

THE IMF AND EUROPE UNDER TRUMP II

The Trump II Administration is Likely to Throw a Wrench in
Coordination Across European States in Nearly Every Forum
Except One: The IMF and Multilateral Financial Institutions

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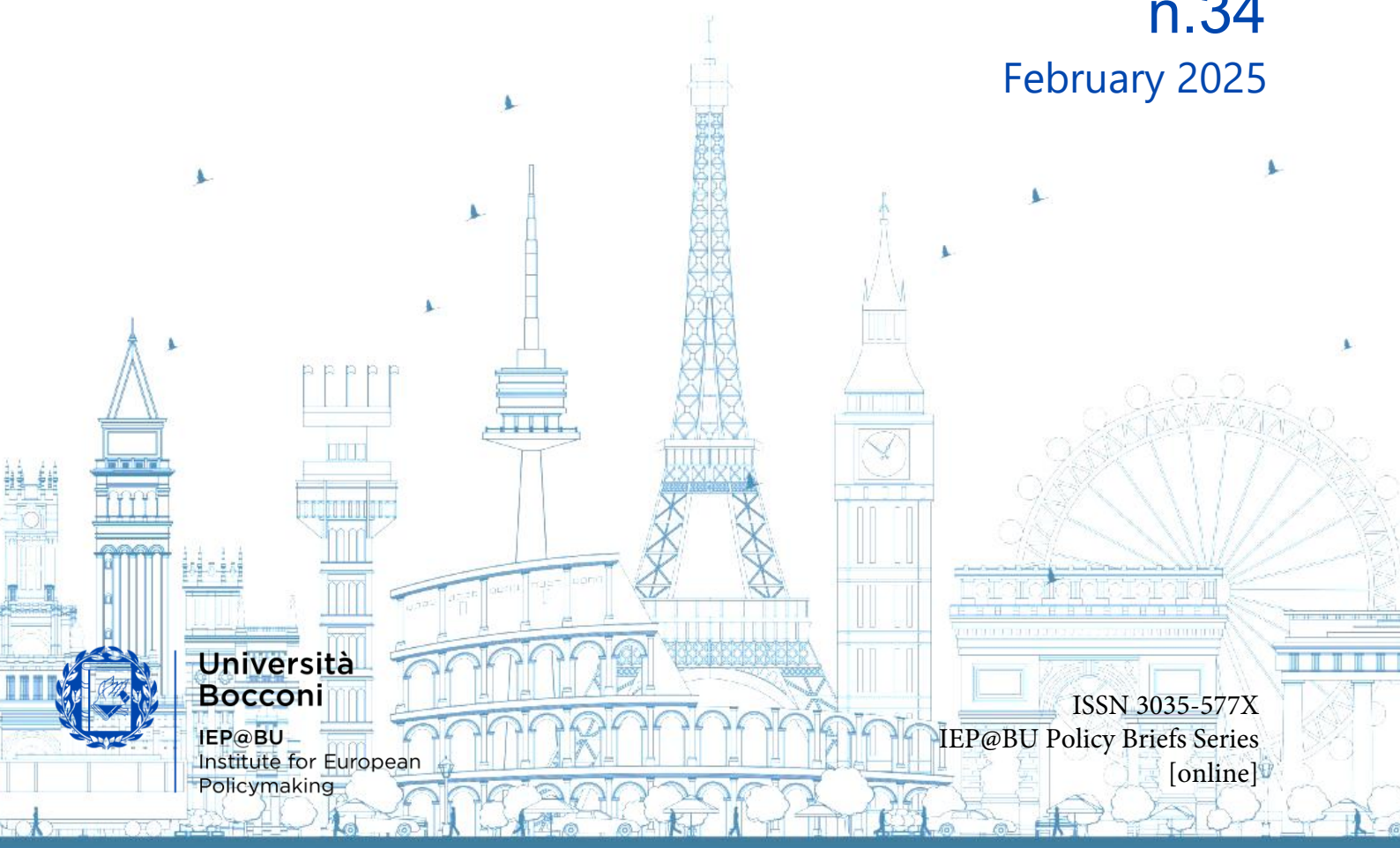


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Executive Summary

The IMF provides a collective good in offering low interest loans to countries in high debt distress, overseeing global financial stability, and providing economic surveillance and reporting for public and private actors to make well-informed market decisions.

Not without its flaws and poor decisions in the past, its imperfect structure is the result of cooperative and multilateral global governance and a reflection of power balances and governance priorities in the postwar era.

The United States, Japan, and Europe are the primary beneficiaries of its current governance structure. A structure which offers impetus and opportunity for Europe to help scale up lending which is beneficial to international monetary stability and its own development goals.

The IMF is also a vehicle for incentivizing private investment in areas which improve national and global welfare – like climate financing – by providing governments in debt distress the fiscal space to undertake necessary long-term infrastructure investments and macroeconomic planning which can make such private investments more fruitful.

It is between these two objectives – the primary one of global financial stability, the secondary one of scaling up public and private investments – where Europe's role in the IMF under Trump II becomes one of protecting the institution as a collective good and driving investments in the instruments which make it a unique hallmark of international financial institutions (IFIs) worldwide.

The report considers how Europe – conceptualized as the EU, UK, Norway, and Switzerland – can advocate for better policy on the IMF Executive Board in order to steer the Resilience and Sustainability Trust (RST), Poverty Reduction and Growth Trust (PRGT), and economic surveillance and reporting in a positive direction.

We consider in depth how Europe can strategically engage with the IMF either with a) a US which stays in the IMF but is less engaged, and b) a US which leaves the IMF or c) stays and is openly hostile towards its aims and objectives.

Our analysis suggests that European states should adopt positions on the IMF Executive Board which encourage an expanded RST, further support for PRGT at zero interest rates, and demands for greater macroeconomic data reporting from China.

We conclude with main takeaways and the chief outcome that while US engagement is paramount to the continued and long-term success of the IMF, Europe can – with coordinated action within IFIs – guide international lending in a way which retains the soul of the IMF's original mission: international monetary cooperation. A principle which cannot be sought after with an isolationist approach by the lead member state.



Introduction

According to reporting from the Centre for European Reform¹, US President Donald Trump has called for a review of American engagement with international financial institutions like the IMF and the World Bank (WB) to determine if the Bretton Woods institutions are against the interests of the US or can be reformed.

Given other recent executive orders which have gone beyond what economic analysts and politics watchers expected, including Trump's imposition of 25% tariffs on Canada and Mexico – which were rescinded after phone conversations with his counterparts on the day they were set to come into force – the major stakeholders in the World Bank and the IMF ought to anticipate that a complete US exit from the Bretton Woods institutions is forthcoming.

