

ruble-denominated balances. Lack of confidence in government policies also lay behind the October plunge in the ruble exchange rate, necessitating heavy intervention to restore stability in the market.

4. The drop-in trade that accompanied the break-up of the FSU and CMEA trade system has been reversed. Exports to all countries (both FSU and non-FSU) grew by 13 percent to reach \$66 billion in 1994. There was an even healthier growth in total imports, which reached \$54 billion. Over three-quarters of total trade in value terms is with non-FSU countries. Moreover, growth in trade with non-FSU countries continues to expand as Russia's trade is increasingly directed to Western Europe. The shift in trade patterns is particularly noticeable for raw materials such as oil and gas. Exports of crude oil to non-FSU countries increased from 47 percent of the total in 1992 to 74 percent in the first half of 1994. Similar shifts occurred in manufactured products such as processed timber and pulp and paper.

5. Throughout the year, unemployment continued to worsen as enterprise restructuring led to labor shedding. Open unemployment rose from about 5 percent at the end of 1993 to 7 percent by the end of 1994, although registered unemployment amounted to only one-third of this. The rise in unemployment is smaller than earlier expected, apparently due to the continued retention of labor, while real wages have been reduced and arrears have expanded, as well as resort to involuntary unpaid leave and part time employment. Including workers affected by these adjustments would raise the unemployment figure to around 13 percent by end-1994.

6. Social indicators reflect mixed patterns of adjustment during 1993 and 1994. Population data shows a sharp increase in morbidity rates in 1993, contributing to the decline in male life expectancy by 4.9 years between 1990 and 1993. Many households have been seriously affected by the inflation-induced erosion of real transfers (especially minimum pensions and unemployment benefits), the decline in wage-earning opportunities, and distinct widening of income distribution. The incidence of poverty has increased significantly since the onset of transition. Moreover, regional variation in incidence of poverty and unemployment is widening, with the greatest concentration in regions dependent on declining industries. At the same time, some indicators show improvements in average household consumption and average real income levels, consistent with expansion of income from informal economic activity. But indirect evidence suggests opportunities in the informal sector are also skewed,