Scotiabank

GLOBAL ECONOMICS

INSIGHTS & VIEWS

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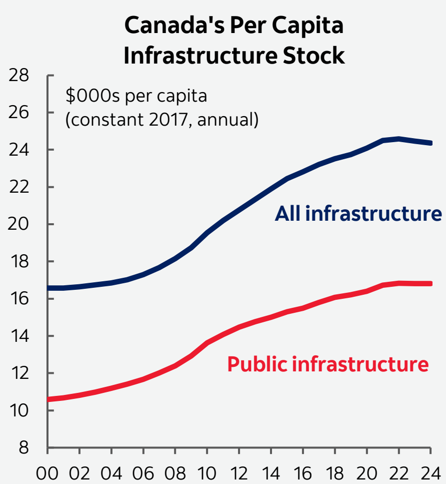
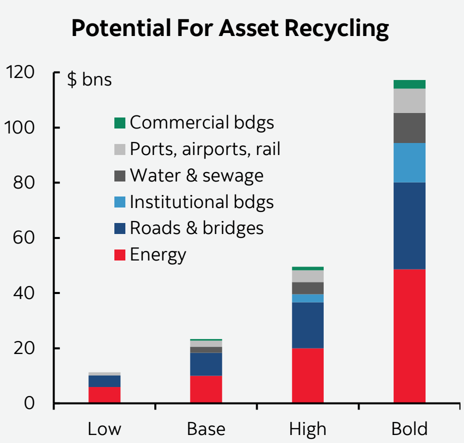
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics. Statistics Canada. *See Annex for assumptions.*

A New Lease on Life

TIME FOR TEAM CANADA TO PLAY OFFENCE WITH PUBLIC INFRASTRUCTURE ASSETS

- **Canada aims to lead the G7 in growth. The newly-passed federal *One Canadian Economy Act* lays the foundation for ambitious, nation-building projects. These are inherently high-risk, high-reward ventures that demand early government investment to clear the path for private capital.**
- **But those investments are just the tip of the iceberg. Governments across all levels hold roughly 70% of Canada's $1.4 trillion in infrastructure assets. Yet despite a surging population and an expanding economy, public investment has stalled—and service quality is slipping (chart 1).**
- **A disciplined asset recycling agenda—across all levels of government—could redeploy capital from mature assets into the riskier and potentially transformational new investments—without an over-reliance on new borrowing—bolstering both fiscal resilience and long-term economic growth.**
- **Even a modest program could potentially generate $25–50 bn over five years. A more ambitious push could exceed $100 bn (chart 2). And that's before factoring in reinvestment ripple effects.**
- **This isn't a backdoor to privatization. Today's toolkit is smarter—shaped by past missteps—and includes long-term leases, minority stakes, and public-interest protections like super-profit and rate-cap clauses. Done right, asset recycling can attract long-term private capital, renew aging infrastructure, strengthen public finances, and protect the public interest.**
- **Canada's investment ambitions are big—and risky. Asset recycling can be both the catalyst and the safeguard to deliver results at scale.**
- **It's essential to act deliberately: history shows that fire sales rarely serve the taxpayer. Better to move with intent—from a position of strength and foresight—while public asset owners still hold the upper hand.**

THE OTHER SIDE OF THE COIN

Canada's growth imperative is clear. Persistently weak productivity growth and lagging capital deepening have exposed structural vulnerabilities in the economy. Chronic underinvestment in both physical and intangible capital continues to erode the foundations of sustainable income growth and long-term prosperity.

The country stands at a pivotal economic crossroads. With the passage of Bill C-5, *The One Canadian Economy Act,* Prime Minister Carney's government has set the stage for a bold transformation. The legislation enables fast-tracked nation-building projects that are expected to tap the federal balance sheet—running capital deficits in the order of 1.5–2% of GDP annually—to crowd in significant private investment for high-impact initiatives.

The strategy is ambitious—necessarily so amid rising geopolitical tensions and a fragile domestic outlook. But it carries considerable execution risk, especially in a higher debt—and uncertain interest rate—environment. Such a bold plan should be coupled with a disciplined asset recycling agenda that could prove both a catalyst and a safeguard to crowding in even greater private capital into the Canadian economy.

