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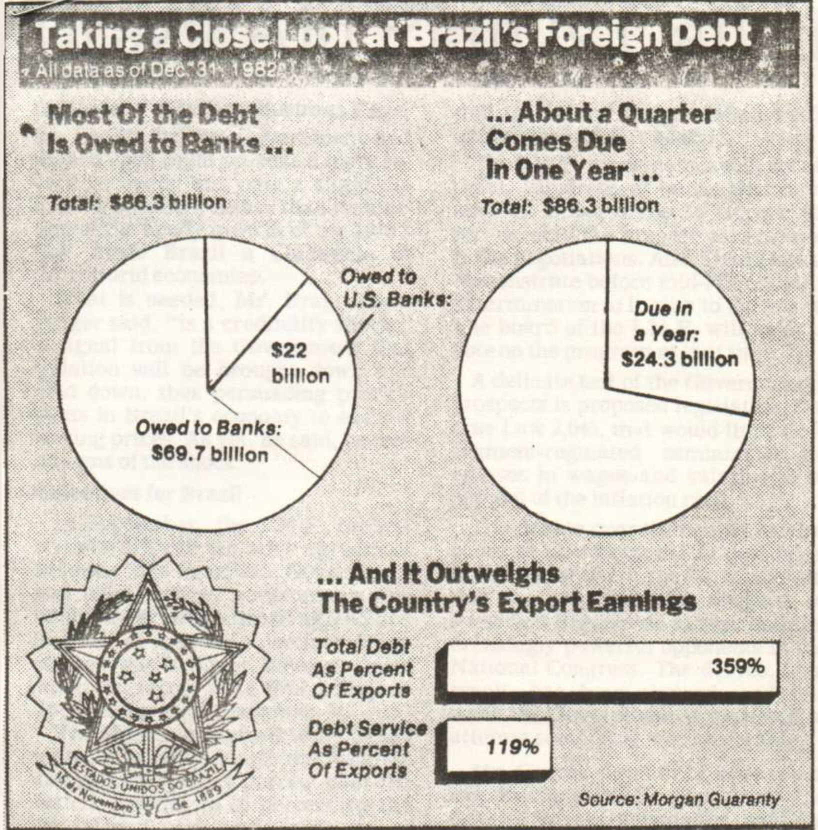

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Brazil Aid Plan Called 'Charade'

I.M.F. Deal Is Criticized

By PETER T. KILBORN

Special to The New York Times

SAO PAULO, Brazil, Oct. 18 — Brazil is unlikely to meet the economic austerity requirements that the Government agreed to only a month ago in return for new aid from its creditors, leading

in Washington who asked not to be identified. "All the serious players realize how thin the ice is."

Management of Brazil's debt burden has become a test of the I.M.F.'s severe prescriptions of reductions in public spending and cuts in inflation rates to rehabilitate debt-ridden economies. If this medicine is rejected in Brazil, creditors will either have to force the country into default or set more liberal terms for its rehabilitation.

Both are hard choices. Default could be perilous, not only for Brazil but also for the world economy, including Western banks.

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a 'Charade'

ing countries deal with debt burdens are inappropriate. Mr. Chacel said agreements setting specific objectives for an economy — like the objective of a 55 percent inflation rate — was absurd. "In terms of targets," he said, "I would be more qualitative than quantitative. What's important to me is to reach a turning point."

N. Knowlton King, who is head of Continental Can's operations in Brazil, said: "I don't think the time spans are very realistic, and I don't think many people do. People want to see a positive trend and the numbers be damned."

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Brazil Aid Plan Is Called a 'Charade'

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the I.M.F. and the Government had agreed upon could provoke a more severe recession and only a slight decline in inflation, rather than restoration of the heady growth of the 1970's that made Brazil a Cinderella of third-world economies.

What is needed, Mr. Braga Lembruger said, "is a credibility shock," a signal from the Government that inflation will be brought down and held down, thus persuading participants in Brazil's economy to eschew raising prices. As yet, he said, he saw no signs of the shock.

Objectives for Brazil

In September, the I.M.F. orchestrated a difficult tentative agreement between the Brazilian Government and industrialized governments and banks under which Brazil agreed to a long list of specific objectives. Compliance was in doubt, however, even when the terms were first being negotiated during the summer.

The objectives agreed to by Brazil included a reduction in the inflation rate, which was 170 percent over the last 12 months, to 55 percent by the end of next year, and a reduction of the deficit in Brazil's balance of payments to $6 billion or $7 billion next year from $15 billion last year. Brazil also agreed to sharp cuts in public spending, elimination of subsidies to wheat farmers and cuts in the growth of the money supply.

But some of these provisions are already in jeopardy. One headline this week on the front page of Gazeta Merchantil, Brazil's leading financial newspaper, reports that economists at the Government-financed Getulio Vargas Foundation found that prices soared 6 percent in a recent 10-day period. Another article announced that the federal budget deficit would exceed the I.M.F.'s goals.

The I.M.F. agreement is still not official. Hundreds of banks that have lent to Brazil have to accept its terms; only the biggest participated in the negotiations. Also, Brazil has to demonstrate before mid-November a determination to live up to the terms. The board of the I.M.F. will meet to vote on the program at that time.

A delicate test of the Government's prospects is proposed legislation, Decree Law 2,045, that would limit Government-regulated semiannual increases in wages and salaries to 80 percent of the inflation rate.

The debate over the decree has become an all-consuming subject here. It is treated like a soccer match pitting the top economic advisers of President Figueiredo against their increasingly powerful opponents in the National Congress. The decree, as a result, has been shelved, and this week the Government is expected to attempt something more palatable.

Mr. Chacel, director of research in the Institute of Economics at the Getulio Vargas Foundation, said the I.M.F. requirement that Brazil reduce its balance of payments deficit would only result in production bottlenecks in the economy and an eventual rise in unemployment.

It does so, he said, because the Government, to improve the balance, is realizing greater success in reducing imports than in encouraging exports. Restraints on imports, however, have become counterproductive because they deny vital parts and materials to companies that use them in their products for export.

Many Brazilians believe that the I.M.F.'s austerity formulas for helping countries deal with debt burdens are inappropriate. Mr. Chacel said agreements setting specific objectives for an economy — like the objective of a 55 percent inflation rate — was absurd. "In terms of targets," he said, "I would be more qualitative than quantitative. What's important to me is to reach a turning point."

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