How to Cite:
Husaini, A., Tupamahu, M. K., Rulinawaty, R., Sahoo, B. P., & Chauhan, R. (2021). Impact of cash in hand in the total priority sector lending: an empirical assessment. *Linguistics and Culture Review*, *5*(S3), 74-80.
https://doi.org/10.37028/lingcure.v5nS3.1364

Impact of Cash in Hand in the Total Priority Sector Lending: An Empirical Assessment

Achmad Husaini
Universitas Brawijaya, Indonesia

Maria K Tupamahu
Universitas Pattimura, Ambon, Indonesia

Rulinawaty
Universitas Terbuka, Indonesia

Bibhu Prasad Sahoo
Assistant Professor, Department of Commerce, SGTB Khalsa, College University of Delhi, India

Rahul Chauhan
Assistant Professor, Parul Institute of Business Administration, Parul University, Vadodara, India

***Abstract*---**As a major lending institution, nationalized banks in India have the major responsibilities for achieving the government's socio-economic objectives like growth in agriculture, education, small scale sector, and housing in the backward area. This is because, in emergent countries like India, the availability of funds for the above priority sectors is scarce. Hence, in this paper, we aim to see any impact of cash in hand on lending to the priority sector. The article analyzes secondary data of 12 years periods starting from 1st April 2006 to 31st March 2018 (total span of 12 years). The outcome indicates nationalized bank's ability to generate priority sector loans is checked by the availability of cash in hand.

***Keywords*---**cash in hand, empirical assessment, funds, nationalized bank.

***Corresponding author**: Husaini, A.; Email: ahusainifia@ub.ac.id*
Manuscript submitted: 27 April 2021, Manuscript revised: 18 June 2021, Accepted for publication: 20 July 2021

Introduction

Nationalized banks in India play an intermediary role, which handles people's hard cash, both for their benefit and to earn their profit. Hence, it plays a vital role in nation-building. A nationalized bank is an organization that collects hard cash from the public and provides the loan to different sectors (Agussalim et al., 2017; Ali et al., 2016). One of the sectors in which all nationalized banks offer a significant amount of credit is acknowledged as priority sector lending (PSL). This proposal provides a particular segment of bank lending to the economy's main sectors, .which includes farming, small-scale & cottage sector, tiny sector, and the export sector. This proposal's key point was to see that appropriate and sufficient loans are given to the priority sector. Until that time, only public sector banks were asked to provide loans to this sector. However, now even private and foreign banks have to give loans to this sector. The PSL agenda has been implementing by the RBI since 1974. Then all banks are advised to increase credit to priority sectors up to 33.3% by March 1979. At present, this figure stands at 40%, out of which straight agriculture lending has to be 18%. However, in our study, we try to assess the real impact of cash in hand on total priority sector lending (Assagaf & Ali, 2017; Desfiandi et al., 2017).

Review of existing literature

Lots of researchers have worked in the area of Nonperforming assets and priority sector lending independently. Hardly any researches are conducted jointly on both topics. In this section, we try to study past literature on the said topic, which helps us identify the research gap. Nagarajan et al. (2013), study argues that there is a significant relationship between priority and non-priority sector NPAs contributing to the total NPAs in public sector banks. Aggrawal (2015), his study argues that the PSL is the most significant contribution in increasing NPAs of nationalized banks Sahoo et al. (2016), study establish that total credit extended to micro and small scale enterprises, which include in the priority sector lending (PSL), has been increasing. In their study Panda et al. (2017), found that all public sector banks have complied with priority sector lending targets. However, banks are not complying with targets of lending towards agricultural sectors. In his study Giridhar (2018), found that SBI banks provide better services to its customer to the priority sector lenders. Prasad & Kaur (2019), states in their studies that there is a significant trend in total agricultural lending of nationalized banks. In view of this, the present study intends to examine the impact of cash in hand on total priority sector lending empirically (Desfiandi et al., 2019; Fischli et al., 1998).

Objective & hypothesis of the study

The procedure of targeting PSL worsened due to low productivity, government interference, and mounting non-performing assets. Further, the transaction cost in the priority sector lending (PSL) is much higher than the transaction cost to any other sector (Jumali et al., 2019; Mansur & Ali, 2017). Therefore, nowadays, it is the main challenge for any bank on how to tackle PSL. Hence our study aims to look at the impact of cash in hand in the total priority sector lending. Along with the objective, our study also tests the following Hypothesis:

- Null Hypothesis (H_0): "There is no significant impact of cash in hand (a measure of liquidity) on total PSL of nationalized banks."

