

SUSTAINING UKRAINE: ANALYSING THE G7'S \$50 BILLION FINANCIAL COMMITMENT

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



This year's Group of Seven (G7) Summit, a gathering of the world's major advanced economies (United States, United Kingdom, Germany, France, Canada, Italy and Japan), convened in the region of Puglia (Apulia), Italy, from June 13-15, 2024.

The summit's agenda was particularly dense, reflecting the complexities of contemporary geopolitics and international relations.

Key topics included: Security concerns in Africa and the Mediterranean; global migration challenges; financial stability; and geopolitical dynamics in the Asia-Pacific region. A notable feature of this year's summit was the participation of Pope Francis, who joined discussions on Artificial Intelligence (AI), marking the first time a pontiff to have been invited to a G7 Summit.¹

Amid these varied discussions, the on-going conflict in Ukraine and the international community's response to it remained a central focus. The summit culminated in a significant financial commitment to Ukraine: a \$50 billion loan, financed through the interest generated from frozen Russian assets.² This initiative underscored the G7's strategic and humanitarian support for Ukraine during its conflict with Russia.

¹ "G7 summit, Borgo Egnazia, Apulia, Italy, 13-15 June 2024", European Council - Council of the European Union, accessed on June 19, 2024.

<https://www.consilium.europa.eu/en/meetings/international-summit/2024/06/13-15/>

² "G7 summit, Borgo Egnazia, Apulia, Italy, 13-15 June 2024", European Council - Council of the European Union, accessed on June 19, 2024.

<https://www.consilium.europa.eu/en/meetings/international-summit/2024/06/13-15/>

While the G7 Summit produced multiple critical outcomes, this Issue Brief focuses specifically on the \$50 billion loan agreement for Ukraine. It aims to analyse the agreement's details, economic and political implications, reactions, and potential future impacts.

The \$50 Billion Loan to Ukraine

The G7 countries agreed to leverage interest from \$320 billion in frozen Russian assets to provide a \$50 billion loan to Ukraine.³ This unprecedented understanding, following extensive negotiations, underscores their commitment to supporting Ukraine amidst the ongoing conflict.

According to a senior U.S. official, the agreement's details will be finalized soon, with disbursement expected to start by the end of 2024.⁴

The loan, which could last 15 to 20 years, will be repaid from the interest on the frozen Russian assets. Multiple intermediaries, including the World Bank, will manage the disbursement to ensure effective use by Ukraine. Also, this will insulate the loan from potential political backtracking (by the lenders) in the future as well.

The loan structure includes multiple lenders and various disbursement channels, with each jurisdiction specifying the use of its funds. The EU prefers channelling financial support for Ukraine's military through the European Peace Facility, while other G7 nations, like Japan, are legally bound to direct aid to Ukraine's governmental budget.

Regarding contributions, the EU proposes providing \$25 billion.⁵ The U.S. will underwrite the full \$50 billion and later collect contributions from other G7 members.⁶ Canada has agreed to provide \$5 billion, with Japan also expected to contribute. Consequently, the U.S. contribution will range between \$15-20 billion.

³ Hugo Dixon, "How to scale up the G7's \$50 billion Ukraine loan", Reuters, published on June 24, 2024. <https://www.reuters.com/breakingviews/how-scale-up-g7s-50-bln-ukraine-loan-2024-06-24/>

⁴ "Background Press Call on the G7", The White House, Press Briefings, published on June 13, 2024. <https://www.whitehouse.gov/briefing-room/press-briefings/2024/06/13/background-press-call-on-the-g7/>

⁵ Hugo Dixon, "How to scale up the G7's \$50 billion Ukraine loan", Reuters, published on June 24, 2024. <https://www.reuters.com/breakingviews/how-scale-up-g7s-50-bln-ukraine-loan-2024-06-24/>

⁶ "Background Press Call on an Update on the President's Second Day at the G7", The White House, Press Briefings, published on June 15, 2024. <https://www.whitehouse.gov/briefing-room/press-briefings/2024/06/13/background-press-call-on-the-g7/>

Of the \$320 billion in frozen Russian assets, only about \$5 billion are in the U.S., with the majority held in European Union countries, including around \$205 billion managed by Euroclear in Belgium.⁷

These assets generate approximately \$3 billion in interest annually, which will be used to repay the loan.⁸

The loan features favourable terms, including a low-interest rate and a long repayment period of 15 to 20 years, offering Ukraine flexibility in managing its debt. However, there are legal constraints, financial risks, political challenges, and operational limitations (of Ukraine) preventing the expansion of the loan amount.

