Central and Eastern Europe(CEE) is the region where the ownership of banks has been through the most fundamental and massive changes during the past two decades. This paper analyses the role of state-ownership in commercial banks, whether and why state ownership imposes negative effects on commercial banks in CEE transition countries, through both theoretical arguments and empirical testings.

The thesis summarizes previous literature and analyses the role of banking ownership and performance, particularly though a dynamic view of the banking privatisation process. It investigates the reasons why state-owned banks are harmful in CEE countries from a corporate governance point of view. Followed by empirical tests on this topic, including banking production efficiency measurement using Stochastic Frontier Analysis and second-stage regression analysis about the effects of ownership on banking efficiency and asset quality.

This paper finds out that the state ownership of banks imposes negative effects on bank performance and hinders successful privatisation of enterprises. Banking production efficiency has been improving greatly in late 1990s and stayed at a constant high level in 2000s. Through panel data regressions, we find the negative effects of state-ownership on banking production efficiency and asset quality. Foreign bank participation proves to be useful and the only viable option for most CEE countries. Instead of ownership, the most crucial role of governments in banking is the strong and independent regulation and supervision over the banking industry. This thesis contributes to the rethinking of state-ownership in commercial banks and draws policy implications for China based on CEE experience.