

European Madness: Frozen Assets, War Finance, and the 10-Year Economic Trajectory

? Objective

To document how the **freezing and monetisation of Russian sovereign assets** sets a precedent in international finance, how that precedent (and the wider debt-funded war model) channels benefits toward the US financial/defence complex, and what the likely implications are for **EU and UK citizens** over the next decade **if the pattern continues**.

? Context Snapshot

What's happening

- Since 2022, large amounts of **Russian central bank / sovereign assets** have been frozen (“immobilised”) in Western jurisdictions.
- A major policy step has been to **use the windfall profits** generated by those immobilised assets to support Ukraine, including via the **G7 Extraordinary Revenue Acceleration (ERA) loans** framework.
- The UK has publicly aligned with this approach (e.g., loans intended to be repaid using profits on sanctioned Russian sovereign assets).
- Within the EU, debate continues over whether to go beyond windfall profits and **confiscate principal** (the underlying sovereign assets). Legal and political views diverge sharply. ([Windfall profits from frozen Russian state assets will be used to repay loan uropa.eu](https://www.europa.eu))

Why this matters

This isn't “just sanctions.” It changes how states and markets price:

- sovereign immunity
 - reserve safety
 - settlement/jurisdiction risk
 - the neutrality of the global financial system
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? 1) Freezing Russian Sovereign Assets: The Precedent

? Freeze vs ?Seize

- **Freeze/immobilise:** owner remains the owner, but cannot access or move the assets.
- **Seize/confiscate:** transfer of ownership.

Western policy has largely executed the first, while expanding mechanisms to **harvest profits** from the frozen pool; confiscation remains contested. ([verfassungsblog.de](https://www.verfassungsblog.de))

? The precedent being set

Even if governments insist this is an “exceptional” response, markets and other states learn a more general rule:

“Your reserves are safe only while you remain within the acceptable political perimeter of the custodians.”

That lesson persists regardless of the morality of the underlying conflict.

?? Consequences of the precedent

1. **Reserve diversification accelerates**
 - More states reduce exposure to jurisdictions perceived as politically conditional.
2. **Fragmentation of financial rails**
 - Bilateral settlement, alternative messaging systems, regional clearing.
3. **Higher sovereign risk premia** (for some)
 - Investors price legal/jurisdictional risk more aggressively.
4. **Retaliation logic normalises**
 - Counter-freezes, expropriations, “mirror” sanctions.

Bottom line: the West gains leverage now, but pays later in reduced financial centrality.

? 2) “Windfall Profits” as War Finance

How the mechanism works (in plain terms)

- Frozen assets often sit in safe instruments.
- Those instruments generate **interest/profits**.
- The policy move is to **channel those profits** into support for Ukraine, including servicing large loan packages agreed by the G7.

Examples:

- US Treasury described a **\$20bn disbursement** as part of the **\$50bn G7 ERA loans**, intended to be repaid with proceeds earned from immobilised Russian sovereign assets. ([US gives \\$20bn to Ukraine funded by seized Russian assetse.treasury.gov](https://www.treasury.gov/press-releases/2022/04/20220428))
- EU institutions publicly described billions made available from proceeds stemming from frozen and immobilised Russian sovereign assets.

Why this is politically attractive

- It feels like “making Russia pay” without direct taxation.
- It avoids a direct vote on raising taxes.
- It converts a legally tricky asset pool into an ongoing revenue stream.

The hidden risk

Once you build a funding model around “extraordinary revenue,” you create:

- a **dependency** on continued immobilisation,
 - incentives to expand the principle to other contexts,
 - incentives to blur the line between freeze and seizure.
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?? 3) How This Model Benefits the United States

1) Defence-industrial benefits

If Europe and its allies fund continued arms flows, a large share of spend:

- returns to **US defence contractors** (procurement, replenishment, munitions scaling).

2) Energy-market benefits

- European energy dislocation increases demand for non-Russian supply.
- Long-term LNG and security-linked energy decisions can embed a **structural cost disadvantage** for Europe relative to regions with cheaper energy.

3) Geopolitical benefits

- Europe becomes more **security-dependent**.
- Strategic decisions converge around US priorities.

4) Financial-rail benefits

- Global dependence on US-aligned financial rails increases short-term leverage.
- But (see above) the precedent can still erode long-run centrality.

Net effect: the US captures outsized upside in industry and strategic posture, while Europe bears more of the **geographic, industrial, and fiscal** costs.

? 4) What This Means for EU + UK Citizens (Generic Impact)

?? A) Economic structure shifts

- **Deindustrialisation becomes structural** (especially energy-intensive sectors)
- Economies become more **services + compliance heavy**
- Growth becomes harder; asset inflation replaces productivity

? B) Higher-cost living environment

- Energy, housing, transport and food become more sensitive to geopolitical shocks

- “Emergency” costs become permanent budget lines

? C) Debt becomes normal governance

- “Exceptional borrowing” becomes routine
- Fiscal drag, fees, and indirect taxation expand
- Spending is maintained, but access becomes harder and more localised

?? D) More state friction

- Broader frameworks for security and financial surveillance
- More regulation on payments and platforms
- Administrative load increases: more checks, more documentation, more gates

? E) Social segmentation grows

- Those with portable capital/skills adapt
 - Those tied to fixed systems absorb pressure
 - Private substitutes quietly expand (health, education, security)
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? 5) Europe in ~2035 if the Pattern Continues

Scenario A: Managed Decline (Most likely)

- Institutions remain stable
- Europe is poorer relative to peers
- Cost of living high, trust low, compliance high

Scenario B: Fragmentation

- EU cohesion weakens under internal fiscal and security tensions
- Policy becomes reactive and coalition-driven

Scenario C: Renewal via Crisis

- A shock forces genuine reform: energy, productivity, governance

- Less likely without pain severe enough to break inertia
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? Key Signals to Watch

- Moves from **windfall profits** toward **confiscation of principal** (and court challenges)
 - Permanent defence spending without productivity reform
 - Energy policy that locks in structural disadvantage
 - Expanded platform/payment controls justified as “protection”
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? Final Observation

Freezing sovereign assets and harvesting their profits may feel like a clean moral solution. But it also teaches the world that financial property rights are conditional on geopolitics.

If this model becomes normalised, Europe risks trading long-term prosperity and financial centrality for short-term war financing — and then living with the consequences as the **Old Continent hardens into a lower-growth, higher-friction version of itself.**

? Addendum / clarification

Following the latest EU summit, leaders agreed a €90bn loan for Ukraine backed by the EU’s shared budget, after failing to reach unanimity on directly using immobilised Russian sovereign assets.

Further reading: [Sanctions, International Law, and Seizing Russian Assets](#)

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