RECYCLING OLD IDEAS

Asset recycling is not a new concept. At its core, it enables governments to unlock capital tied up in mature infrastructure and reinvest it into high-impact projects—without significantly raising taxes or debt—or return it to taxpayers. This "flywheel of reinvestment" was deliberated in Canadian policy circles prior to the pandemic, but still remains largely absent from the Canada Infrastructure Bank's *de facto* greenfield-focused pipeline, in part due to limited public appetite and political will.

Yet the case for revisiting this approach is strong. Canadian governments hold about 70% of infrastructure assets. While cross-country comparable infrastructure data is very limited that share appears to be nearly flipped in countries like Australia, the UK, and the US based on capital investment activity.[1] About 2% is federally-owned (outside crowns) and the rest is held at provincial, territorial, municipal and Aboriginal levels (chart 3). Transportation, utilities and other energy-related infrastructure alone comprise about half of the infrastructure assets on government balance sheets, representing significant untapped potential (chart 4).

Chronic underinvestment amplifies the urgency. Canada's infrastructure has been aging for decades despite multiple attempts to reinject greater investments (chart 5). Nearly 40% of Canada's roads and bridges and 30% of water and wastewater systems are rated in 'fair' to 'very poor' condition according to a 2019 Canadian Infrastructure Report Card. A poll by the Canadian Council for Public-Private Partnerships found that almost 90% of Canadians are pessimistic about the state of the nation's infrastructure.

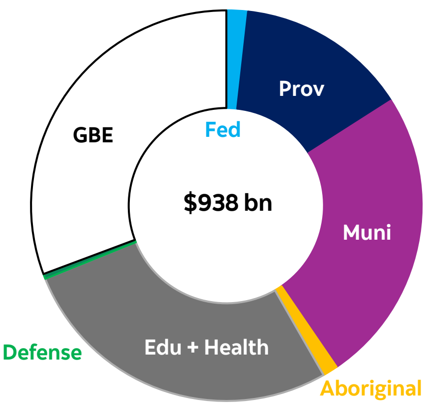
Provincial and municipal governments—who own most of these assets—face constrained fiscal capacity, reinforcing the need for a coordinated national strategy to mobilize private capital while preserving public oversight. Municipalities, for instance, own 60% of the nation's infrastructure and shoulder a similar share of related expenditures but receive about 10% of every tax dollar.

It's not clear that Canadians are getting value for money. Governments have increasingly shifted infrastructure assets to arm's-length entities—many with self-financing mandates (chart 6). But these entities have, on aggregate, spent more years in the red over the past decade. While government business enterprises (GBEs) generated a hefty $199 bn in revenue in 2023, this was eclipsed $211 bn in expenses (chart 7). Accumulated shortfalls over the past decade amount to $16 bn.

Public discourse on infrastructure financing must evolve. Canadians—and key lobby groups—remain reluctant, shaped by both real and perceived past experiences. Asset

Chart 3

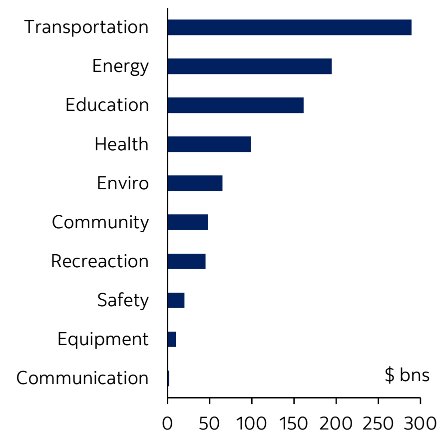
Public Infrastructure Ownership



Sources: Scotiabank Economics. Statistics Canada.
Fed, prov, muni excludes health & education.

