

The impact of capital requirements on the evolution of cooperative banks: the Greek case

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ABSTRACT

Cooperative credit has appeared in various forms worldwide throughout history. In Greece, the form of cooperative credit capable of operating as a bank emerged in the early 1990s. The legislation imposed strict conditions from the beginning for the operation of a cooperative bank, with the most important element being the minimum capital requirement. This condition influenced the creation of these banks across various regions of Greece, especially in cases where they could not be established. The subsequent development of cooperative banks was again greatly affected by the inability to meet capital adequacy requirements during the Greek economic crisis of the 2000s. The result was the cessation of operations for a significant number of cooperative banks, which followed the same course as other small Greek banks. Of those that survived, some were converted from cooperatives to capital banks.

Keywords: Cooperative banks, credit cooperative, capital requirement, economic crisis, Greece

1. Introduction

Cooperative credit in Greece presents a very interesting development, especially from a practical point of view, and is linked to the needs of this institution's development, the institutional framework that was created, and, to a large extent, the economic crisis in Greece stemming from the global financial crisis. For these reasons, the Greek case represents a distinct approach compared with other credit cooperative movements.

The institutional framework established in 1992 marked the beginning of cooperative credit development in Greece. In the previous period, cooperative credit existed informally, with three credit cooperatives. After 1992, cooperative credit experienced significant growth, mainly in Greece's periphery. The form of this development is influenced by a key factor: the capital

requirements for establishing a cooperative bank. Capital requirements play a prominent role in the development of cooperative credit, but also act as a negative factor. The Greek crisis of the 2010s forced cooperative banks to seek capital to achieve their recapitalization. Failure or success determined the resilience of these banks, as they struggled to raise the required capital, leading to the bankruptcy of most cooperative banks. In addition, some of the remaining cooperative banks are undergoing conversion into capital banks, further shrinking cooperative credit in Greece.

The following text reviews the development of cooperative credit in Greece and assesses the factors that drove it. After the Introduction, the first section examines the legislative framework. The second section provides an overview of developments up to mid-2010. The third section addresses the crisis's effects on the recapitalization of cooperative banks, the results, and the question of their conversion into a capital bank. Conclusions follow.

2. Greek Legislation on the Credit Cooperative System

The legislative framework for cooperative credit in Greece was established in 1992 with Law 2076/1992 (Journal of the Government, 1992) and the Act 2258/1993 of the Governor of the Bank of Greece (Governor of the Bank of Greece, 1993). Law 2076/1992, for the first time, acknowledged the possibility of creating and operating banking institutions in the cooperative form. Until this year, three credit cooperatives operated in three different regions of Greece: Central Greece, Epirus, and the Peloponnese. The three cooperatives operated under Law 1667/1986 on "Urban Co-operatives" without the Bank of Greece's approval. The three urban credit cooperatives operate under the supervision of the Ministry of National Economy and Finance as urban cooperatives, without being part of a framework for the operation of financial institutions or requiring the minimum initial capital that banks operating in Greece do (Karafolas 1997).

With Law 2076/1992 and Act 2258/1993 of the Governor of the Banks of Greece, which sets the new framework, cooperative credit institutions are divided into two categories:

a/ Credit cooperatives, which are not banking institutions, and they cannot offer banking services (only limited economic help to their members). Their aim is to collect the requested capital to become co-operative banks. They are subject to the supervision of the Ministry of National Economy and Finance.

b/ Cooperative banks, which can offer all banking services. Their creation occurs after the completion of the principal request and the collection of a minimum capital. As a credit institution, the cooperative bank can provide all banking services except underwriting.

Cooperative banks, until September 2006, could transact exclusively with their members, other credit institutions, and the Greek State. Since 1st of September 2006, the cooperative bank can also transact (after the authorization of the Bank of Greece) with non-members up to 50% of its loans or its deposits (Journal of the Government, 2006). Cooperative banks are subject to the same supervision and regulation as any other bank, imposed by the Bank of Greece.