Even if a complete exit from the Bretton Woods institutions comes to pass, President Trump's statement reflects a looming attempt to excise concessions on international financial institutions policy from other member states.

While both institutions are in need of significant governance reforms in order to make them more fit-for-purpose, democratic, and reflective of countries' modern economic sizes², Trump's "America First" platform is unlikely to lead to reforms and initiatives which are more inclusive or to bind more countries to the rules-based order of international financial institutions.

Instead, an America First approach to the IMF is likely to exert more American pressure on key Executive Director offices, result in a complete IMF/WB-exit, or further hamstring efforts to reallocate vote shares, which have been ongoing since the General Review of Quotas in 2010.

A change to the IMF's governance structure and vote shares requires the confirmation of 60% of the member states and 85% of vote shares.³ While the Sixteenth General Review of Quotas in 2023 increased the total number of quotas by 50% to provide more funding to the IMF's instruments⁴, vote reallocations are still stalled and the Trump administration is unlikely to recommend reforms which will inspire the consensus⁵ necessary to enable the IMF to adopt any proposed voting reallocations.

Efforts to reform the IMF with the Trump II administration will also be complicated by the administration's plans for the US dollar. President Trump has declared a desire to retain the US dollar's position as the dominant reserve currency (by force if necessary) and claimed that efforts to undermine the US dollar's value will boost American exports.

¹ Reported by Sander Tordoir on Bluesky. February 7, 2024.

² Nordquist, Sienna and Joël Christoph. January 16, 2024. *Governance reform of the Bretton Woods Institutions*. Washington, DC: Atlantic Council Geoeconomics Center.

³ IMF. April 29, 2008. "Press Release: IMF Board of Governors Adopts Quota and Voice Reforms by Large Margin." <<https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0893>>. Accessed: February 9, 2025.

⁴ IMF. December 2023. *Sixteenth General Review of Quotas – Report to the Board of Governors and Proposed Resolution, and Proposed Decision to Extend the Deadline for a Review of the Borrowing Guidelines*. Washington, DC: IMF.

⁵ 85% minimum of vote shares.



The Trump administration's constraint between its preferred trade and monetary policies can generate significant macroeconomic turbulence for the US and the world, especially countries that have their currency pegged to the dollar.

Given the IMF's purview over international monetary cooperation, efforts by the US to unilaterally sanction how other states treat the US dollar's reserve currency status will make IMF governance reforms trickier, if not nearly impossible.

Amidst this fraught backdrop, we argue that from a European perspective, the delayed vote share reallocations in the past decades bring a silver lining to engagement with the IMF under Trump II.

Here, Europe includes the EU member states as well as the UK, Norway, and Switzerland. European states benefit from an overrepresentation in IMF Executive Board vote shares relative to the size of their economies and population.⁶

They also benefit from holding three Executive Director (ED) offices which are entirely their own. While most of the 25 ED offices require Directors to represent multiple IMF members, the UK, France, and Germany each have their own individual ED.⁷

Several European countries, like Lithuania, the Netherlands, and Spain, among others; also head their constituencies' representation on the Executive Board. European states therefore have an outsized ability to protect the interests of the IMF, and/or to increase their leverage over its consensus decision making in the event of a US withdrawal from the institution.

This is particularly the case for the IMF's newest instruments – the RST and PRGT – which target financing for the fund's poorest member countries.

How Europe can use its voice on the IMF Executive Board to safeguard and expand the objectives of these newer instruments is the major focus of our policy analysis.

In a later analysis of IMF vote shares and European trade dependencies on the US and China, we theorize that European states are well positioned to defend the IMF's mission, even if the US and China try to outmaneuver one another.

In short, European countries have the opportunity to make the difference in safeguarding the IMF's mission and structure amidst backsliding in international liberal institutions.

A Europe for the Resilience and Sustainability Trust (RST)

The Resilience and Sustainability Trust (RST) is a rather new addition to the IMF's list of financial instruments. It was founded in 2022 amidst the global recovery from the Covid-19 pandemic to help

⁶ Nordquist and Christoph 2024.

⁷ Only the US, Japan, China, and Saudi Arabia also have this privilege on the IMF Executive Board.



member countries keep stable balance of payments while making the investments necessary for climate change prevention, mitigation, and adaptation measures.

Due to the timing of its establishment, the lending is also available for pandemic preparedness. Pandemic preparedness has taken a less central role in RST discussions in the past few years as fears over a Covid-19 resurgence have (thankfully) faltered, but the US's withdrawal from the WHO may indirectly refocus RST objectives towards global and public health initiatives.

The adoption and implementation of the RST reflects how the IMF is a late-comer, but still important, driver of international climate policy. It also demonstrates that climate concerns have become 'macro-critical' in the eyes of IMF economists and have inspired an institutional belief that market-based, global policies are required to accelerate decarbonization.⁸

The RST's main objective is to help low-income countries (LICs) manage external risks (like climate change and pandemics) to their balance of payments via fast disbursements. \$30 billion in financing was made available through the RST as of 2024, with seventeen countries already receiving support through the RST.

Considering the short duration since the instrument's inception, demand for RST-based lending has been high and will likely only expand in importance.

One drawback of the RST is that recipient states must already have an IMF program in place, which the Center for Global Development recommends should be altered to allow up to 25% of the IMF quota to be lent via the RST without a program already in place.⁹

The RST mainly acts as a catalyst for private investment to support the green transition in debt distressed countries, and provides additional funding to LICs' reserves so that they can service their other debt on IMF programs. More financing is still needed, as at this pace the RST will deplete its \$30 billion facility by 2030.¹⁰

As a new flagship IMF instrument, at the surface level there does not appear to be big disagreements between EDs on the RST in general. China's representative to the IMF has also highlighted the role of the RST and the IMF's commitment to it.¹¹

However, given the perhaps mixed, if not contrary, interests between the US and China which might develop during the Trump II administration on the Bretton Woods institutions, European states will have to walk a fine line on the Executive Board.

On the one hand, they can and should push for further lending to be made available through the RST and for an expanded mandate to fund the green transition. On the other hand, the RST may

⁸ Clift, Ben. Forthcoming. "Global economic governance and environmental crisis: the widening repertoire of IMF economic ideas and limits of its climate policy advocacy." *Policy Analysis*.

⁹ Hicklin, John. March 2024. *The IMF's Resilience and Sustainability Trust: How Conditionality Can Help Countries Build Resilience*. CGD Policy Paper #324. Washington, DC: Center for Global Development

¹⁰ Ibid.

