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**Inflation is Biggest Concern Related to Food and Fuel Price Increases,
IMF Managing Director Strauss-Kahn Warns G8**

Inflation should be the top concern of policymakers confronted by higher food and fuel prices. This is the main message from Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF) to the leaders of the Group of Eight (G8) today in Hokkaido, Japan. "When you worry about high oil and food prices, you should be concerned about growth, but even more concerned about inflation," Mr. Strauss-Kahn said, calling on leaders to prevent higher food and fuel prices turning into generalized inflation.

Oil prices are likely to remain high and volatile for some time, because demand and supply react only slowly to higher prices, he said, adding that the 70 percent increase in oil prices since the beginning of the year is reducing purchasing power in importing countries and could lower global demand by ¾-1 percentage point.

Many advanced economies have taken appropriate monetary policy remedies to tackle higher than expected headline inflation. But in some emerging economies where real interest rates are low or negative, there is a risk that central banks are falling "behind the curve". "Headline inflation rates in many emerging economies are up by more than five percentage points this year. This is mostly because food and fuel have a high share in consumption baskets. But there are signs that rising food and energy prices are sparking more generalized inflation through second-round effects."

Allowing the price increases in fuel and food products to be translated into a general increase in inflation would delay the supply and demand responses to high prices, undermine growth by raising inflationary expectations, and hurt the poor, because they have the least capacity to hedge against inflation, according to Mr. Strauss-Kahn.

Mr. Strauss-Kahn thinks financial markets remain under stress, adding, "Market confidence remains extremely fragile." Investors have been reassured by central bank actions to forestall systemic events, but the continuing need for banks to raise capital suggest that credit conditions could tighten still further. "We recommend that authorities monitor financial sectors closely and be aware that budget support for troubled institutions or debtors might be needed."