Data and research methodology

To achieve the above objective, the present study has considered PSL data by nationalized banks from 1st April 2006 to 32nd March 2018 (total span of 12 years). To study the impact of cash in hand on priority sector lending by nationalized banks in India, the present study used the pooled regression study (Yacob et al., 2020; Yunus & Indrasari, 2017). In the study, the data is collected for the required variables, and pooled regression is applied to study the impact of cash in hand in the banks on the total PSL. Here, total PSL is considered a dependent variable, and cash in hand is regarded as an independent variable. The n data for relevant variables are presented for 12 years for a total of 19 nationalized banks (Maseleno et al., 2019; Nanuru et al., 2019).

The following pooled regression model has been used to find out the real impact of cash in hand on total PSL

$$TotalPSL_{it} = \alpha_{it} + \beta_i * Cash\ in\ Hand_{it} + \epsilon_{it}$$

Where,

PSL_{it}	= priority sector lending for i-th bank at t time.
α	= Constant.
i (index of banks)	= 1, 2 [. . .] 19.
t (time-interval)	= 1, 2 [. . .] 12.
β	= coefficients of determinants of PSL

Empirical results & analysis

Cash in hand is an indicator of the liquidity position of the bank. It is the most liquid asset with the bank which can be used instantly to meet financial obligations (Yong & Li, 2012; Spantig, 2021). It is also recognized as the first line of defense of the bank. Nationalized banks pay more attention to liquidity. In the study, the effort is done to analyze the impact of the position of cash in hand on the total PSL of the nationalized banks. As more cash in hand in the banks may motivate the bank officials to provide more lending, idle cash in hand may reduce the fertility of the banks (Williams & Thorn, 1989; O'Leary & Vokurka, 1998). Due to this, the banks try to use the idle cash in providing funds as loans to the customers. The results of pooled regression models are shown below in the table.

Table 1
Pooled regression model indicating the impact of cash in hand on total PSL

Dependent variable	Independent variable	Regression coefficients		T statistics (p value)	F statistics (p value)	R square
Total PSL	Cash in hand	Intercept (α)	7.49	29.77 (0.000)**	118.77	38.84%

	Beta (β)	0.42	10.89 (0.000)**	(0.000)**

** indicates that p value < 0.05

The results, as revealed above, indicate that the p-value (0.000) of t statistic (10.89) of the slope coefficient of the independent variable "cash in hand" on the dependent variable "total PSL" is set up to be less than 5 percent level of significance. Hence with a 95 percent confidence level, the null hypothesis that there is no considerable impact of "cash in hand" on "total PSL" of nationalized banks cannot be accepted. Hence, it can be concluded from the consequences that there is a significant impact of banks' liquidity position (here, indicated by cash in hand) on the amount of total PSL of the banks (Dutz & Vagliasindi, 2000; Fung & Hsieh, 1999).

The pooled regression model's F statistics are established to be 118.7 with a p-value (0.000). This indicates that the pooled regression model is statistically fit. The R square value of 0.3884 indicates that 38.84 percent of the variance in the amount of Total PSL of nationalized banks can be explained with their liquidity position (cash in hand) using a pooled regression model (Cumming, 2007; Pooranam & Nandhini, 2018).

The pooled regression model assumes that all the nationalized banks are homogenous (with respect to size, number of branches, assets, and liabilities, etc.) in nature. However, in the Indian economy, this doesn't hold as they differ in size, asset size, operational efficiency, etc. As a result, there exists a lot of heterogeneity among them (Chanana & Gupta, 2016; Berger et al., 2008). To study the impact of cash in hand on total PSL, the heterogeneity among different nationalized banks should be incorporated. Accordingly, in the study F test and Hausman analysis are applied to see the most appropriate test (i.e., fixed effect test v/s random effect test). The outcome of the F test and Hausman analysis are shown below.