¹¹ IMF. 2024a. "Statement by IMF Deputy Managing Director Bo Li at the Conclusion of his visit to St. Kitts and Nevis." <<https://www.imf.org/en/News/Articles/2024/02/16/pr2451-statement-by-imf-dmd-bo-li-at-the-conclusion-of-his-visit-to-st-kitts-and-nevis>>. Accessed: February 9, 2025.



become a flashpoint for American calls for IMF reform, given Trump's skepticism over climate change and pursuit to drastically cut program funding to government agencies.

Protecting the integrity of the RST will therefore take priority over calling for its expansion if it is caught in the crosshairs of reform attempts.

European states can also consider advocating for the RST to be used for wider pandemic preparedness measures. This might fill in some of the investment gaps from the US's withdrawal from the WHO, although the IMF is not a health-financing investment arm.

In any case, key IMF members will have to be clear-sighted in their future objectives with the RST and how lending priorities and policy conditions can be set in such a way as to incentivize a more sustainable, healthier, and greener world – particularly if these objectives themselves come under fire.

Box 1. IMF Financing vis-à-vis the GRA, RST, and PRGT

The IMF's main financing for country programs is conducted through the General Resources Account (GRA). Member countries' special drawing right (SDR) quotas provide the overall funding for the GRA, and the IMF's reserves (positive net income from the GRA) lower the fund's credit risks from lending to debt distressed countries. Outside of SDR quotas, the IMF has gold reserves from the fund's early years when SDRs were paid solely in gold. Normal IMF lending programs are funded through the GRA.

The RST and PRGT, as newer instruments of the fund, have a similar financial structure as the GRA except that an encashment regime acts as these instruments' reserve account since funds are on-lent through these other lending instruments.

In other words, 20% of loan amounts (in the case of PRGT) are kept in a pool to hedge against credit risks, instead of the prudential balances used by the GRA.

Moreover, for emergency instruments like the PRGT, member contributions can be specified as subsidies or loans, giving the contributing states more control over how its dedicated resources in SDR or an international currency is lent to a partner country.

There are also minor differences in the financing structure of the RST and PRGT due to their varying objectives and the timeline of these objectives (i.e., the green transition and pandemic preparedness versus lending to the most impoverished states, respectively.) Loan maturity differs between the RST and PRGT, with it resting at a maximum of ten years for PRGT and a maximum of twenty years for the RST.



A Europe for the Poverty Reduction and Growth Trust (PRGT)

The Poverty Reduction and Growth Trust (PRGT) provides loans at zero percent interest rates to LICs who facing the most public debt distress. In subsidizing loans to the most vulnerable economies in the world, PRGT acts as a collective good for macroeconomic stability and an additional vehicle for the IMF to guide economic policy. Sixty-nine countries are eligible for PRGT, as well as the Rapid Credit Facility which provides emergency lending.¹²

A recent 2024 reform of PRGT has already boosted the trust's funding, by doubling the lending envelope size from before the Covid-19 pandemic. However, the 2024 reform has also established a new interest rate to be applied to PRGT loans for half of LICs who are eligible for the trust as of May 1, 2025.¹³

While this decision reflects rising interest rates for special drawing rights (SDRs),¹⁴ implementing this new interest rate is likely to be a mistake as macroeconomic shocks from impending trade wars and changing supply chains can exacerbate debt distress in vulnerable LICs.

It might be argued that in the short term, the Rapid Credit Facility will provided the necessary lending needed. But if these higher transaction costs and sustained risks to international monetary policy persist, then an expansion not only of PRGT's size, but also the nature of its subsidized loans may need to be improved once more.

PRGT's current financial structure relies on loan accounts, subsidy accounts, and the reserve account.¹⁵ In investigating which countries are financially backing PRGT, through either the loan or subsidy mechanism; it becomes clear that European countries are the most important lenders for the PRGT instrument.

In Table 1, we display the breakdown of how much financing European countries, the European Commission, China, Japan, and the US are contributing to PRGT's subsidies in terms of SDR. In Table 2, we display this same breakdown, but for PRGT loan contributions.

The countries in bold have their own individual chair (ED) on the Executive Board. Both tables reveal that European countries and institutions (like the European Commission) together provide around 50% of all PRGT subsidy or loan financing. Two European states (France and the UK) provide more than China's unilateral financing in PRGT subsidies and loans, and Italy matches China on PRGT loan financing.

Four European countries and the European Commission provide more PRGT subsidy financing than the US and all the European states that contribute to PRGT loans give more than the US (which makes no contribution via this financing vehicle).

¹² Andrews 2024; IMF 2024b.

¹³ The other half of LICs, those that are the poorest, will still be eligible for the zero percent interest rate through PRGT. IMFb. October 17, 2024. "Frequently Asked Questions on the Poverty Reduction and Growth Trust (PRGT) Review." <<https://www.imf.org/en/About/FAQ/prgt-review>>. Accessed: February 9, 2025.

¹⁴ Andrews 2024.

¹⁵ Andrews 2024.



The US's very low unilateral contributions to PRGT also suggest it will have low influence on any efforts to reallocate these funds. Similarly, China's relatively low contributions to PRGT make it unlikely to have a significant effect in redirecting the instrument's future. Notably, Germany makes much lower financial contributions to PRGT than its peer single ED chairs (the UK and France) and could therefore increase its unilateral financial contributions to PRGT.

Europe's significantly larger presence in PRGT financing than the US and China gives it greater voice and legitimacy on deciding the IMF's future direction and investment for the instrument. As macroeconomic instability rises with heightened policy instability¹⁶, the collective need for PRGT will also rise.

France, Germany, the UK, and Japan's combined majority on PRGT financing (approximately 52% of subsidies and 43% of loans) and heavy weight on the Executive Board (with four seats between them) gives these states the greatest stake and position on the PRGT's future and lending priorities. France and Germany can also use their leadership position amongst European states in the EU and on the IMF Executive Board to coalesce a broad European stance on PRGT financing, terms, and conditionality.¹⁷

Table 1 – Percentage of PRGT Subsidies in SDR

Source: IMF 2024¹⁸, calculations by authors

| Country | Percentage of PRGT Subsidies in SDR |
|----------------|-------------------------------------|
| Bulgaria | 0.23% |
| Croatia | 0.009% |
| Cyprus | 0.09% |
| Denmark | 0.89% |
| Estonia | 0.02% |
| Finland | 0.05% |
| France | 11.17% |
| Germany | 6.88% |
| Greece | 0.89% |
| Hungary | 0.51% |

¹⁶ Policy Uncertainty. <https://www.policyuncertainty.com/>.

