

Aeroflot Advocates for Favorable Loans Amidst Aviation Industry Challenges

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Introduction: Aeroflot (SU), Russia's flagship carrier, is seeking support in the form of preferential loans for the country's airlines. The proposal comes in light of the challenging financial landscape faced by the aviation industry, marked by low profit margins and increasing operational costs.

Key Points: At a round table discussion at the Federation Council, Mikhail Fedosov, Aeroflot's Deputy Chief Executive for Corporate Governance, highlighted the dire financial situation faced by the airline. The majority state-owned carrier currently grapples with banking and bond debts amounting to RUB111 billion (USD1.2 billion) at an average interest rate of 9%.

Fedosov emphasized the historical struggle of the aviation industry with low profit margins, making it imperative to explore avenues for providing loans at preferential rates. The proposal aims to alleviate the financial burden on airlines, considering their vulnerability to higher interest rates and the challenging economic environment.

Challenges Faced by Aeroflot: Aeroflot faces an uphill battle as various spending categories show an upward trend. Rising costs in aircraft leasing, airport tariffs, and a significant surge in jet fuel prices contribute to the financial strain. Of particular concern is the soaring cost of aviation fuel, which constitutes about 35% of the airline's overall expenses.

Fuel prices have witnessed a sharp increase, reaching approximately RUB82,000 (USD890) per metric ton, compared to RUB40,000 (USD434) in 2019-2020. The financial impact is evident in Aeroflot's recently released financial statements for the first nine months of 2023, revealing a net loss of RUB94.64 billion (USD1.03 billion), inclusive of exchange rate revaluations. Without considering negative exchange rate differences, the airline would have posted a net profit.

Conclusion: Aeroflot's appeal for preferential loans underscores the urgent need for financial support within the aviation sector. The industry's susceptibility to economic fluctuations, coupled with escalating operational costs, emphasizes the significance of implementing measures to ensure the sustainability of airlines. As the sector navigates through unprecedented challenges, collaborative efforts between the government and industry players become crucial for fostering resilience and stability in the aviation landscape.