The capital requested for the foundation of a cooperative bank had a crucial role in the creation and development of cooperative banks in Greece. The minimum capital requirement for establishing a cooperative bank did not follow other cooperative credit practices, such as credit unions, which did not require a significant minimum capital (see for cooperative credit in Europe, Karafolas 2016). The legislative framework distinguished three categories of cooperative banks based on their operations at the a/prefectural, b/regional, and c/national levels (Greece is divided into 13 administrative regions and 52 prefectures). Depending on the category, the operation is limited, as is the required capital.

Initially, the required capital was determined at 600 million drachmas (or €1.9 million based on the drachma/€ exchange rate) for a prefectural cooperative bank, 2 billion drachmas (or €5.9 million) for a regional cooperative bank, and 4 billion drachmas (or €17.6 million) for a national cooperative bank or for a cooperative bank established in Attica and Thessaloniki. This amount also corresponded to the establishment of a bank of issue in Greece.

Following the development of the legislative framework and with Act 2471/10.4.2001 of the Governor of the Bank of Greece (Governor of the Bank of Greece, 2001), the minimum required capital was determined as follows:

1. 6 million euros for a cooperative bank having members and branches in only one prefecture, except the prefectures of Attica and Thessalonica.
2. 10 million euros for a cooperative bank with members and branches in the bordering prefectures as well as in the same administrative region.
3. 18 million euros for a cooperative bank expanded all over Greece, or having the head office in the prefecture of Attica or that of Thessalonica.

The interest in cooperative credit in Greece was particularly strong among professional bodies such as chambers of commerce, industry, and crafts, who saw the development of cooperative banks as a way out of the difficult and especially expensive financing from banks in the 1990s. Accordingly, local communities considered that cooperative banks would be a lever for local economic development, as they would focus on local development (Karafolas 1997).

The minimum capital requirement was a problem in developing cooperative banks, especially in Attica and Thessaloniki, because raising capital proved impossible. A basic reason was that, unlike capital banks, cooperative banks give each shareholder one vote, regardless of how many shares they hold or how much money they have invested. The lack of control was a deterrent to high-level participation. At the same time, for the required amount, there should have been a large participation, which did not exist. This could be justified by the fact that, in its scope, this system was unprecedented in Greece, while the agricultural cooperatives that had developed widely were treated with caution, especially by the urban population that did not participate directly in them.

3. An autonomous and non-homogeneous development

The Greek system did not consider the existence of regional cooperative banks, as in France (Ory et al., 2006 and Palomo Zurdo, 1997), Germany (Aschhoff and Henningsen, 1996 and Palomo Zurdo, 1997), or Italy (Di Trapano, 2004). The legislation does not presuppose the existence of a central cooperative bank, as is the case with numerous credit cooperative systems in Europe (Karafolas 2016; Palomo Zurdo 1997; Côté et al. 1998).

The Greek credit cooperative system is characterized by local autonomy. At its first stage, the system consisted only of credit cooperatives. Since 1993, a strong interest in establishing a credit cooperative has led to the creation of 31 credit cooperatives in 30 towns.

The development of cooperative credit was also supported by the Greek state, which financed the strengthening of credit cooperatives through European programs aimed at transforming them into cooperative banks. However, the support did not concern capital participation. This policy was set in the context of a broader effort to strengthen new financial tools, such as the creation of a Guarantee institution for small and medium-sized enterprises (Karafolas and Wozniak, 2014). It should be noted that since the 1990s, Greece has received significant support from European Union programs, particularly for its regions (Karafolas, 2013).

The development of Greek cooperative credit led to the creation of 16 cooperative banks. The characteristic of this initial development in the 1990s and 2000s is the concentration of cooperative banks in Greece, with their presence in 9 regions. However, an important element is the absence of cooperative banks in Attica and Thessaloniki. The absence lies in the inability to raise the required €18 million in capital from the two credit cooperatives established in these regions. The high capital requirement was a point of disagreement between professional bodies and the central bank. The central bank considered that a cooperative bank in the two most populous regions of Greece would have the same potential for clientele and operations as any national bank. In the first stage of development, where cooperative credit is prevalent in Greece,

we observe a strong concentration among two main cooperative banks located in Crete, (see Ferguson, Ch., et al., 2002, for the stages of development); in 2010, Pagritia Cooperative Bank held 46% of cooperative bank assets, and the Cooperative Bank of Chania held 11% (Karafolas 2016a).

