What can Brazil hope for in 2014?

THIS YEAR'S RAPID EROSION OF Brazil's public finances has alarmed financial markets. The possibility of a sovereign rating downgrade next year is already scaring off investors and threatening to undermine Brazil's feeble recovery.

As leading candidate in the polls for the 2014 presidential election, President Dilma Rousseff is betting on holding the line until after the elections, hoping that no major external shock hits Brazil. Her administration is counting on the extraordinary cash revenues flowing from corporate tax settlements and from the oilfield auction bonus to beef up Brazil's finances, which are already under close scrutiny from investors—and rating agencies.

True, the Rousseff administration seems to be slowly changing its policies. The central bank appears to be serious about fighting inflation—its monetary tightening has certainly turned aggressive, and the government has announced it will remove some subsidies, put a hold on tax breaks, and reduce the subsidized lending of public banks. The administration is also making friendlier overtures to business. The recent successful auctions of airport and road concessions to private businesses are excellent news for a government struggling to restore its credibility with the private sector.

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Unfortunately, though recent policy changes have the merit of addressing some of the most urgent problems facing the country, this piecemeal approach does not in any way reflect a grand strategy. A more profound adjustment of fiscal accounts is simply not in the cards. It is extremely unlikely that in an election year the government will curb public spending. In fact, in a recent interview with the Spanish newspaper *El País*, the president flatly dismissed that idea.

Failing any intent to do a fiscal adjustment, the best thing the government could do instead would be to avoid any of last year's accounting gimmicks and fully disclose the country's total public sector deficit and gross public debt. Critics say, correctly, that the government's rather casual use of one-off income items has undermined its credibility, which was severely damaged by repeated adoption of accounting gimmicks to put a high gloss on its fiscal results. Unfortunately for the Rousseff administration, accounting gimmicks do not work anymore. People see through the manipulation, and the administration may as well get rid of them.

To make the budget deficit more transparent and therefore more credible, Brazil needs an independent budget office like the U.S. Congressional Budget Office. Of course, setting one up would prepare the way for a fiscal adjustment—but that will be unavoidable anyway.

Since major policy changes are undoubtedly on hold until after the 2014 presidential elections, whoever is elected then will certainly face very unfavorable conditions and the policy choices will be much more difficult for having been pushed into 2015. The next administration has to deliver better health, security, education, and public transportation services. It will also have to carry out fiscal consolidation and adjust the external balance of payments, which implies that it will have fewer resources available to improve public services. The victor will have our commiserations, rather than congratulations.