¹⁷ The UK can also play a lead role here, especially since it contributes more than Germany, although not formally in coordinating an EU position.

¹⁸ Fundraising round as of October 15, 2024.



| | |
|---------------------|---------------|
| Ireland | 0.89% |
| Italy | 3.84% |
| Latvia | 0.09% |
| Lithuania | 0.09% |
| Malta | 0.05% |
| Netherlands | 1.68% |
| Norway | 0.42% |
| Poland | 0.19% |
| Portugal | 0.51% |
| Slovakia | 0.28% |
| Slovenia | 0.14% |
| Spain | 2.34% |
| Sweden | 1.03% |
| Switzerland | 2.01% |
| UK | 11.7% |
| European Commission | 3.65% |
| Europe Total | 50.25% |
| China | 7.86% |
| Japan | 22.42% |
| USA | 2.57% |



Table 2 – Percentage of PRGT Loans in SDRSource: IMF 2024¹⁹, calculations by authors

| Country | Percentage of PRGT Loans in SDR |
|----------------|---------------------------------|
| Belgium | 1.71% |
| Denmark | 1.02% |
| Finland | 2.05% |
| France | 19.80% |
| Germany | 0% |
| Italy | 6.83% |
| Netherlands | 3.41% |
| Norway | 1.02% |
| Spain | 2.39% |
| Sweden | 1.02% |
| UK | 10.24% |
| Europe Total | 48.12% |
| China | 6.83% |
| Japan | 13.65% |
| USA | 0% |

Given Europe's strong position both with its share of EDs on the Executive Board and as the main lender to PRGT – including through the supranational European Commission, it ought to have an outsized influence on the future direction of PRGT as well as any proposed changes which are advanced by rival ED seats, like the US and China.

The tables also make clear that if Europe acts as a singular voice or with a common interest on IMF instruments, lending, and governance, then it can have a dramatic influence on IMF priorities.

Overrepresentation on the Executive Board also means that Europe is well-positioned to defend IMF instruments of importance to its objectives in the IFI. This can be viewed either as a strength or a weakness.

¹⁹ Fundraising round as of October 15, 2024.



It becomes a weakness if the IMF's activities are blocked or delegitimized by disagreement or disengagement by the US. But it is a strength if its high stake in the IMF's General Resource Account (GRA) and other IMF instruments (like PRGT) allow it to take on an expanded role in agenda-setting on international monetary policy, and to drive further lending to the most vulnerable economies in the world.

Europe can also use its voice on the IMF's Executive Board to call for greater transparency in economics surveillance reporting and for greater scrutiny and monitoring of economic data.

A Europe for Economic Surveillance from the IMF

The IMF provides economic surveillance through bilateral surveillance, multilateral surveillance, and policy advice. Each of these arms feeds back into the policy conditionality that are applied in its flagship programs with recipient members.

The IMF is probably most widely known – on a surveillance front – for its World Economic Outlook (WEO) which is published twice a year: once during the Spring Meetings, and a second time during the Annual Meetings.

The WEO is widely cited by the media, particularly for its economic growth and inflation forecasts, and is used for public and private actors alike to make well-informed decisions to mitigate risk in investments and monetary allocations. The IMF's surveillance efforts rely on expertise of its research staff, which support policy advice and research reports.²⁰

Outside of the IMF's multilateral macroeconomic reports, they provide critical insights and evaluations of individual member's balance of payments and debt risks through bilateral surveillance.

On an annual basis, the IMF conducts assessments of each of its 191 member countries' macroeconomic health in Article IV consultations. In the case of China, however, a lack of transparency in data reporting has persisted and impeded the IMF's ability to rigorously consider any vulnerabilities in trade-exposed sectors.²¹

This is particularly the case for determining China's investment and interest income balance and accounting for discrepancies between China's current account surplus and customs surplus.²² Given European states' overrepresentation on the Executive Board, they could exert pressure on the IMF to more critically consider and ask for transparency in China's data reporting.

²⁰ IMF. 2025. "Economic Surveillance." <<https://www.imf.org/external/pubs/ft/ar/2024/what-we-do/economic-surveillance/#:~:text=The%20IMF%20monitors%20the%20international,of%20its%20191%20member%20countries.>>. Accessed: February 9, 2025.

²¹ IMF. August 2024c. "People's Republic of China: 2024 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China." IMF Country Reports #24/258. Washington, DC: IMF.

²² Setser, Brad. January 15, 2025. X. <https://x.com/Brad_Setser/status/1879586942142325072>. Accessed: February 9, 2025. <https://x.com/Brad_Setser/status/1879328223919808639>.



Such an effort could also influence how the Trump administration views the IMF and persuade the administration not to leave the institution; given the US's current and rising trade tensions with China and other BRICS countries, further IMF demands for Chinese data transparency might convince the Trump administration of the IMF's importance to American interests.

Key policy takeaways

In summation, we recommend European countries take positions on the IMF's Executive Board which encourage:

- 1) Expanded financing for the RST
- 2) Lower requirements for RST access, including the condition that potential recipients must already have an IMF program in place
- 3) RST conditionality and guidelines which encourage more private sector investment in the green transition to follow IMF financing
- 4) Protection of the RST as an IMF instrument and policy objective of the fund
- 5) Higher subsidy and loan contributions to PRGT
- 6) The elimination the new interest rate to be applied, with other financial mechanisms to resolve issues of higher SDR interest rates (such as slightly higher rates for regular IMF programs)
- 7) Demands for greater transparency in macroeconomic data reporting from China, and all IMF member states

Europe's Strategic Advantage

While the first Trump administration did not try to disengage from the IMF, and was more disinterested than aggressive, the second Trump administration is expected to fully break from or undermine the Bretton Woods institutions. This would fit the pattern of its belligerent approach to the norms of international trade agreements and the rules of reciprocity at the World Trade Organization (WTO).

If the US cannot be persuaded to stay in the IMF, then European states must act in concert with one another – which they already widely do on the Executive Board and in coordinated votes²³ – to

²³ Forster et al. Forthcoming.



preserve the IMF programs, instruments, and policy advice which are in their interest and collective interest from a multilateral mission of international monetary stability.

We turn now to consider how Europe might use its weight strategically to offset both the US and China while the IMF undergoes a geopolitical transition – one way or the other depending on the Trump administration's decision.

We examine data on IMF vote shares and risk exposure to the US and China in order to understand how European countries are likely to use their voice on the IMF Executive Board under a second Trump presidency.

