At the beginning of the year, when Rousseff's second presidential term officially began, her administration's priorities were clear: implement a credible fiscal-adjustment program that would take the primary budget balance (which excludes interest payments) comfortably back into surplus and reduce the growth rate of public debt to sustainable levels. Rousseff soon appointed an economic team associated with fiscal orthodoxy to lead the effort.

But the situation has only deteriorated, owing partly to China's economic slowdown, the end of the commodity boom, tighter international financial conditions, weak global growth, and a years-long legacy of policy mismanagement. But domestic politics has made a bad situation much worse; indeed, the biggest obstacle to economic recovery this year came in the form of a massive corruption scandal at the state-owned oil giant Petrobras.

Although the scandal broke last year, allegations and evidence have more recently been mounting against senior officials of the traditional political parties, as well as prominent businessmen. And, like Italy's mani pulite ("clean hands") investigations in the 1990s, the Petrobras scandal has thrown Brazilian politics into disarray. A sitting senator has, for the first time, been arrested on corruption charges. Impeachment proceedings against Rousseff will only complicate the situation further.

Brazil is now trapped in a vicious circle, or what economists call a "bad equilibrium." Even if there were a government willing and able to carry out the necessary fiscal adjustment, the political fallout of the Petrobras affair has damaged Brazil's credibility severely. That credibility will take time to recover – and time is a luxury that Brazil does not have.

Without market credibility, interest rates and credit spreads will remain high and hijack the fiscal-adjustment effort, forcing the economy into a downward spiral. Moreover, budgetary pressures will make it increasingly difficult for the central bank to raise short-term interest rates to fulfill its mandate of curbing excess inflation. In short, Brazil lacks a credible fiscal and monetary anchor.

If Brazil is to regain its credibility swiftly, it will need the support of the international community. Brazil doesn't have the institutional equivalent of the European Central Bank to do "whatever it takes" to retain access to credit at reasonable interest rates as it pursues fiscal and structural adjustment. The closest thing Brazil has is the International Monetary Fund, with which it should negotiate an adjustment program.

Such a program would include increasing the primary surplus to 2-3% of GDP over the medium term; constraining government expenditures (the tax burden is already sky high); and eliminating indexing rules that make spending overly rigid. Moreover, Brazil would have to delink revenues and expenditures – a feature of the country's budget that renders it difficult to manage properly in times of distress. And it would gradually have to phase out treasury subsidies to BNDES – the country's development bank – and increase the use of market-based references for BNDES's lending rates, thereby helping to restore fiscal health and eliminate distortions in financial intermediation.

For its part, the IMF would give the adjustment program its stamp of approval and make its own resources available, so that Brazil does not have to tap international capital markets for a reasonable period. This would greatly enhance Brazil's chances of success.

To be sure, calling in the IMF carries a considerable stigma. But the reality is that helping countries in situations like Brazil's is an area where global financial institutions like the IMF – which, it should be noted, is more flexible and open today than it was a decade ago – can play a constructive role.

More to the point, Brazil has run out of good – let alone easy – options. The only alternatives to an IMF program are an inflationary spiral to dilute the real value of debt and other nominal liabilities, or a downward economic spiral that may cause a need for debt restructuring. Either outcome would threaten the reforms and social gains that the country has made since the Plano Real stabilization program was launched in 1994.

Given this, and despite the potential political difficulties and the risk of a social backlash, Brazil has little choice but to pursue an IMF-sponsored adjustment program. It may taste bitter, but only the IMF can provide the medicine Brazil needs.