BRAZIL and Russia, the third- and fourth-biggest emerging economies, have much in common beyond their size. Each boasts annual GDP per person of around $10,000, which depends more than either would like on natural riches. After commodity prices tumbled in 2014, their economies shrank and their currencies sank. Their central banks have fought hard against the ensuing inflation, driving it below 3%. That has allowed both to cut interest rates, contributing to modest
economic recoveries.

But their fiscal fortunes have diverged. Brazil’s credit rating was cut by Fitch on February 18th, making its sovereign bonds even “junkier” (ie, more speculative). Russia’s rating, by contrast, was raised a few days later by S&P Global, which became the second agency to rate Russian sovereign debt as “investment grade”.

That might seem an odd description for a country embroiled in two wars and encumbered by sanctions. But Russia’s upgrade is not hard to justify. Though its approach to geopolitics is adventurous, its approach to macroeconomics is deeply conservative. Indeed, in many ways Russia’s geopolitical adventurism has necessitated its economic conservatism.

“The whole Russian economic policy, starting from the president, is focused on
keeping inflation low, ensuring that the budget is stable, and that reserves are moving up,” says Oleg Kouzmin of Renaissance Capital, an investment bank. It is a “very defensive” strategy, argues Timothy Ash of BlueBay Asset Management, designed to help Russia weather future sanctions and build defences against the West.

When oil prices fell in 2014, Russia’s government realised that belts needed to be tightened. After a brief struggle, it let the rouble fall. It squeezed demand by hiking interest rates and cutting public spending. From 2013 to 2016, GDP per person fell by over 40% in dollar terms. In its realism and rapidity, Russia’s response to its crisis was the best of any emerging market this decade, says Mr Kouzmin.

The government’s deficit now stands at just 1.5% of GDP. Its net debt is only 8.4% of GDP. This conservatism may persist. Its latest fiscal rule requires it to assume an oil price of $40 a barrel, even though the Urals oil price is now over $64.

Brazil also has a stringent fiscal rule, obliging it to freeze federal spending in real terms for 20 years. But the government has yet to bring its other commitments into line with this limit. An attempt to delay pay hikes for civil servants was blocked by the supreme court. And an essential reform of pensions was watered down in negotiations with congress, which then refused to support it anyway.

Brazil suffers from a fiscal “tragedy of the commons”. Its jostling lawmakers overgraze, demanding too much from the state, because if they do not, they know their rivals will. By contrast, Russia’s president and chief policymaker, Vladimir Putin, has few rivals for his fiscal pasture. That makes him keen to preserve it.

Russia’s economic defensiveness is good for its credit rating, but may have an unwelcome side-effect: squashing growth. More relaxed fiscal and monetary policy
would give the economy room to breathe, argues Mr Ash. “What is the point of having a good balance-sheet if your economy is not growing?”

And Mr Putin’s reluctance to cede control may be stymieing the reforms Russia needs. If it is to grow, the state must allow new entrants, including foreigners, to prosper at the expense of incumbents. Instead, entrepreneurs are well aware that they prosper only at the regime’s pleasure. “Do you ever really own anything in Russia?” asks Mr Ash. Fiscal entitlements are too secure in Brazil. But in Russia, property rights are not secure enough.

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