European countries will need to placate both the US and China while the IMF undergoes reforms or otherwise witnesses geopolitical transition throughout the Trump II administration. In the event of US exit from the IMF, Europe will also need to contend with an empowered China which may use its new status²⁴ to dramatically alter or halt funding so that states turn to its sovereign funds for financing more than the IMF. We therefore consider the effective voice and representation of European states and blocs in IMF governance relative to their import and export trade exposure to the US and China. Trade exposure²⁵ is therefore a proxy measurement for geoeconomic risk exposure more broadly.

We consider geoeconomic risk to be a worthwhile comparison with vote shares because the Trump administration has a tendency to tie multiple international issues together in its bilateral and multilateral negotiations. For example, the recent trade negotiations with Canada and Mexico were tied to the fentanyl crisis in the US.

Thus, demonstrating that the European countries with the most weight on the Executive Board are the least exposed to geoeconomics risk to the US and China more broadly demonstrates that Europe can stand up to one or both of these countries if they attempt to outmaneuver them or undermine the IMF's mission.

In other words, states with low geoeconomics vulnerability to the US and China will have greater leverage in negotiating – publicly or behind the scenes in the Executive Board's consensus decision making – the IMF's future direction than they would if they are highly dependent on them.

In Figures 1 and 2, we compare major European countries' vote share on the IMF Executive Board and their geoeconomics exposure to China and the US, respectively. Figures 1 and 2 provide important country-specific insights into which European countries are most exposed to rising geopolitical tension between the US and China.

The figures capture these statistics for the European countries that have independent Executive Directors (like the UK) or have the most or second most vote shares of any European countries within their ED (such as Sweden and Norway for their ED).

²⁴ As either the #1 or #2 power on the IMF Executive Board, depending on the vote share reallocations negotiated by Japan and other critical EDs.

²⁵ As measured by the World Bank's World Integrated Trade Solution 2022 imports and exports between country partner pairs



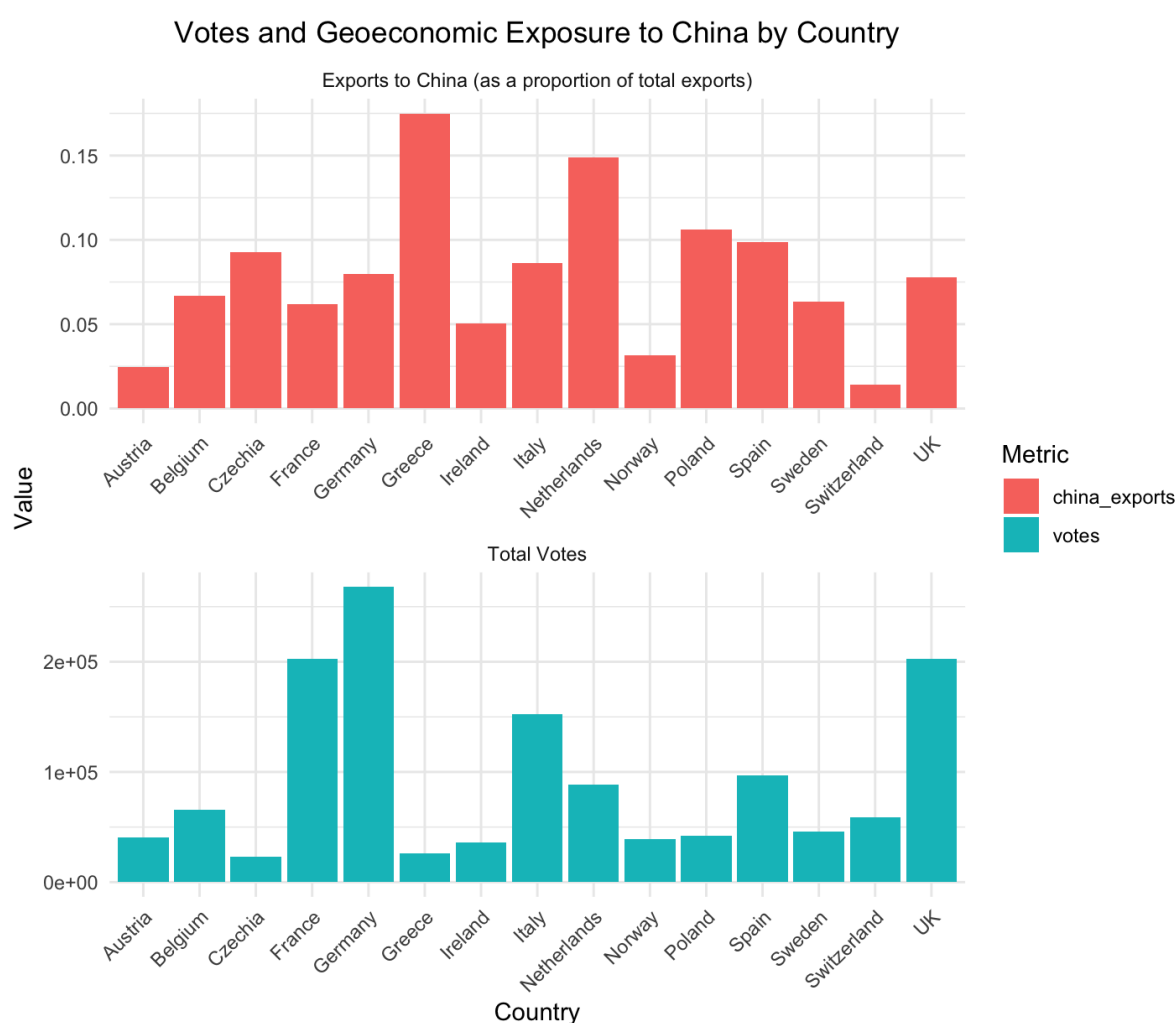
By having some of the highest vote shares on the IMF Executive Board, these countries also represent the larger European economies, and are the states with more of a voice on the IMF Executive Board.

Figure 1 displays how Germany, the UK, and France are under-exposed to China relative to their total vote shares on the IMF, while Belgium, Czechia, Greece, the Netherlands, Poland, Sweden, and Spain are over-exposed to China given these same IMF Executive Board vote metrics.

On the US side, Figure 2 shows how Ireland is far and away the most exposed to shocks to prices in imports from the US, but there is still high exposure and over-exposure compared to IMF votes in Czechia and Sweden.

However, there is under-exposure to the US relative to vote shares for key players like France, Germany, the UK, Italy, the Netherlands, and Spain. Crucially here, the European states with their own ED offices – the UK, France, and Germany – are under-exposed to both China and the US in these figures.

