

# Ukraine Defence and Security Report Q1 2011

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## Abstracts

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Ukraine's defence spending fell slightly in 2010, by 0.60% to US\$3.229bn, or US\$70.90 per head, BMI estimates. Defence expenditure therefore stood at 2.7% of GDP and 7.3% of government spending, both relatively high figures for the developed world, indicating how important defence is perceived to be in Ukraine. Defence spending grew rapidly through the last decade, slowing considerably at the end of the decade as economic turmoil affected the country – indeed, in dollar terms, expenditure fell by 33.51% in 2009, though this figure is distorted by the effects of the hryvnia's volatility.

In 2011, BMI expects defence expenditure to rise considerably as Ukraine's economy returns to growth and new geopolitical concerns drive higher investment in the armed forces. We forecast that spending will grow by 18.30% in dollar terms to US\$3.830bn, representing a rise of 11% at constant prices. Over the next decade, we expect defence spending to grow at relatively high rates, slowing towards the end of the forecast period. In real terms, growth will remain above 10% until 2014, and above 5% until 2018. As spending on other areas is scaled back, and defence prioritised (a spending strategy that is the mirror image of many developed countries), we expect defence expenditure to rise as a proportion of government outlay, to 10.4% by 2019. However, it will remain at 2.7% of GDP for the remainder of the forecast period as Ukraine's economy grows. By 2019, BMI expects Ukraine's defence spending to total US\$11.343bn, or US\$261.80 per capita.

Ukraine's prospects of joining NATO in the near future are remote since the election of President Yanukovich in 2010. Indeed, in June 2010, parliament approved a law submitted by Yanukovich which effectively ended Ukraine's NATO accession bid through affirming military 'non-alignment', as reported by the BBC. While NRCU reported in November that NATO was still 'leaving the door open' for the strategically

important country, and Ukraine still actively participates in NATO missions, membership is no longer a policy goal for Kiev.

The country is increasingly looking to align itself with Moscow, and public support for NATO membership has plummeted. The rapprochement with Russia and coolness towards NATO membership do not necessarily mean that Ukraine is 'turning its back on the West'. Indeed, Russia and NATO moved closer in late 2010, just as Kiev was distancing itself, and EU accession is still a policy goal. But there seems little doubt that the days in which Ukraine was ploughing a course imperfectly towards EU and NATO membership and pushing away from Russia are over, at least temporarily.

Ukraine's long-term political trajectory is far from certain, with the coming years likely to prove crucial to the country's convergence prospects through 2019. Weak institutions remain the greatest challenge to long-term stability, though we also highlight systemic tensions in bilateral relations with Russia and growing demographic issues as additional threats likely to confront future governments. Going forward, the worst case scenario for Ukraine would entail a continuation of the status quo.

## Contents

- Executive Summary
- SWOT Analysis
- Ukraine Security SWOT
- Ukraine Defence Industry SWOT
- Ukraine Political Industry SWOT
- Ukraine Economic Industry SWOT
- Global Political Outlook
- Global Hotspots
  - Table: Global Election Timetable, 2010 And 2011
- Latin America: More Of The Same
- Western Europe
- Central Europe
- South Eastern Europe
- Russia And The Former Soviet Union
- Middle East: Mostly The Same Old Challenges
- Sub-Saharan Africa: Definitive Elections Pending
- Asia: Accommodating A More Powerful China
- Wild Cards
- Global Security Outlook
- Political Risk Analysis – The Future Of NATO
- Regional Security Overview
- Political Overview
- Security Risk Analysis
- BMI's Security Ratings
  - Table: Europe Security Risk Ratings
  - Table: Europe State Terrorism Vulnerability To Terrorism Index
- Ukraine's Security Ratings
- City Terrorism Rating
  - Table: BMI's Central And Eastern Europe And Central Asia City Terrorism Index
- Security Overview
- Internal Security Risks
- External Security Risks
- Russia
- The United States, Europe And NATO
- European Union
- Commonwealth Of Independent States
- Border Security

Serpent/Zmeiny Island  
Tuzla Island  
Latest Developments  
Armed Forces And Government Spending  
Army  
Navy  
Air Force  
International Deployment  
Industry Trends And Developments  
Weapons Of Mass Destruction  
Market Overview  
Procurement Trends And Developments  
Latest Developments  
Industry Forecast Scenario  
Table: Armed Forces, 2000-2008 ('000 personnel)  
Table: Defence Expenditure, 2008-2015  
Macroeconomic Forecast  
Methodology  
How We Generate Our Industry Forecasts  
Defence Industry  
City Terrorism Rating  
Table: Methodology  
Sources . 91

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