

10. In 1991, 72 percent of production in agriculture and manufacturing had been protected by quantitative restrictions. By the end of 1994, an estimated 24 percent remained protected by restrictions. Eighty-five percent of all producer prices (weights) have been liberalized and about 70 percent of distribution margins are free.

11. Following the reform of direct taxes and the introduction of the VAT, the Government reformed stamp duties and registration fees and started reform of local taxation. It has also reformed the taxation of financial instruments, which had caused distortions that hindered the development of financial markets. The upshot is a simple tax system with moderate rates, a wider incidence and no multiple taxation of income. This opened the way for reform of the numerous investment codes, which afforded tax and other financial advantages, by reducing the need for them. A new unified code has been approved by the Chamber of Deputies in January 1994 with more modest advantages accorded only to investments that fulfil the objectives of the code. These reforms move in the direction of a more equitable tax regime between off-shore and domestic companies.

12. Reform in the financial sector has included the introduction of a new regulatory framework for banking, notably strict prudential regulations, and the removal of a cap on the spread of deposit bank lending rates over the money market rate in April 1994. Government borrowing through the obligatory purchase by banks of low-yielding bonds is being replaced by an auction process resulting in much higher yields for the banks and public. The stock market has also undergone reforms to modernize its regulations. These and the tax reforms have created the conditions for a potentially active and diversified financial market, although at present few companies are listed and there is very little trading.

13. Privatization began in 1987 but is proceeding at a slow pace. Out of nearly 200 enterprises in which the State had majority shares only about 40 small ones have been privatized. The diffusion of responsibilities that caused certain delays had the benefit of ensuring a measure of transparency and public acceptance. In 1993, the Ministry of Planning and Regional Development, now called the Ministry of Economic Development, was given the responsibility for privatization, but the process remains essentially on hold.

14. By deepening structural reforms, Tunisia could attain its objective of increasing the efficiency of investment through a gradual decline of the 5-year ICHOR from its level of over 6