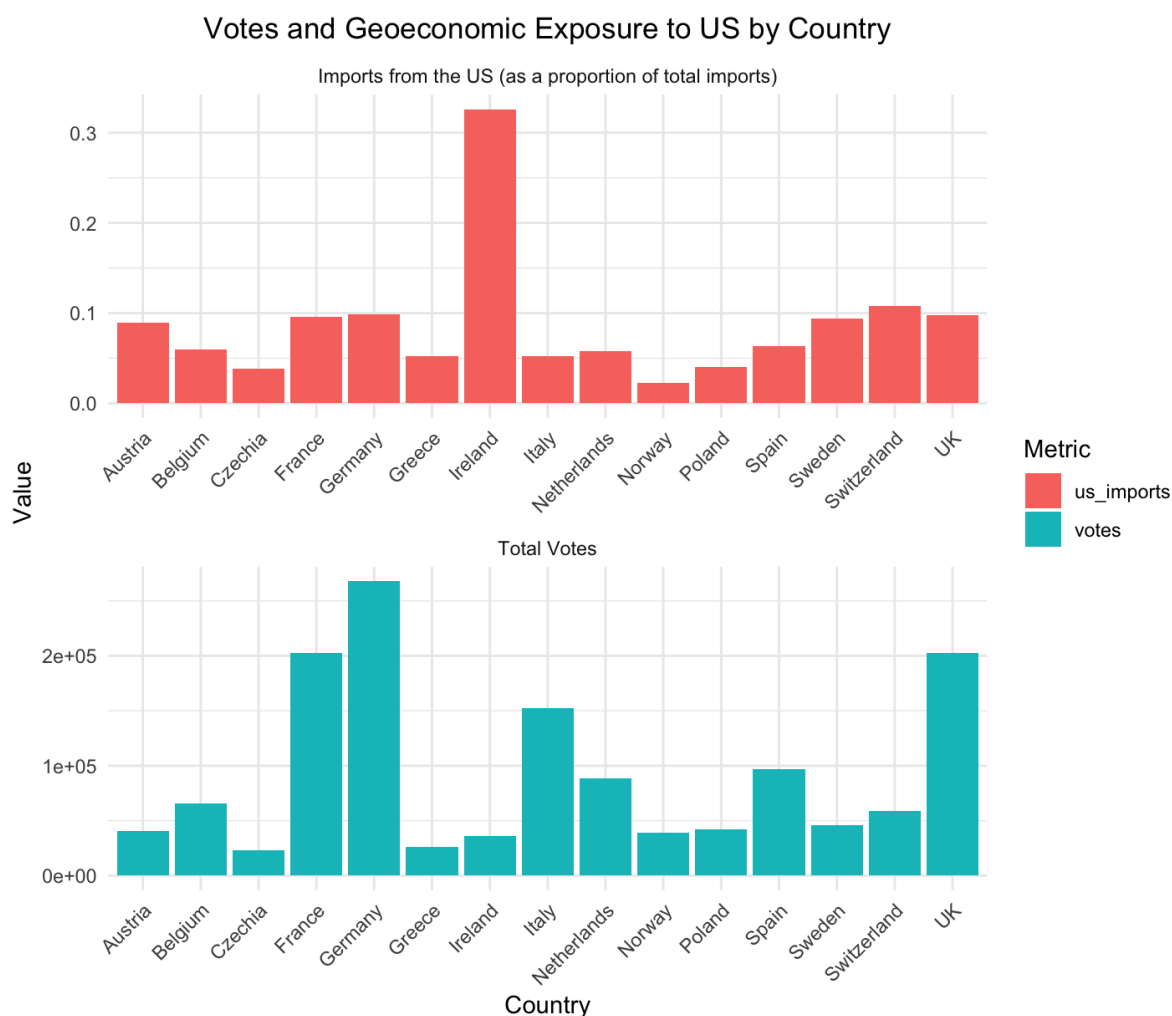
Figure 1



Data sources: Total votes data taken from the IMF's webpage on executive directors and vote shares ([updated November 2024](#)). GDP data is sourced from the World Bank's World Development Indicators for 2022 GDP. Data on exports and imports to China and the US are from the World Bank's World Integrated Trade Solution Database. We took data on the total value of worldwide exports between each country and all of its trading partners and calculated the proportion of exports that went exclusively to China.



Figure 2



Data sources: IMF total votes shares on the IMF Executive Board data is the same. Data on exports and imports to China and the US are from the World Bank's World Integrated Trade Solution Database. We took data on the total value of worldwide imports between each country and all of its trading partners and calculated the proportion of exports that went exclusively to the US.

Our findings therefore do not suggest that European states are impervious to trade shocks and other macroeconomic instability from Chinese and American industrial, trade, and monetary policy.

On the contrary, many European states like the Netherlands, Greece, Ireland, Spain, and Italy are highly exposed to one or both countries.

However, the leading European states on the Executive Board (the UK, France, and Germany) are the least exposed relative to their vote shares on the IMF.

This suggests that a strong European coalition can emerge to defend the IMF's main objectives, lending programs, and instruments if it faces pushback or subversion by the US or China.

European consensus is particularly likely given the consensus-based decision making of the Executive Board and coordination between European states on their votes at the Bretton Woods institutions. European institutions also play a key role here, with the EU able to coordinate votes, or implement solidarity mechanisms should the US or China try to isolate one state in particular on a secondary issue which is tied to IMF reforms.



