Sometimes it takes a big disappointment to cause a big change. Brazil has had two in the past year: First came the economic letdown, as the country went from being the darling of investors after the global financial crisis to slipping toward recession. Then came President Dilma Rousseff's poor showing at the polls, barely eking out a second term as president. In the aftermath, policies are inevitably starting to shift. Brazil's longstanding "developmentalist" approach to growth is being discarded. But what will replace it?

Starting in the 1950s, much of Brazil's economic policy hinged on the policy mix known as developmentalism: protectionism, central planning, and the cultivation of the welfare state to encourage the growth of the internal market. In the late 1990s, the government of Fernando Henrique Cardoso moved away from this approach by privatizing state industries and beginning to open Brazil's markets. The subsequent center-left governments of Luiz Inácio Lula da Silva and Dilma Rousseff maintained his reforms. But until recently, they also fell back on developmentalist rhetoric and a corresponding tendency to assert the state's control of the economy.

Today, that's looking like a step backward. Policies based on the belief that the state should boost growth through strong monetary and fiscal expansion combined with price intervention haven't worked out for Latin America's biggest economy, which is heading into its deepest recession in 25 years.

As an International Monetary Fund report published in May pointed out, the new economic team Rousseff chose for her second term is faced with the challenge of restoring policy credibility and bolstering confidence in executive decision-making — this in a context of weakening domestic support and a volatile external environment. Economic growth is expected to recover in the medium term, although its potential will depend on the pursuit of much-needed structural reforms, followed by critical fiscal improvements.

After Rousseff was elected in 2010, she undertook macroeconomic policies that were inconsistent and undermined her government's credibility. The populist economic measures involved artificial reductions of interest rates, consumption stimulus at the expense of fiscal discipline, limits on the return rate for private investments in infrastructure, and the imposition of fixed prices for gasoline and electricity below costs.

This unorthodox plan sent GDP growth plummeting — the economy is expected to contract by at least 1 percent this year — forced out investors, and shot inflation far above the official target. The overall increase in prices has remained above the target range of 2.6 to 6.5 percent since 2010 and in April 2015 climbed to an 11-year high of 8.17 percent. What's more, the market expects 8.31 percent inflation for this year.

To add to the country's woes, the massive corruption scandal at the state-run oil company Petrobras has caused job losses and increased the unemployment rate, already exacerbated by low global oil prices. This is already putting pressure on household spending: Brazilian families have cut spending on a yearly basis for the first time in a

decade. Household consumption fell 0.9 percent in the first quarter from the same period of 2014, according to GDP figures from Brazil´s national statistics office.

According to a Bank of America report, investment will contract 6.5 percent this year, as confidence takes time to recover. The bank's analysts estimate that the Petrobras crisis alone is pulling 2015 growth down by almost 1 percent due to lower investments in oil and construction. Key sectors like auto and construction are already reducing investment for this year and adjusting output and payroll accordingly.

Worse, the weakening in fiscal accounts and the lack of transparency has increased that credit rating agencies will downgrade Brazil to junk status. A change in sovereign credit could add to the country's troubles, as it would raise borrowing costs and likely cause a further devaluation of the already weakened Brazilian currency, the real.

Though she won re-election last October, Rousseff has paid a price for her failed economic policies, at least in the short term.

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Public anger over the Petrobras scandal and a flagging economy has brought hundreds of thousands of Brazilians to the streets, demanding her resignation. Once the most popular president in the world — in March 2013, Rousseff held a 65 percent approval rating — she has seen her approval rating plummet.

According to a public opinion survey released by Datafolha in April, only 13 percent of the population has a positive view of Rousseff's government. This means that despite the recent changes in the economic administration, nothing has improved the perception of Brazilians since March, when her popularity hit the current record low — dipping from 23 percent in February and 42 percent in December.

Fighting for her political survival, Rousseff finally decided to start making amends with the markets. Since the appointment last November of a new economic team lead by Joaquim Levy, an orthodox economist and banker nicknamed "Scissorhands" (less for his artistic ability than rigorous fiscal pruning), Rousseff sent a strong message that her administration will get the country's accounts in order and implement more market-friendly policies.

The conservative finance minister didn't waste time. Levy introduced a series of austerity measures, promising to reach a primary budget surplus of 1.2 percent of GDP this year and at least 2 percent in 2016 and 2017. This strategy, along with winding up policy lending from the treasury to public banks, aims to stabilize and reduce gross public debt.

In addition, in January, the government ordered spending cuts and raised taxes on gasoline, imports, and consumer loans. It also decided to increase prices of fuel, electricity, and other regulated commodities, which explains in part why inflation has

soared recently. Rousseff's administration has also set an objective of reaching a 4.5 percent inflation target by the end of 2016, but price-rising expectations are holding at 5.5 percent, still above target. Brazil's tightening cycle runs contrary to global trends, which certainly doesn't help to boost the weak domestic growth, although it reflects a necessary shift to bring down inflationary risks.

Meanwhile, the Central Bank of Brazil has hiked the overnight rate to 13.25 percent due to the "macroeconomic scenario and inflation prospects" and has hinted that it could reach at least 13.75 percent by the end of the year. Consequently, while inflation is being fought with fiscal consolidation and higher interest rates, a depreciation of the real could facilitate the needed external adjustment. Some economists argue that exchange-rate policy should play a fundamental role in the ongoing macroeconomic adjustment.

So far, the Brazilian real has devalued more than 48 percent since the second half of 2011, although in the same period inflation rose 28 percent. Due to the high inflation and the erosion of key macro fundamentals, the real is still overvalued, according to a recent report from Goldman Sachs. The investment bank estimates that the real needs to drop by 10 percent to move the exchange rate to a level that facilitates a rebalancing of the economy and supports an "orderly" adjustment of the large current account deficit.

The currency-depreciating trend should continue, although its level might start to considerably affect external accounts next year. But if Brazil survives the sacrifices this year, the positive side of the painful adjustments will likely show itself in 2016. The International Monetary Fund expects the country to grow at least 1 percent next year. This could help Rousseff regain her footing and minimize the downturn that is hurting her party's chances of holding on to the presidency in the future. The success of the austerity program is also critical for the party´s co-founder, former President Lula, who is expected to seek another term. His popularity is falling, as well, due to Brazil's economic troubles.

Undoubtedly, the adjustment process has only just started, although the spotlight falls upon the fiscal adjustment. So far, Levy led efforts to pass three measures into Congress to shore up the country´s public finances, restricting unemployment and pension benefits, and raising taxes.

Nonetheless, economists' expectations don't necessarily rely on Levy's 1.2 percent of GDP target. According to Kathryn Rooney Vera, a strategist at investment bank Bulltick Capital Markets, Brazil would more likely get only 0.6 percent of GDP fiscal primary surplus, which would be a turnaround from the current 0.7 percent of GDP deficit and would imply that the country's debt avoids any reduction to junk status. Depending on the agency, Brazil is one or two steps from losing its designation as "investment grade."

The rebalancing of the fiscal accounts has made more necessary than ever the need to implement structural reforms and increased pressure on Rousseff to abandon developmentalism for good. The fiscal adjustment process needs a minimum of a two-year commitment in order to work. And even if Brazil's GDP growth improves, it will

only be at moderate levels in the next decade. Only deeper reforms, such as improving education, can boost productivity and increase growth in the long run.