Conditions attached to the loan aim to ensure transparency and accountability. Ukraine must implement anti-corruption measures and economic reforms to guarantee effective use of the funds, addressing ongoing corruption issues despite the conflict with Russia.

This agreement reflects a broader strategy of long-term support for Ukraine, encompassing financial, diplomatic, military, and humanitarian assistance.⁹

Purpose and Utilization of Funds

- **Economic Stabilization:** The loan aims to stabilize Ukraine's economy, support the national currency, and maintain essential public services, preventing fiscal collapse.
- **Defence and Security:** A significant portion will enhance Ukraine's defence capabilities by upgrading military equipment and improving operational readiness in ongoing combat.
- **Reconstruction Efforts:** Funds will help rebuild infrastructure, including roads, bridges, hospitals, and schools, with a view to restoring normalcy for Ukrainian citizens.

Economic and Security Impact

- **Economic Impact:** The \$50 billion loan is vital for stabilizing Ukraine's economy, supporting the national currency, and maintaining public services, thus preventing fiscal collapse. It will

⁷ "Explainer: What is the G7's \$50 billion loan plan for Ukraine?", Reuters, published on June 14, 2024. <https://www.reuters.com/world/europe/what-is-g7s-50-billion-loan-plan-ukraine-2024-06-14/>

⁸ Jaroslav Lukiv & Jean Mackenzie, "G7 agrees \$50bn loan for Ukraine from Russian assets", BBC, published on June 14, 2024. <https://www.bbc.com/news/articles/cllldqyg19ro>

⁹ Adrian Karatnycky, "How Deep Does Corruption Run in Ukraine", Foreign Policy, published on March 06, 2024. <https://foreignpolicy.com/2024/03/06/ukraine-corruption-reforms-russia-war/>

bolster defence capabilities, including upgrading military equipment and enhancing operational readiness. Additionally, funds will go toward infrastructure reconstruction, stimulating economic activity, creating jobs, and improving living conditions. This groundwork will attract foreign investment and foster sustained economic growth and innovation.

- **Political Ramifications:** The loan strengthens Ukraine's political and diplomatic ties with Western nations, signalling strong support for its sovereignty. It provides a lifeline for the government to maintain public services and pay salaries, preventing political unrest. The G7's financial backing shows a unified stance against Russian action,, promoting a 'rules-based international order' and potentially deterring further hostilities.

Moreover, the loan mandates Ukraine to implement transparency, anti-corruption measures, and economic reforms to maintain international confidence. Utilizing frozen Russian assets presents legal challenges and financial risks if these assets are unfrozen or if Russia refuses to pay war damages. The U.S. contribution may bypass Congressional approval through the U.S. Agency for International Development's authority, reflecting executive commitment, while the EU's collective approach avoids increasing member countries' national debts.

Russia's Response to the \$50 billion loan

Russia has expressed strong opposition to the G7's decision to provide a \$50 billion loan to Ukraine using interest generated from frozen Russian assets. President Vladimir Putin characterized the move as "theft" and asserted that it "would not go unpunished".¹⁰ Russian Foreign Ministry spokesperson Maria Zakharova stated that utilizing these profits would be "extremely painful for Brussels," given the significant European-owned property and funds in Russia.¹¹ Additionally, Finance Minister Anton Siluanov warned that actions against Russian assets in the West would provoke a "reciprocal response," emphasizing that Russia has frozen a similar amount of Western funds and has been generating income from those assets.¹²

¹⁰ Jaroslav Lukiv& Jean Mackenzie, "G7 agrees \$50bn loan for Ukraine from Russian assets", BBC, published on June 14, 2024.

<https://www.bbc.com/news/articles/cllldqyg19ro>

¹¹ "G7 leaders agree to \$50bn loan for Ukraine at annual summit", Aljazeera, published on June 13, 2024.

<https://www.aljazeera.com/news/2024/6/13/g7-leaders-agree-to-50bn-loan-for-ukraine-at-annual-summit>

¹² "G7 leaders agree to \$50bn loan for Ukraine at annual summit", Aljazeera, published on June 13, 2024.

<https://www.aljazeera.com/news/2024/6/13/g7-leaders-agree-to-50bn-loan-for-ukraine-at-annual-summit>

Reactions and Criticisms

The \$50 billion loan to Ukraine has sparked various reactions and criticisms. The U.S. has already given \$61 billion in aid to Ukraine by April, with this new loan and allied contributions projected to support Ukraine financially until mid-2026.¹³ However, the G7's commitment is primarily political, and concerns persist about potential political, legal, or logistical challenges that could undermine the agreement.

