

СЕКЦІЯ «ЕКОНОМІКА ТА БІЗНЕС»

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**USING FROZEN RUSSIAN ASSETS FOR UKRAINE'S
RECONSTRUCTION: MECHANISMS AND EFFECTIVENESS**

The full-scale invasion of Ukraine by the Russian Federation has resulted in catastrophic consequences for the nation's infrastructure, economy, and social fabric. According to assessments by leading international institutions, total damages amount to hundreds of billions of dollars, rendering the development of effective reconstruction financing models a paramount priority [1, 2].

Given that conventional financial resources-such as budgetary allocations or sovereign borrowing - are insufficient to fully offset these losses, there is an urgent need for unconventional financial solutions. A pivotal potential source is the Russian Federation's assets frozen within Western jurisdictions, which are increasingly viewed as a legitimate resource for reparations [6, 7].

The relevance of this study is underscored not only by the economic expediency of utilizing these assets but also by the imperative to establish a just mechanism for the aggressor state's accountability. In this context, the mobilization of frozen assets is examined through the prism of "reparations via financial mechanisms," a concept gaining significant traction in international law and global financial practice [8].

However, the utilization of such assets is constrained by substantial legal, political, and economic hurdles, necessitating rigorous scholarly analysis and the

systematization of potential strategies to mitigate these challenges. The objective of this research is to substantiate the mechanisms for deploying frozen Russian assets to fund Ukraine's recovery and to evaluate their efficacy within the current international economic landscape.

In contemporary economic and legal discourse, the term "frozen assets" refers to financial or tangible resources where access is restricted by state or international mandates as part of a sanctions policy [3]. Freezing entails a temporary suspension of the owner's right to dispose of the assets without a formal transfer of legal title.

It is essential to distinguish between "freezing" and "confiscation." While the former is temporary and maintains existing ownership, confiscation involves the compulsory seizure of assets and the transfer of ownership to another party, requiring a far more complex legal justification [8]. From the standpoint of international law, a primary constraint regarding sovereign assets is the principle of state immunity, which posits that a state's assets are exempt from seizure by other nations without its explicit consent [12].

This principle presents a significant legal barrier to the direct confiscation of the Central Bank of the Russian Federation's reserves. At the same time, contemporary international practice demonstrates a gradual evolution in approaches to this issue. Specifically, scholarly works argue for the possibility of limiting sovereign immunity in cases of gross violations of international law, including acts of aggression [6].

This approach is rooted in the doctrine of "countermeasures," which states may employ to restore violated rights [10]. Historical precedents also play a crucial role in shaping modern mechanisms. For instance, following the Gulf War, the UN Compensation Commission was established to provide reparations to victims using Iraqi assets [11]. Similar approaches were applied to the assets of

Libya and Afghanistan, although their efficacy and legal substantiation remain subjects of scholarly debate [9]. Thus, theoretical analysis reveals a fundamental tension between the traditional principles of international law and the necessity of ensuring the accountability of the aggressor state. This conflict necessitates the formulation of new approaches to utilizing frozen assets that harmonize economic expediency with legal legitimacy.

Assessment of Frozen Russian Assets. Following the onset of the full-scale aggression by the Russian Federation against Ukraine in 2022, Western nations imposed unprecedented sanctions, resulting in the freezing of substantial Russian assets. According to international financial institutions, the total volume of frozen sovereign assets of the Central Bank of the Russian Federation is estimated at approximately \$260-300 billion [3,4]. Structurally, these assets primarily consist of (Table 1): foreign currency reserves (USD, EUR, GBP); sovereign bonds of foreign states; deposits in international financial institutions; gold reserves, a portion of which is held outside the Russian Federation.

Table 1

Structure of Frozen Russian Assets

Asset Category	Estimated Volume (USD billion)	Share (%)
Central Bank Reserves	260 – 300	~70 – 75
State-Owned Enterprise (SOE) Assets	50 – 80	~15 – 20
Private Assets (Sanctioned Individuals)	30 – 50	~10 – 15
Total	340 – 430	100

Geographically, the largest share of frozen assets is concentrated within the European Union, particularly in financial institutions in Belgium (Euroclear),

France, and Germany [4]. Significant holdings are also located in the United States, the United Kingdom, Canada, and Japan. A distinct category comprises the assets of Russian state-owned enterprises, banks, and sanctioned private individuals. It is estimated that their volume may exceed \$100 billion; however, these assets possess a more complex legal nature and diverse ownership statuses [2]. An important aspect is that a significant part of the frozen assets generates income in the form of interest and investment returns. In particular, income from the management of assets held by Euroclear alone amounted to several billion euros in 2023 [5]. From an economic point of view, these resources could become one of the key sources of financing for the reconstruction of Ukraine. However, their actual use depends on the creation of effective legal and institutional mechanisms that ensure a balance between the principles of international law and the need to compensate for the losses caused.