The predominance of Pagritia Cooperative Bank, and to a lesser extent the Cooperative Bank of Chania, can be explained by several reasons:

A strong spirit of cooperation, driven by healthy cooperative development, on the island of Crete. The Greek cooperative movement, particularly in the agricultural sector, was often criticized for inefficiency stemming from political interventions (Kamenidis, 1991). These problems led to a loss of confidence among the population in the cooperative movement. In Crete, a healthy cooperative organization in navigation, along with the creation of shipping cooperatives, contributed to the success of cooperative banks as well.

The confidence of the pioneers who had the initiative for the creation of a credit cooperative institution. Confidence in the board of directors and, moreover, in the president led an important part of the population to participate in the creation of the credit cooperative.

The expansion policy was followed, especially by the Pagritia Cooperative Bank and, to a lesser extent, by the Cooperative Bank of Chania. Other cooperatives had a conservative expansion policy. In the case of Pagritia Cooperative Bank, the expansion policy focused on establishing peripheral councils to motivate the local population; the councils could also suggest the opening of a branch.

4. Crisis consequences for cooperative banks in Greece

The development of cooperative banks was very seriously affected by the crisis, not so much the global financial crisis of 2008, but mainly by the Greek economic crisis that followed in the 2010s, and is due to the inability of the Greek state to borrow from international markets due to the high level of borrowing it already had in relation to the gross domestic product. In 2010, the Greek government was forced to borrow from the European Union and the International Monetary Fund (Bank of Greece 2014). A consequence of the borrowing was the signing of a Memorandum of Understanding (MoU) between Greece and its lenders. An important aspect of the MoU was the drafting of a program to stabilize the Greek economy and improve the Greek state's medium- to long-term fiscal position. The implementation of this program had direct and serious consequences for the Greek economy. As shown in Table 1, the economy initially experienced a major recession, as evidenced by the decline in GDP, especially in the first half of the decade. At the same time, unemployment rose sharply, reaching 25% during 2012-2017 (Table 1).

Table 1. Evolution of macroeconomic aggregates of the Greek economy

	Evolution of GDP at market prices	Unemployment in Greece	Non-Performing Loans ratio (NPL ratio)	Greek Public Debt/GDP
2008	4%	8%	6%	115%
2009	-2%	10%	10%	121%
2010	-5%	13%	14%	138%
2011	-9%	18%	22%	159%
2012	-9%	24%	31%	186%
2013	-4%	28%	40%	168%
2014	-1%	27%	44%	185%
2015	0%	25%	48%	189%
2016	-1%	24%	49%	186%
2017	2%	22%	47%	190%
2018	2%	19%	45%	188%
2019	3%	17%	41%	198%
2020	-10%	16%	33%	192%
2021	10%	15%	12%	221%
2022	12%	12%	8%	208%
2023	9%	11%	6%	190%
2024	5%	10%	4%	176%

Source: Bank of Greece, 2025, Eurostat, 2025, Hellenic Statistical Authority, 2025

This development did not alleviate public debt, which increased significantly during this period. In addition to macroeconomic and fiscal developments, banks experienced an unprecedented increase in non-performing loans, rising from 6% of total loans in 2008 to 49% in 2016, which had direct consequences for the entire Greek banking system (Karafolas 2019).

A key problem was the need for banks to raise capital to meet Basel rules and continue operating (Basel Committee, 2006). This problem affected all Greek banks, but the banks that were important to the economy stood out (European Central Bank, 2017). The banks that succeeded in

their recapitalization with public support, unlike the other banks that had to raise the necessary funds from the private sector through existing or new shareholders. Consequently, in the 2010s, the Greek banking system underwent a significant reshuffling, with many banks going bankrupt and being acquired by the four major banks in the Greek economy: Alpha Bank, Eurobank, National Bank of Greece, and Piraeus Bank (Karafolas 2019).