Critics argue that the loan, while substantial, only covers about half of Ukraine's annual external financing needs for defence and government operations, highlighting ongoing financial challenges, despite the continued aid.¹⁴

The G7 leaders' methods to avoid seeking Congressional approval for the U.S. contribution and prevent increasing EU member states' debts raise questions about transparency and legality, potentially undermining trust in Western financial institutions.

There is also the risk that if Russia unfreezes its assets and refuses to pay war damages, the financial burden will shift to the lenders, underscoring the loan's long-term security uncertainty.

The reliance on interest from approximately \$320 billion in frozen Russian assets ensures a steady income during the conflict but limits the potential expansion of financial support. Some in Kyiv advocated for the release of the entire frozen fund, but the European Central Bank ruled this out.¹⁵

On the other hand, using interest from frozen Russian assets helps alleviate financial fatigue among Western allies, who might otherwise be hesitant to continue large-scale financial assistance. If the conflict ends or is frozen before the loan is fully disbursed, Ukraine could redirect some funds toward economic rebuilding. Moreover, as long as Russian assets remain immobilized, the income stream to Ukraine will continue throughout and potentially after the conflict.

Future Outlook

The \$50 billion G7 loan is crucial for Ukraine but presents a complex future outlook. Disbursement involves finalizing agreements with the EU, drafting lender contracts, and creating a disbursement

¹³ Hugo Dixon, "How to scale up the G7's \$50 billion Ukraine loan", Reuters, published on June 24, 2024. <https://www.reuters.com/breakingviews/how-scale-up-g7s-50-bln-ukraine-loan-2024-06-24/>

¹⁴ Hugo Dixon, "How to scale up the G7's \$50 billion Ukraine loan", Reuters, published on June 24, 2024. <https://www.reuters.com/breakingviews/how-scale-up-g7s-50-bln-ukraine-loan-2024-06-24/>

¹⁵ Andrea Shalal, "Ukraine needs \$486 bln to recover, rebuild after nearly two years of war – World Bank", Reuters, published on February 15, 2024. <https://www.reuters.com/world/europe/ukraine-needs-486-bln-recover-rebuild-after-nearly-two-years-war-world-bank-2024-02-15/>

schedule. The pace will depend on Ukraine's ability to implement reforms and manage funds transparently.

If the conflict ends or reaches a stalemate, Ukraine could redirect funds towards economic reconstruction. The World Bank estimates this will require \$486 billion, making the loan, combined with other aid, a vital foundation for rebuilding. Successful reconstruction is key to Ukraine's economic recovery and long-term stability.

Geopolitically, the G7's support underscores a commitment to Ukraine's sovereignty, potentially deterring further aggression. However, the risk of Russian retaliation remains, and the international community must prepare for economic and other retaliatory measures. The ongoing conflict and financial support may influence broader geopolitical dynamics, reinforcing alliances and reshaping regional power balances. This was evident during the 2024 Ukraine Peace Summit in Switzerland, where countries were divided over the issue of the Russia-Ukraine conflict, with several major countries refraining from signing the final communique.

Legal challenges with using frozen Russian assets and potential financial risks if these assets are unfrozen complicate the loan. Compliance with international law and effective risk mitigation among the G7 countries are crucial for the loan's success.

Overall, the loan represents long-term strategic support for Ukraine, including financial, diplomatic, military, and humanitarian assistance. Sustained international backing will be essential for Ukraine's recovery and integration into the global economy.

Conclusion

The G7 Summit's decision to provide a \$50 billion loan to Ukraine marks a pivotal moment in international support for the war-torn country. This loan offers vital economic stabilization, defense enhancement, and reconstruction support, yet it also comes with significant challenges and risks. The G7's commitment underscores the Western resolve to back Ukraine amidst ongoing conflict.

Economically, the loan will help stabilize Ukraine's economy, support critical public services, and lay the foundation for long-term growth. Politically, it strengthens Ukraine's alliances with Western nations and reinforces its international standing. However, the legal and financial complexities, potential geopolitical repercussions, and need for sustained strategic support highlight the multifaceted nature of this aid package.

As Ukraine navigates the challenges of absorbing and utilizing the funds, the international community must remain vigilant and adaptable. The success of this financial support hinges on effective implementation, robust risk management, and continued international cooperation. Ultimately, the G7's loan represents a significant step towards ensuring Ukraine's resilience and recovery in the face of ongoing adversity, while also increasing risks of stern Russian retaliation, thus continuing a chain of actions and reactions further aggravating the existing chasms.