In the scientific and political discussion, several key mechanisms for using frozen Russian assets have emerged. Each of them has its own advantages, limitations, and level of feasibility in modern conditions.

1. Direct confiscation involves the complete seizure of frozen assets with their subsequent transfer to Ukraine. This mechanism is the most radical, but at the same time the most effective in terms of the amount of available resources. The legal justification for this approach is based on the concept of international state responsibility for aggression and the need to compensate for the damage caused [10]. Some researchers justify the possibility of confiscation as a form of countermeasures in response to a gross violation of international law [6]. At the same time, the main barrier is the principle of sovereign immunity, which protects state assets from forced seizure [9]. Violation of this principle can create a dangerous precedent for the global financial system. Thus, despite its high

potential, the mechanism of direct confiscation remains legally complex and politically sensitive.

2. A more compromise approach is to use the proceeds received from the management of frozen assets without changing the ownership of the underlying capital. This mechanism is already partially implemented in the European Union, where the possibility of directing profits from the assets of the Central Bank of the Russian Federation to support Ukraine is being considered [4]. The advantages of this approach are: no direct violation of sovereign immunity; relatively quick implementation; political acceptability for most countries. At the same time, the volume of such proceeds is significantly smaller compared to the total amount of assets, which limits their impact on the recovery process.

3. Another important mechanism is the creation of specialized international funds that accumulate funds from frozen assets and direct them to finance the reconstruction of Ukraine. Such funds can operate under the auspices of international organizations or a coalition of donor states. Their activities include: centralized management of resources; transparent distribution of funds; control over the effectiveness of use. This approach is consistent with the principles of international financial management and allows for a high level of trust in the use of funds [1].

4. An innovative financial instrument is the use of frozen assets as collateral to attract credit resources on international financial markets. The essence of the mechanism is that partner countries or international institutions provide Ukraine with loans secured by frozen assets of the Russian Federation. This allows: to quickly mobilize significant financial resources; to minimize legal risks; to preserve assets until legal issues are finally resolved. This approach is being actively discussed at the G7 level and is considered one of the most realistic in the short term [2].

An analysis of international experience shows that the use of state assets to compensate for losses has had limited but instructive practice. The most famous example is the creation of the United Nations Compensation Commission after the Gulf War, which made payments from the proceeds of Iraqi oil exports [11]. This mechanism provided significant compensation, but operated under the specific conditions of an international mandate. In the cases of Libya and Afghanistan, various forms of use of frozen assets have also been used, but they have been accompanied by significant political controversy [12].

Current initiatives regarding Russian assets include: EU decisions on the use of proceeds from assets; US legislative initiatives on confiscation; and coordination of actions within the G7. These processes indicate the emergence of a new paradigm of international finance, in which sanctions become an instrument of long-term economic impact. Despite the significant potential, the use of frozen assets is accompanied by a number of risks.

First, legal risks are associated with a possible violation of international law and the principle of state immunity [9]. Second, there are political risks, in particular the possibility of a split among Ukraine's allies regarding approaches to the use of assets. Third, economic risks include: a decrease in confidence in the international financial system; a potential outflow of reserves from other countries; destabilization of currency markets [3]. Thus, the implementation of these mechanisms requires a balanced approach and international coordination. In order to effectively use frozen assets, it is advisable for Ukraine to: intensify diplomatic efforts to form an international coalition; initiate the development of special legal mechanisms; ensure transparency in the use of funds; determine priority areas of financing (infrastructure, energy, housing).

Particular attention should be paid to the integration of these resources into the overall strategy of post-war recovery. As a result of the study, it was

established that frozen Russian assets form a unique financial resource that can significantly affect the pace and scale of the recovery of the Ukrainian economy. At the same time, their use requires the formation of a new legal paradigm that will combine the principles of international law with the need to ensure justice and responsibility. It is substantiated that the most effective in the short term are mechanisms for using income from assets and their use as financial security. In the long term, the practice of confiscation may be expanded provided that international legal norms are transformed. The practical significance of the study lies in the formation of recommendations for the integration of these mechanisms into the state recovery policy of Ukraine.

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