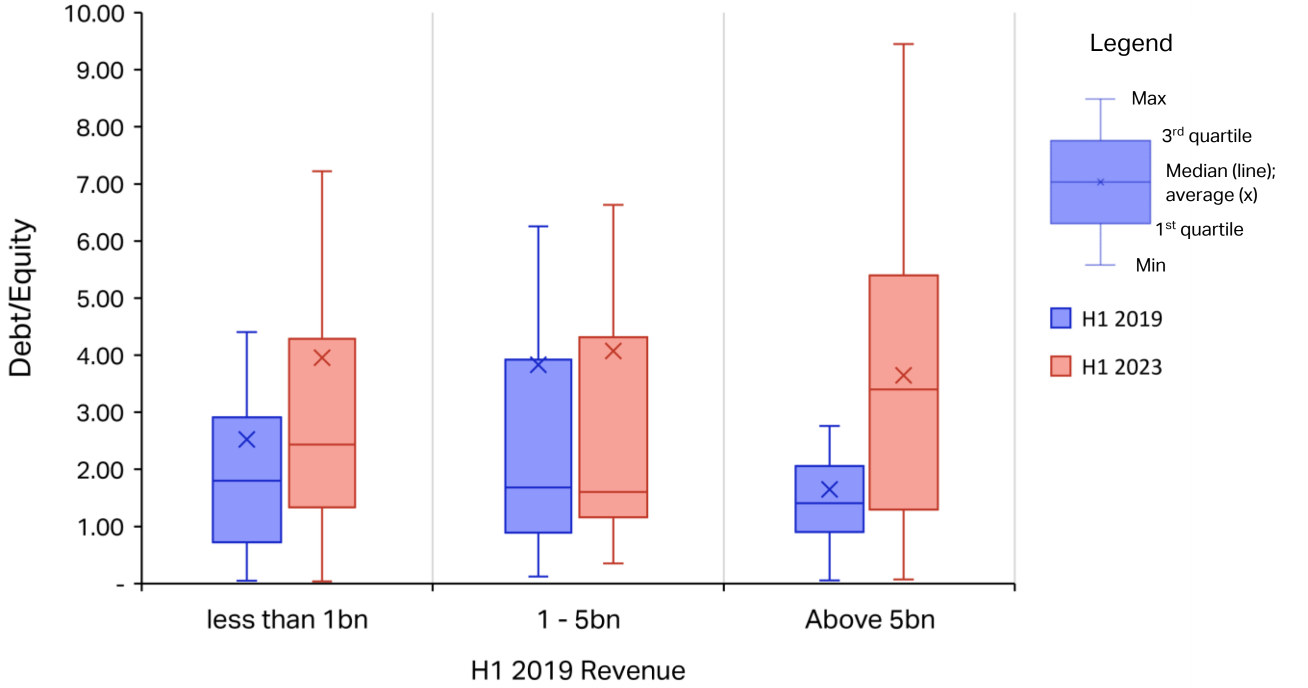
Chart of the Week

3 November 2023

Airline balance sheets remain impacted by the pandemic

Airline debt to equity ratio, 2019 and 2023 H1 comparison



Source: IATA Sustainability and Economics based on Airline Analyst data, excluding outliers and airlines with negative equity.

- The debt-to-equity ratio is a solvency ratio providing insight into an organization's reliance on debt to finance its activities. How high this ratio can be before it becomes a solvency concern depends on multiple factors including, notably, revenue. An over-reliance on debt financing could see an organization struggle with its servicing requirements.
- The airline industry is a capital-intensive business, with significant financing needs to purchase aircraft, aircraft fittings, and the supporting infrastructure. Importantly, a sizeable proportion of the airlines' debt is asset-backed, thus reducing the risk to lenders.
- Comparing airlines' pre-covid balance sheets in the first half of 2019 with the same period in 2023 shows that airlines now carry more debt in relation to their equity. The largest impact on the average debt-to-equity-ratio has been observed among the biggest airlines; those with revenue above USD 5 billion in H1 2019. For these airlines, the average debt-to-equity ratio more than doubled from 1.6 to 3.6. Similarly, the median increased from 1.4 to 3.4. Additionally, the distribution of the ratio in the sample widened.
- Airlines which in H1 2019 recorded a revenue of USD 1-5 billion saw their average debt ratio increase from 3.8 to 4.1, although the median eased from 1.7 to 1.6. Finally, airlines with a revenue of less than USD 1 billion in H1 2019 saw the average debt ratio increase from 2.5 to 4.0, while the median moved from 1.8 to 2.3.
- Part of the increase in debt relates to the loans received from governments during the pandemic. As of June 2023, airlines have repaid 54% of the approximately USD 100 billion support received, with some having repaid in full. There are few signs currently that the increased debt burden is creating widespread financial difficulties. Nonetheless, while air transport demand has been impressively resilient – traffic has almost fully recovered to 2019 levels – higher debt levels impact the industry's financial robustness.

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