeks, 10Y yields showed no credible rise. By then, the total change was about 8 bp (±7 bp).
- Common EU factor exclusion showed that markets treated the financial, legal, and retaliation risks around using Russian assets as a shared EU issue, not a problem of individual countries.

Source: CES study.

Conclusions and implications

Risks of confiscation are mostly overestimated.

- **European Commission / Council / EEAS**: Shocks are temporary and relatively modest
  - → Prioritise persistence over noise
  - → Maintain steady, transparent communication and resist policy reactions to short-lived market moves
- **National Debt Management Offices**: The 10Y bonds react most; 2Y is small/brief and 30Y is smaller/uncertain
  - → Avoid large 10Y/2Y deals in T+2…T+5 after major usage announcements
  - → Pre-block calmer windows for big 10Y/2Y supply
- **ECB & national central banks**: Much of the reaction is priced as an EU-wide factor; anchoring expectations should limit spillovers and keep the 10Y rise contained
  - → On/near announcement days, restate separation of monetary policy from fiscal/legal actions
  - → Remind that market-functioning tools exist if needed
- **Ukraine's government**: Clear uses/governance can lower perceived legal/retaliation premia
  - → Pre-announce a credible pipeline of projects and timelines
  - → Coordinate timing with EU/G7 communications

INTERNATIONAL RENAISSANCE FOUNDATION

CENTRE FOR ECONOMIC STRATEGY

Thank you!

Your comments and suggestions are welcome, please write to

iana.okhrimenko@ces.org.ua