Russia took its biggest step yet to shore up the ruble and defuse the currency crisis threatening its stricken economy.

In a surprise announcement just before 1 a.m. in Moscow, the Russian central bank said it would raise its key interest rate to 17 percent from 10.5 percent, effective today. The move was the largest single increase since 1998, when Russian rates soared past 100 percent and the government defaulted on debt.

The news prompted an immediate gain in the ruble, with one-month ruble forwards up 1.6 percent in Asian trading.

Yet the announcement, as well as its timing, underscored the financial straits in which Russia now finds itself. If sustained, the new higher rates would squeeze an economy that is already being hurt by sanctions led by the U.S. and European Union, and by a collapse in oil prices. Some analysts said they doubted the economy could withstand such high rates for long.

“This move symbolizes the surrender of economic growth for the sake of preserving the financial system,” said Ian Hague, founding partner at New York-based Firebird Management LLC, which oversees about $1.1 billion, including Russian stocks. “It’s the right move to make, and it wasn’t easy to make it.”

So far this year, Russia has spent $80 billion of its foreign-exchange reserves in an unsuccessful attempt to prop up the ruble, which tumbled past 64 against the dollar for the first time yesterday. The currency’s collapse has evoked the turmoil of the 1998 Russian crisis, an event that reverberated through financial markets around the world.

Emergency Gathering

The Russian central bank announced the increase -- the sixth this year -- after policy makers gathered for an unscheduled meeting.

“This decision is aimed at limiting substantially increased ruble depreciation risks and inflation risks,” the central bank said in the statement. President Vladimir Putin, whose incursion into Ukraine’s Crimean peninsula in March prompted the U.S. and its allies to strike back with
sanctions, this month called for “harsh” measures to deter currency speculators.

“While such drastic tightening measures will inflict more pain on the economy, we have been arguing for a while that it is not about preventing recession, but full-scale financial turmoil caused by the precipitous ruble fall,” said Piotr Matys, a currency strategist at Rabobank International in London.

**Losing Value**

The ruble lost 9.7 percent to 64.4455 per dollar yesterday, extending its plunge this year to 49 percent. Brent, the grade of oil traders look at for pricing Russia’s main export blend, slipped 79 cents, or 1.3 percent, to end the session at $61.06 a barrel on the London-based ICE Futures Europe exchange.

Russia derives about 50 percent of its budget revenue from oil and natural gas taxes. As much as a quarter of gross domestic product is linked to the energy industry, Moody’s Investors Service estimated in a Dec. 9 report.

The economy may shrink 4.5 percent to 4.7 percent next year, the most since 2009, if oil averages $60 a barrel under a “stress scenario,” the central bank said yesterday. Net capital outflow may reach $134 billion this year, more than double last year’s total.

“There is a feeling that this rate hike is unfortunately not going to be enough,” Nicholas Spiro, managing director of Spiro Sovereign Strategy in London. “Russia’s central bank has tried every trick in the book with exception of full-blown capital controls.”

Others were more optimistic, saying the action was big enough to arrest the ruble’s record decline. “The central bank is trying to stop the avalanche, and such a massive hike may be sufficient,” said Slava Breusov, an analyst at Alliance Bernstein in New York. “No one seems to be thinking what it will do to the economy, as the priority is to stop the ruble plunge.”

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