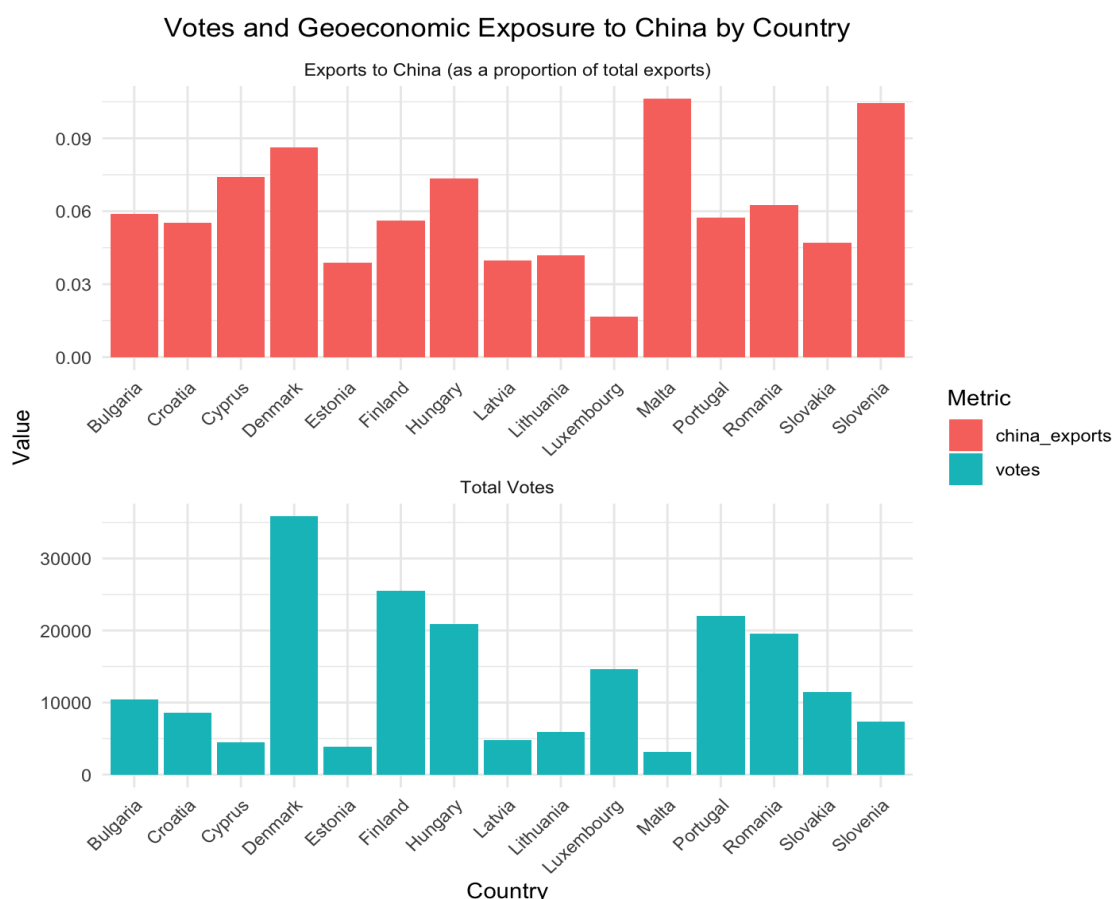
Similarly in Figures 3 and 4, we compare the same measures, but for a different group of European states. Figures 3 and 4 capture the same statistics as those in Figures 1 and 2 but for European countries with smaller vote shares, therefore representing the relatively smaller European economies.

These figures reveal similar dynamics and patterns as those uncovered in Figures 1 and 2. In Figure 3, you can see that most of the smaller European economies have much greater exposure to Chinese trade shocks relative to their vote shares on the IMF Executive Board. (N.b., the y-axes are of different scales in Figures 1-4).

Figures 3 and 4 also show that Denmark has relatively greater exposure to China and the US given that it is not only of the top two European countries within its ED (with Norway and Sweden), but it also has significantly more vote shares than the other states.

Since the twenty-seven EU states are largely defined by the market risks of the Single Market, the EU-27, plus EEA partners (like Norway and Switzerland) and the UK have important alignments on macroeconomic priorities in the international system, although their individual exposure and geoeconomics risk in the coming years under Trump II changes is diverse.

Figure 3



Data sources: IMF total votes shares on the IMF Executive Board data is the same, as above. Data on exports and imports to China and the US are from the World Bank's World Integrated Trade Solution Database. We took data on the total value of worldwide exports between each country and all of its trading partners and calculated the proportion of exports that went exclusively to China.

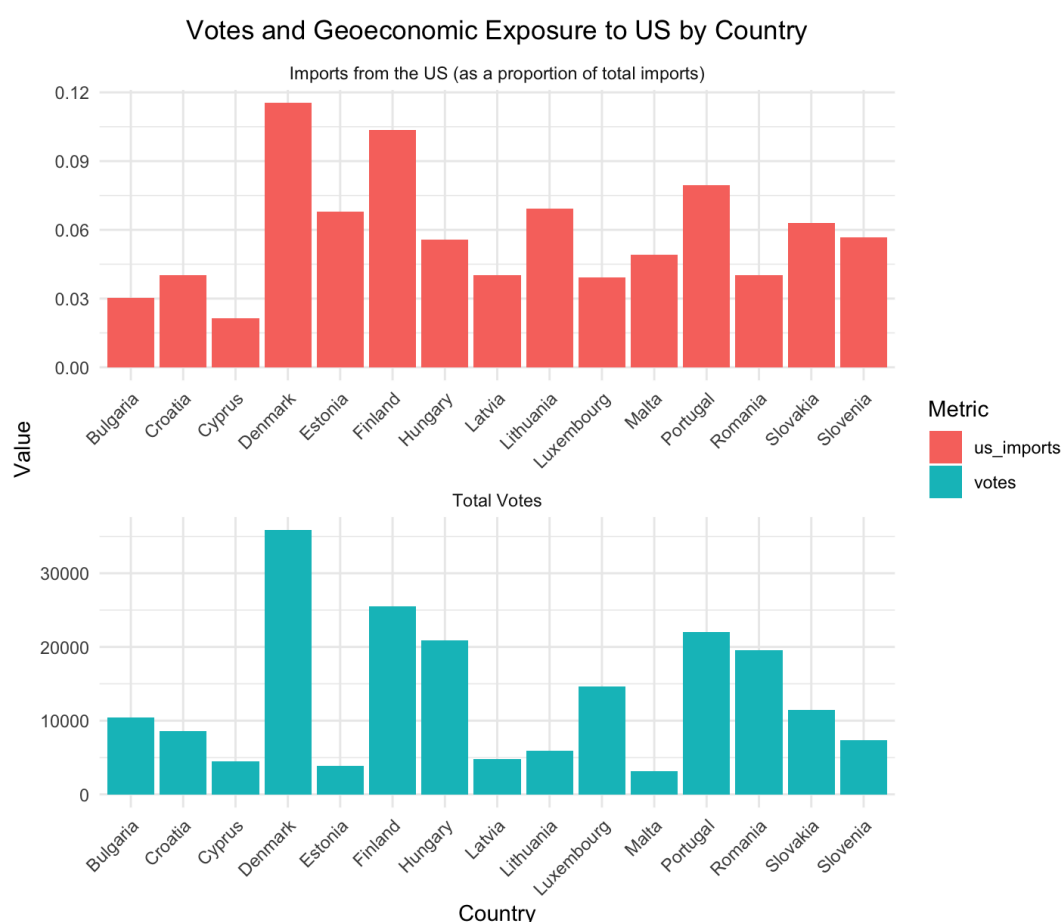


Figure 4 demonstrates that, as with China, geoeconomic exposure to the US far outweighs vote shares for most of the smaller European economies. This holds particularly true for Finland and Portugal. This introduces a decisive dynamic to under and over-exposure to pressure from the US and China on IMF and other MFI stance by European countries.