Table 2
Summary of F test and hausman test results (to study impact of cash in hand on Total PSL)

F Test (Fixed Effect)			Hausman test (Random Effects)		
Test	Statistics	P Value	Test	Statistics	P Value
Cross-section F	30.385	(0.000)**	Cross section random	25.96	(0.000)**
Cross-section Chi-square	272.85	(0.000)**			

** indicates that p value < 0.05

The results indicate that the p value (0.000) of Hausman test is established to be less than 5 % level of significance. Therefore the null hypothesis that the effects are random cannot be accepted. In case of F test the probability value of cross section F as well as Cross- section Chi-square is found to be less than 5 % level of significance. Hence it is decided to apply fixed effect model in order

to understand the impact of cash in hand on total PSL while incorporating the heterogeneity in selected Indian nationalized banks. The heterogeneity exists due to difference in maturity, size, assets, branch network etc. The result of fixed regression model is discovered below in the following table.

Table 3
Fixed effect model indicating the impact of cash in hand on Total PSL

Dependent variable	Independent variable	Regression coefficients		T statistics (p value)	F statistics (p value)	R square
Total PSL	Cash in hand	Intercept	4.39	14.97 (0.000)**	52.72 (0.000)**	85.56%
		Alpha				
		Beta	0.91	19.84 (0.000)**		

** indicates that p value < 0.05

The fixed-effect model results indicate that the probability value (0.000) of t statistics (14.97) for the intercept of the model is found to be less than a 5 percent level of significance. Hence the regression intercept is assumed to be significant. In addition to this, the p-value (0.000) of t statistics (19.84) of slope coefficient of the independent variable (cash in hand) is also found to be less than 5 percent level of significance. Hence with a 95 percent confidence level, the null hypothesis that there is no significant effect of cash in hand on total PSL cannot be accepted. Thus, the nationalized banks' cash in hand position has a substantial impact on the amount of Total PSL during a year. The fixed-effect model assumes that nationalized banks' heterogeneity existed due to the difference between them regarding different features such as assets and liabilities, branches, etc. The p (0.000) value of F (52.72) statistics in case of fixed effect model is found to be less than 5 percent level of significance, which indicates that the fixed effect model is Statistically fit an R square value of .8556 percent indicates that approximately 85.56 percent variance of total PSL can be explained with the banks' liquidity position. The article Impact of Cash in Hand in the Total Priority Sector Lending: An Empirical Assessment, supported by many previous articles and relevant variables including.

Conclusion

Priority sector lending in the nationalized banks is growing day by day. Thus it can be said that the availability of cash in hand checks a nationalized bank's ability to generate priority sector loans. Furthermore, it was also identified that there is a positive association between priority sector lending and cash in hand. That is like cash in hand with nationalized banks increases; priority sector lending also increases over time and vice versa. However, the coefficient of the parameter cash in hands 0.91 indicates that a 1% increase in hand will lead to a 0.91 % increase in priority sector lending. Moreover, the sign of β conforms to our prior expectation, and this shows that as the cash in hand increases, priority sector lending also increases.

References

Agussalim, M., Limakrisna, N., & Ali, H. (2017). Mutual funds performance: conventional and Sharia product. *International Journal of Economics and Financial Issues*, *7*(4).

Ali, H. Mukhtar, & Sofwan. (2016). Work ethos and effectiveness of management transformative leadership boarding school in the Jambi Province. *International Journal of Applied Business and Economic Research*, *14*(11), 7451-7471.

Assagaf, A., & Ali, H. (2017). Determinants of financial performance of state-owned enterprises with government subsidy as moderator. *International Journal of Economics and Financial Issues*, *7*(4).

Berger, A. N., Klapper, L. F., Peria, M. S. M., & Zaidi, R. (2008). Bank ownership type and banking relationships. *Journal of Financial Intermediation*, *17*(1), 37-62. https://doi.org/10.1016/j.jfi.2006.11.001

Chanana, M., & Gupta, K. (2016). Quality of work life and its impact on job performance: a study of SBI & HDFC banking professionals. *International Research Journal of Management, IT and Social Sciences*, *3*(5), 16-24.

Cumming, D. (2007). Government policy towards entrepreneurial finance: Innovation investment funds. *Journal of Business Venturing*, *22*(2), 193-235. https://doi.org/10.1016/j.jbusvent.2005.12.002

Desfiandi, A., Fionita, I., & Ali, H. (2017). Implementation of the information systems and the creative economy for the competitive advantages on tourism in the province of Lampung. *International Journal of Economic Research*, *14*(2), 123-139.

Desfiandi, A., Yusendra, M. A. E., Paramitasari, N., & Ali, H. (2019). Supply chain strategy development for business and technological institution in developing start-up based on creative economy. *Int. J. Supply Chain Manag*, *8*(6), 646-654.

