

Robert H. Wade

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## A US withdrawal from the IMF would have little effect on the dollar



*Since his inauguration in January, Donald Trump has systematically put in place the recommendations of Project 2025. One these recommendations is to withdraw the US from international organizations such as the International Monetary Fund (IMF). Robert Wade writes that while the US leaving the IMF would be a shock to the international monetary system, it might mean little change for how the IMF uses the dollar and for the “dollar system” more generally.*

The Heritage Foundation, the influential conservative think-tank, spent the four years of the Biden administration preparing an agenda for a second Trump presidency and selecting suitable people to implement it. In April 2023, It presented the agenda in a 900-page document called **Project 2025**. The document says little about international organizations. But it explicitly calls for the US to “withdraw from both the World Bank and the IMF”, and “terminate its financial contribution.” President Trump **distanced** himself from the blueprint during the campaign but has **embraced** it in office.

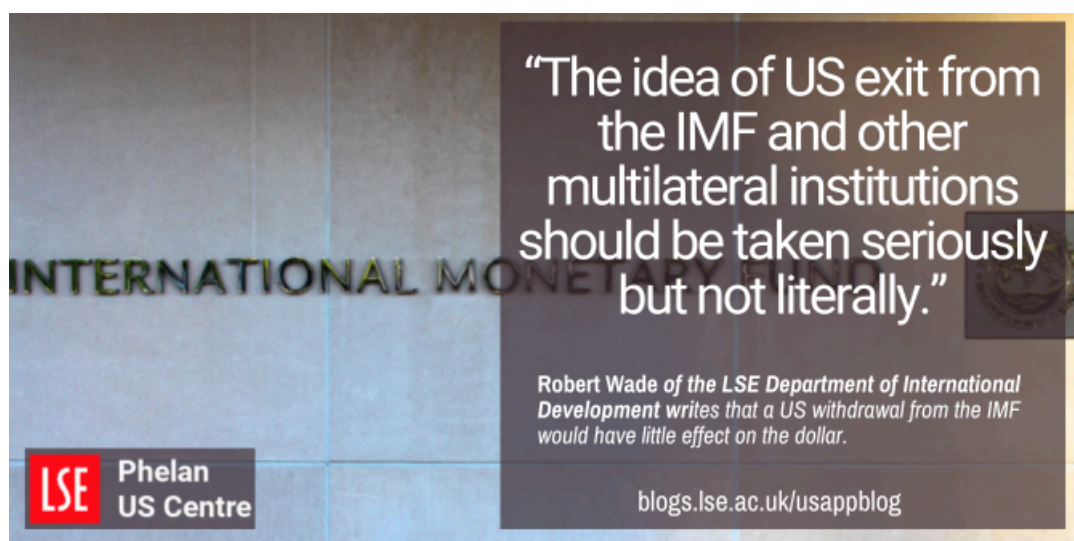
## Will the US withdraw from the IMF?

The newly created Department of Government Efficiency (DOGE), under the joint command of Elon Musk, has recently published a detailed plan for how the US government is to withdraw from the World Bank and other multilateral development banks.

The idea of US exit from the IMF and other multilateral institutions should be taken seriously but not literally. The US Treasury may hesitate to withdraw and let China gain influence within the organizations. Also, Treasury may use the threat of withdrawal to gain leverage by not withdrawing.

But suppose the US did proceed to leave the Fund. Among the consequences would be that the Fund must stop transactions in US dollars. Its Articles of Agreement say (XXVI [1]): “When a

member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease...”



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## IMF withdrawal might be a shock, but real effects might be subdued

On the face of it, US disengagement and the Fund stopping transactions in US dollars would cause a mighty shock to the international monetary system centered on the US dollar. But looking more closely, the real financial effects (as distinct from symbolism) might be less significant, for three reasons.

First, IMF lending is denominated in Special Drawing Rights (SDRs), which the borrowing government then converts into a real-world currency, normally US dollars. But the borrower can also just hold SDRs in its reserves. If it wishes to convert into a currency it could convert to a non-dollar currency and convert to dollars in the open market.

Second, the effect of US exit on the whole “dollar system” would be small because IMF lending is so small relative to the size of dollar markets, a drop in the bucket. The US Treasury issues as many Treasuries (debt securities or bonds) in one quarter as the IMF has in its total outstanding loans.

There would be a fall in IMF borrowing countries’ purchase of Treasury bonds, but the fall would be insignificant relative to the total quarterly sales of Treasury bonds and other government issues. Once the US had left the Fund the next auction of Treasuries might yield a price 10 basis points (bps) higher, or even 50 bps points higher. Trump’s **tweets have more of an impact** on prices.

Third, the Fund’s rules are indeed clear: “When a member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease...”. But the Fund has not infrequently ignored its own rules or changed them under pressure from major shareholders. For

example, it changed the rule prohibiting lending to countries at war, to give generous financial help to Ukraine against Russia.

When Trump's people become aware of the rule that prevents the Fund from undertaking transactions in the currency of an exited member, they may use their remaining leverage to change the rule before exiting. Moreover, many countries officially use the US dollar (Ecuador, El Salvador, Liberia and more). So, the Fund could play the card of saying that it is operating with the currency of one of those and go back to business as usual.

- *Professor Robert Wade spoke at the Phelan US Centre event, 'Is there a new Washington consensus?' on 11 February 2025. [Watch the event video](#) and [listen to the event podcast](#).*
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