Cooperative banks were among the most affected. Of the sixteen cooperative banks, eight were forced to declare bankruptcy because they were unable to raise the necessary funds for recapitalization during 2012-2013. The first to be closed were Cooperative Bank of Dodecanese, Cooperative Bank of Lamia, Ahaiki Cooperative Bank, Cooperative Bank of Evia, Cooperative Bank of Lesvos-Limnos, Cooperative Bank of Evros, Cooperative Bank of West Macedonia, and Cooperative Bank of Peloponnesus. The remaining banks underwent mergers. The Cooperative Bank of Evros merged with the Cooperative Bank of Drama and the Cooperative Bank of Serres with the Cooperative Bank of Pieria, creating the Cooperative Bank of Central Macedonia, which was then merged with the Pagritia Cooperative Bank. Thus, the economic crisis in Greece left five cooperative banks operating: the Pagritia Cooperative, the Cooperative Bank of Chania, the Cooperative Bank of Epirus, the Cooperative Bank of Thessaly, and the Cooperative Bank of Karditsa.

The consequences for cooperative credit in Greece stemmed mainly from the Greek economy's deep and prolonged crisis, which was deeper and more severe than the global financial crisis. Thus, the banking consequences were also more intense. Similar consequences occurred in the termination of cooperative credit in Cyprus, a country that borrowed from the EU and the IMF, and on which an economic stability program was imposed (Karafolas and Kleanthous, 2019). In other countries, cooperative banks fared much better during the global financial crisis by adopting more conservative policies than capital banks (Henselmann et al., 2016; Chiaramonte et al., 2015). However, the global financial crisis in most countries was short-lived and did not develop into an economic crisis as in Greece.

The five cooperative banks that successfully recapitalized with the participation of old and new shareholders have a capital of over €18 million, which allows them to convert into capital banks. Two cooperative banks, Pagritia Cooperative Bank and the Cooperative Bank of Epirus, took advantage of this opportunity. Pagritia Cooperative Bank was converted into a capital bank in 2020 (Hellenic Bank Association, 2025), and in 2024, it merged with the Bank of Attica, creating Credia Bank (Credia Bank, 2025). In 2025, the Board of Directors of the Cooperative Bank of Epirus decided to convert the bank into a capital bank (Bank of Epirus 2026). The possibility of converting the three remaining cooperative banks into capital banks raises the question of whether they will do so as well. The Cooperative Bank of Chania already has a network that

extends beyond Crete and operates at the national level, like any capital bank, while the two other banks have networks within their administrative regions.

5. Conclusion

The Greek financial crisis of the 2010s triggered a profound transformation of the entire Greek banking system, including both capital and cooperative banks. In 2009, the Greek banking market included 19 capital banks, 16 cooperative banks, and 17 foreign banks. In 2025, the Greek banking market had shrunk to just nine capital banks and three foreign banks; the number of cooperative banks had been reduced to five, with one more planned for conversion into a capital bank.

In a banking system where the four systemic banks control more than 97% of Greek banking, following acquisitions in the 2010s, the survival of cooperative credit is, in principle, vital. A counterweight to the centralized banking system is imperative. Cooperative credit was developed as a counterweight to the dominance of capital banks. The problems of recapitalization were insurmountable for many of them, who did not receive public support for their capitalization, unlike systemic banks. The ongoing effort toward capital adequacy may lead to thoughts of converting them into a bank with investor entry. The flexibility a capital bank has in relation to a cooperative is an essential factor in attracting investor entry.

The financial crisis highlighted the need for caution, as the economic euphoria of the 2000s had made both banks and customers less prudent overall. The cooperative banks operating today appear to have stronger capital bases and, above all, possess valuable experience that can guide future banking policy. Their necessity is even more important because, in addition to their cooperative nature, they are the only local banks created specifically to serve the local economy and its economic and social factors.

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