Dutz, M. A., & Vagliasindi, M. (2000). Competition policy implementation in transition economies: an empirical assessment. *European economic review*, *44*(4-6), 762-772. https://doi.org/10.1016/S0014-2921(99)00060-4

Fischli, A. E., Godfraind, T., & Purchase, I. F. H. (1998). Natural and anthropogenic environmental oestrogens: the scientific basis for risk assessment. *Pure Appl. Chem*, *70*(9), 1863-1865.

Fung, W., & Hsieh, D. A. (1999). A primer on hedge funds. *Journal of empirical finance*, *6*(3), 309-331. https://doi.org/10.1016/S0927-5398(99)00006-7

Giridhar, K. V. (2018). "Problem & prospects of priority sector lendings," Shanlax international journal of commerce, PP-155-161.

Jumali, S. B., Sale, C., Domai, T., & Indrasari, M. (2019). Utilization regional assets in the framework of regional fiscal potential (Study of asset management in Blitar District). *J Adv Res Dyn Control Syst*, *11*(7), 249-256.

Mansur, S., & Ali, H. (2017). Impact of customer engagement to reputation of the Bri Syariah Indonesia. *International Journal of Economic Research*, *14*(19), 425-431.

Maseleno, A., Huda, M., Jasmi, K. A., Basiron, B., Mustari, I., Don, A. G., & bin Ahmad, R. (2019). Hau-Kashyap approach for student's level of expertise. *Egyptian Informatics Journal*, *20*(1), 27-32.

Nagarajan, G., Sathyanarayana, N., & Asifali, A. (2013). Non-Performing Assets is a Threat to India Banking Sector-A Comparative Study Between Priority And Non-Priority Sector Lending In Public Sector Banks. *International Journal of Advanced Research in Management and Social Sciences*, *2*(11), 29-43.

Nanuru, R. F., & Utama, M. D. (2019, November). Dynamics of proposition and funding of lecturers' research proposal at private universities in higher education service institutes region XII–Indonesia. In *ICASI 2019: Proceedings of The 2nd International Conference On Advance And Scientific Innovation, ICASI 2019, 18 July, Banda Aceh, Indonesia* (p. 73). European Alliance for Innovation.

O'Leary-Kelly, S. W., & Vokurka, R. J. (1998). The empirical assessment of construct validity. *Journal of operations management*, *16*(4), 387-405. https://doi.org/10.1016/S0272-6963(98)00020-5

Panda, S. K., Panda, G. P., & Swain, A. K. (2017). Determinants of Priority Sector Lending of Indian Public Sector Banks: An Econometric Analysis. *International Journal of Research-GRANTHAALAYAH*, *5*(7), 461-473.

Pooranam, G., & Nandhini, K. (2018). A Study on Customer Satisfaction on Commercial Banks in Theni District. *International Research Journal of Management, IT and Social Sciences*, *5*(2), 41-46.

Prasad, S. B., & Karman, K. (2019). Nationalised banks and Long term Lending behavior to Agriculture sector in India. *International journal of Innovative Technology and Exploring Engineering*, *8*.

Sahoo, D., Singh, A., & Jain, N. (2016). A Study of Long Term Trend in Behavior of Lending to Micro and Small Enterprises with Reference to Nationalized Banks in India. *Journal of Commerce & Business Studies*, *3*(1).

Spantig, L. (2021). Cash in hand and savings decisions. *Journal of Economic Behavior & Organization*, *188*, 1206-1220. https://doi.org/10.1016/j.jebo.2021.06.008

Williams, D. A., & Thorn, B. E. (1989). An empirical assessment of pain beliefs. *Pain*, *36*(3), 351-358. https://doi.org/10.1016/0304-3959(89)90095-X

Yacob, S., & Sucherly, S. D., Mulyana, A., & Ali, H.(2020). An Optimising strategy for minimarket modern retail business performance in Indonesia. *International Journal of Innovation, Creativity and Change*.

Yong, J. C., & Li, N. P. (2012). Cash in hand, want better looking mate: Significant resource cues raise men's mating standards. *Personality and Individual Differences*, *53*(1), 55-58. https://doi.org/10.1016/j.paid.2012.02.018

Yunus, E., & Indrasari, M. (2017). Opportunities and challenges of tourism industry. *International Journal of Economic Research*, *14*(7), 277-291.