The countries most under-exposed to these rival economic powers – relative to their own representative voice on the IMF's Executive Board – are also the most powerful European countries on the Executive Board and the ones with their own EDs.

While other European states, like Spain and Italy, and non-European state, like Australia and Colombia, have a more heavily weighted share in the say of their shared ED office, the unanimous and resounding voice of an entire ED office gives these three European countries outsized influence on the IMF agenda, direction, and dealings with the US – as the ultimate IMF veto player.²⁶

Figure 4



Data sources: IMF total votes shares on the IMF Executive Board data is the same. Data on exports and imports to China and the US are from the World Bank's World Integrated Trade Solution Database. We took data on the total value of worldwide imports between each country and all of its trading partners and calculated the proportion of exports that went exclusively to the US.

²⁶ See the direct IMF website here: <https://www.imf.org/en/About/executive-board/eds-voting-power>.



The smaller European states that are “over-exposed” to China and the US also typically do not overlap in both categories. In other words, the European countries that are over-exposed relative to their IMF votes tend to be vulnerable to external pressure from either China or the US, but typically not both. This means that if and when a unified European front presents itself in the IMF, jockeying between the US and China over IMF policy, or unilateral reform efforts by either state is likely to be effective only on a subset of states that are more likely to follow the guidance of leading European countries anyways. This is already well-known with European states having a massively oversized say in the selection of the IMF Managing Director,²⁷ and the G5 achieving outsized influence on IMF loans.²⁸

There are also optimistic reasons to believe European states – under joint EU strategic guidance or G7 partner leadership – can have bargaining influence both with and without the US on the IMF Executive Board. Recent academic work suggests that it is policy affinity with the G5, not the US alone, which drives preferential lending decisions at the IMF.²⁹

US dominance in IMF lending decisions is therefore far from certain, especially if the US attempts to wield its veto power to complicate international decision-making efforts for monetary stability.

At the same time, large European economies also have a strong and overrepresented voice in IMF lending decisions relative to their economic and population sizes. Furthermore, member states of the EU have already superseded supervisory powers to the IMF which allows EU institutions and EU coordination to influence their behavior and votes at the IMF level.³⁰

This means that even if Europe’s medium or smaller economies come under pressure from the US or China on their IMF stances, concerted efforts by European political institutions to bind the states’ vote shares together at the Executive Board can provide the necessary counterweight to these vulnerabilities. Economic or trade solidarity mechanisms between European countries can also offset fiscal or monetary threats from the US or China on one or more issues connected to IMF policy.

Moreover, consistent EU presence and objectives in international organizations³¹ provides impetus for EU-level coordination strategies in other IOs like the World Bank, WTO, and G7 to remain relatively stable, if not of heightened importance, during the second Trump administration. Standing firm as a voting bloc in these institutions which defend the rules-based order therefore strengthens Europe’s position across IOs. In short, EU and European-wide coordination on IMF consensus decisions and reform efforts is therefore likely to give Europe a heightened leadership position amidst geopolitical transition at the fund.

²⁷ Hodson, Dermont. 2015. “The IMF as a de facto institution of the EU: a multiple supervisor approach.” *Review of the International Political Economy* 22 (3): 570-598.

²⁸ Copelovitch, Mark S. 2010. “Master or Servant? Common Agency and the Political Economy of IMF Lending.” *International Studies Quarterly* 54 (1): 49-77.

²⁹ Copelovitch, Mark, and Ryan Powers. October 2021. “Do We Really Know What We Think We Know About the Politics of IMF Lending? Measuring and Reassessing US Influence in Global Financial Governance.” Presented at the 2021 IPES Conference at the University of Colorado, Boulder.

³⁰ Hodson 2015.

³¹ Debaere, Peter; De Ville, Ferdi; Orbie, Jan; Saenen, Bregt, and Joren Verschaeve. 2014. “Membership. The Evolution of EU Membership in Major International Organisations.” In *The European Union with(in) International Organisations*, ed. Amandine Orsini. London, UK: Routledge.



Conclusion

It is unclear which path the second Trump administration will take with the IMF, but uncertainty and instability – two themes which are anathema to the IMF and MDBs – are to come. Macroeconomic instability is likely to put a high degree of economic and political pressure on the EU's Single Market, as well as other European economies ([like the UK](#)).

Such pressures will undermine cooperation in a number of international forums, but the IMF is unlikely to be one of them.

A convergence of European interests on the IMF's Executive Board, and in protecting key programs like the RST and PRGT, will help Europe to overcome efforts by the US and China to play European states against each other on international monetary policy and concessional (and non-concessional) lending.

We have also analyzed how the largest European players on the IMF's Executive Board are under-exposed to geoeconomics shocks to the US and China relative to their weight on the IMF Executive Board.

Widespread cooperation between European states – also under the auspices of the EU – and with Japan as another G5 state opens up avenues for Europe to take a greater leadership role in the direction of IMF lending and policy, with or without the US's presence.

Europe should remain wary of how IMF reforms may be tied to other matters in international affairs and macroeconomic policy (such as trade restrictions), as well as how China's behavior at the IMF will be altered by the Trump administration's decision to reform or exit the IFI.

While the immediate threat is US exit or defunding of the fund, Europe should anticipate how future General Reviews of Quotas may make China the most powerful seat holder (and perhaps the new state with veto power) without the United States' presence.

Coordinating common votes with other EDs and voting constituencies to prevent US exit and stave off the ascent of Chinese power on the IMF Executive Board is therefore wise. Despite these severe challenges, Europe can still emerge from Trump II with a greater leadership role at the IMF and an opportunity to stave off further geopolitical fragmentation if it acts in unison and on aligned objectives for the IMF's key programs and instruments.

In this report, we have recommended European states take a number of specific measures. Chief among them is to convince the US to remain committed to the IMF and World Bank.

European states can also take critical steps to safeguard the IMF's mission– such as providing more financing to the RST and protecting its purpose for climate change mitigation, expanding the purview of PRGT to other pandemic preparedness measures, reversing a 2024 decision to introduce interest rates on some PRGT lending, and persuading China to provide more data transparency in its economic surveillance consultations.

A final suggestion is that the Paris Club can act as an additional forum for European countries to protect their interests and efforts to sustainably finance and invest in lower-income areas of the world and the green transition. Partnerships with the EBRD – Europe's regional development bank – will also likely rise in salience as geopolitical tension and economic fragmentation under a world of rising trade pressures may split cooperation between regional and multilateral development banks (MDBs).



European states should work in concert with one another and with these other multilateral institutions to protect low interest financing for LICs and international monetary stability.

