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China slashes interest rates, banks' reserve ratio for the sixth time in a year in bid to stem slowdown after lacklustre third-quarter growth

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China cut interest rates and the banks' reserve ratio on Friday - just four days after it released lacklustre third-quarter economic figures - in an apparent effort to stem a further slide in corporate performances and potentially massive job losses.

The central bank announced in the evening that the benchmark one-year lending rate would be lowered by 0.25 percentage points to 4.35 per cent from today, while the rate for one-year deposits would go down by 0.25 percentage points to 1.5 per cent.

Cutting banks' reserve requirement ratio by 0.5 percentage points would release 800 billion yuan (HK$974 billion) of funds into the market with banks keeping less money in reserves, said China Merchant Securities chief economist Xie Yaxuan.

The cuts came after China reported 6.9 per cent growth in gross domestic product in the three months ending on September 30. Though slightly better than economists' forecast of 6.8 per cent, it was still the slowest pace of growth in 61/2 years.

"The reductions resulted from a worsening performance in the manufacturing sector and stronger-than-expected deflationary pressure," Industrial Bank chief economist Lu Zhengwei said, adding that the loosened monetary policies would not be enough to underpin the troubled economy.

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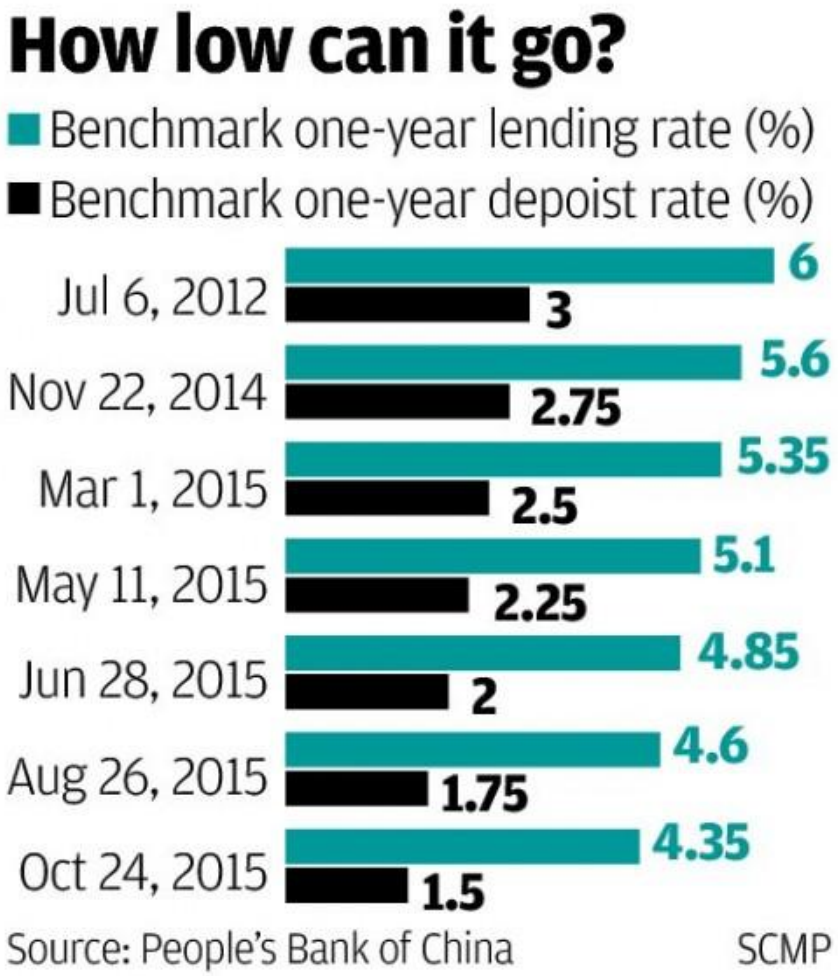

Friday's interest rate cut was Beijing's sixth since November - further evidence of the leadership's determination to maintain moderate growth to stem a slowdown that may lead to social disunity amid severe unemployment, company bankruptcies and financial turbulence.

Premier Li Keqiang yesterday said the cabinet would reasonably use monetary tools to stabilise the economy while warding off risks. The timing of the cuts - aimed at widening companies' access to credit - reflected Beijing's pessimistic economic outlook.

The mainland is unlikely to meet the full-year 7 per cent growth target as the premier cautioned that "difficulties could not be underestimated".

High levels of local government debt - arising from previous reckless infrastructure constructions, overcapacity, dwindling orders for manufactured goods, stock market turbulences and increasing fiscal deficit - have largely dented business owners and

residents' confidence, prompting Beijing to take drastic actions to buoy the economy. A slowing economy could lead to a wave of company collapses and a soaring number of laid-off workers.

Li, since taking office in March 2013, has been adamant in refraining from spending freely on public works while seeking to expand domestic demand as a new growth engine. But his efforts have yet to take effect.

China Merchants Bank economist Liu Dongliang said the one-year deposit rate could be further lowered to 1 per cent next year as the government eased monetary policies to increase liquidity.

"As fixed-asset investment remained weak, it is highly expected that the economic slowdown will continue through next year," Bank of Communications analyst E Yongjian said. "But it is still a positive step taken by the government to cut the interest rates because companies' funding costs will drop accordingly."