Russia’s war on Ukraine: EU budget response

While Ukraine has received considerable support from the EU and European financial institutions since 2014, Russia’s invasion of Ukraine, launched on 24 February 2022, has triggered a historic and twofold mobilisation of EU funds – for humanitarian action and military support. The European Commission has announced over €500 million in financing for humanitarian aid and the Council has decided to use the off-budget European Peace Facility (EPF) to assist Ukraine with €500 million in military aid. For the first time, the EU will direct its funds, €450 million, towards purchasing lethal weapons for a country at war, through the EPF. Should this funding prove insufficient, however, further mobilisation of the EU budget might be necessary. In its 1 March 2022 resolution, the European Parliament announced that it expects the EU and EU Member States ‘to activate any EU budget instruments available’.

State of play
Ukraine has developed a strong partnership with the European Union since 2014, including the signing and implementation of the EU-Ukraine Association Agreement. The EU has assisted Ukraine financially, with EU and European financial institutions allocating over €17 billion in grants and loans to Ukraine to support the implementation of a broad reform agenda. This includes €5.6 billion via five macro financial assistance programmes. The EU has allocated more than €193 million in humanitarian aid to Ukraine since 2014, to assist victims of the armed conflict in the east of Ukraine. The EU has also provided grants worth €200 million to help Ukraine fight the Covid-19 pandemic.

The Russian military invasion of Ukraine has aggravated the existing humanitarian crisis in the east of Ukraine and triggered a new catastrophe. According to the United Nations High Commissioner for Refugees, over 1 million refugees have already fled Ukraine to neighbouring countries, mainly Poland, Hungary, Moldova, Slovakia, Romania and Russia. The European Commission estimates that up to 6.5 million people might be displaced, leading as many as 3.5 million to seek international protection, mainly in the EU. Many more millions will face extreme conditions while remaining in Ukraine.

The Russian invasion of Ukraine has caused a paradigm shift in the EU’s approach to financing lethal military equipment. For the first time, the EU will purchase lethal weapons. The financial tool enabling this acquisition is the new European Peace Facility.

Since the beginning of 2022, the military threat to Ukraine has weighed heavily on investor confidence, causing a steady outflow of capital that has endangered Ukraine’s economic and financial stability.

EU response

Humanitarian assistance
As the humanitarian situation in Ukraine deteriorates, the European Commission is providing emergency assistance. On 28 February 2022, the Commission announced €90 million for emergency aid programmes to help civilians in Ukraine and those displaced to Moldova. This EU humanitarian aid will provide food, water, health, shelter and help cover people’s basic needs.

The EU Civil Protection Mechanism has been activated, with offers from Member States including essential medical care items and civil protection support.

On 1 March 2022, the European Commission announced an additional €500 million from the EU budget for humanitarian aid in Ukraine and for refugees from Ukraine. It should be noted that the entire EU budget allocation for humanitarian aid worldwide for 2022 is slightly over €2 billion.

Military assistance
Under Article 41(2) TEU, the EU budget cannot be used to finance expenditure having military or defence implications, meaning common foreign and security policy (CFSP) operations outside the EU. However, Article 41(2) TEU also provides that such expenditure can be charged to the Member States. The novel
European Peace Facility (EPF), created in 2021, is a financial tool outside the EU budget, financed by EU Member States based on a distribution key linked to gross national income. Using the EPF enables the EU to provide the armed forces of partner countries with infrastructure and equipment, including weapons. On 28 February 2022, the Council published its decision ((CFSP) 2022/338) on an assistance measure under the EPF for the supply of military equipment and platforms designed to deliver lethal force to the Ukrainian Armed Forces. The amount decided is €450 million for lethal arms and lethal assistance. It should be noted that the total budget for the EPF for 2022 is €540 million. This constitutes a paradigm shift, as the European Union is financing the acquisition of arms for the first time. Austria, Ireland and Malta are not participating in this measure.

At the same time the Council adopted a decision (CFSP) 2022/339 on an assistance measure under the EPF to provide the Ukrainian Armed Forces with €50 million in support. The measure shall finance the provision of equipment and supplies not designed to deliver lethal force, such as personal protective equipment, first aid kits and fuel. All EU Member States will participate.

**European Parliament response**

The European Parliament strongly condemns the Russian Federation's aggression and invasion of Ukraine. In its resolution of 1 March 2022, the Parliament called for the EU and its Member States to continue providing the strongest possible economic and financial support to Ukraine, as well as macro-financial and technical assistance wherever needed, including in defence- and security-related areas, to activate any EU budget instruments available and to develop a long-term strategy to support Ukraine's efforts in strengthening the resilience of its democratic institutions and economy. Moreover Parliament called for the EU institutions to work towards granting EU candidate status to Ukraine, in line with Article 49 of the Treaty on European Union and on the basis of merit, and, in the meantime, to continue to work towards its integration into the EU single market along the lines of the Association Agreement.

On 16 February, the European Parliament approved a €1.2 billion macro-financial loan to help Ukraine cover its external financing needs in 2022. Even before the 24 February Russian invasion, Ukraine faced significant economic challenges, which will worsen even further under the current circumstances. The loan is expected to be paid out to Ukraine during the next 12 months, in two tranches, the first being due in March 2022.

**Possible further developments**

The EU is equipped with a plethora of programmes aimed at supporting EU external action. These programmes are financed mainly by the EU budget. As the situation in Ukraine evolves, different elements of this system can be mobilised. The same applies to the financing of the needs relating to facilitating the welcome for refugees from Ukraine in the EU.

If the financing needs related to supporting Ukraine and those fleeing the invasion go beyond the multiannual financial framework 2020-2027 (MFF) agreement, there might be a need to use flexibility or even revise the MFF spending ceilings. This is a political and budgetary process that would need to involve both the Council and the European Parliament.

(The figures used in this briefing reflect the situation as of 3 March 2022 at 18:00 CET.)