Chart 4

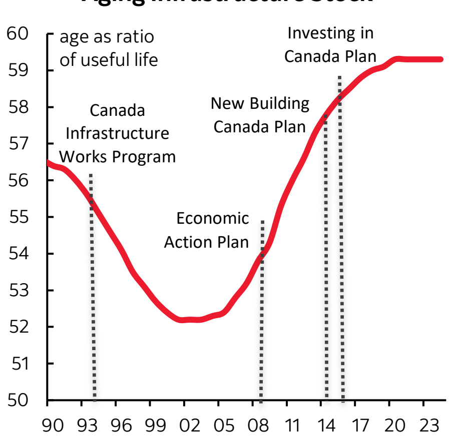
Public Assets by Function



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

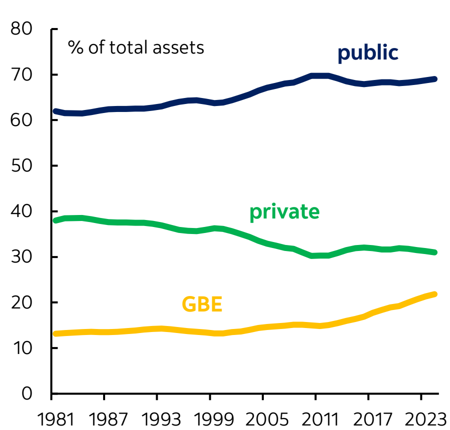
Aging Infrastructure Stock



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

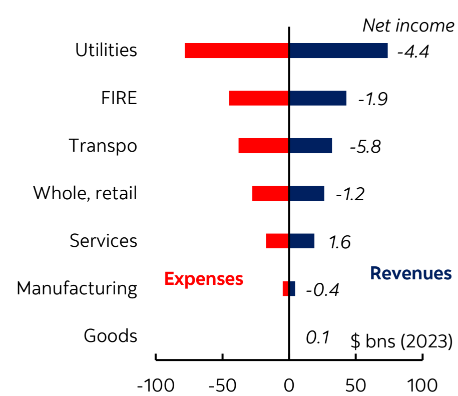
Canada's Infrastructure Assets



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

Government Business Enterprise Balance Sheets



Sources: Scotiabank Economics, Statistics Canada.

[1] Comparable international infrastructure data is limited. Canada only began publishing its Infrastructure Economic Account in 2021. While the System of National Accounts (SNA) tracks non-financial assets globally, it lacks the detail needed for meaningful cross-country comparisons of infrastructure assets.

recycling has often been conflated with privatization—and poorly-executed or weakly-governed fire sales have only reinforced public skepticism. Witness politicians across the country walking back earlier efforts to monetize infrastructure.

Yet, asset recycling encompasses a broader set of models beyond outright ownership transfers. These can include long-term leases, minority equity stakes, and various forms of public-private partnerships (PPPs). A critical distinction lies in separating ownership from operations and revenue streams—allowing governments to retain control while leveraging private sector capital, innovation, and efficiency. When well-structured, asset recycling can preserve public value, allocate risk appropriately, and accelerate infrastructure renewal. Tools such as CPI-linked pricing, super-profit sharing, and buy-back clauses are among the safeguards that help align investor incentives with the public interest.

Australia offers a compelling model. Between 2014 and 2019, its Asset Recycling Initiative monetised over A$23 bn through long-term leases of mature assets with proceeds reinvested in new infrastructure without increasing public debt. The federal government incentivized participation by offering a 15% bonus on proceeds reinvested into new infrastructure projects.

IF YOU BUILD IT, THEY WILL COME

Long-term institutional investors seek mature, stable assets with reliable revenue streams. About half of Canada's government-owned **infrastructure**—roads, rail, bridges, ports, airports, utilities, and pipelines—potentially fits this profile, totaling $470 billion on public balance sheets. Yet, Canada's infrastructure remains underutilized by investors due to a dominant public sector role and limited monetization of those assets.

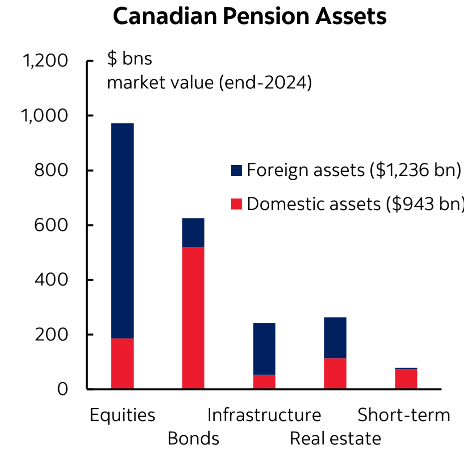
Canadian pension funds are active global infrastructure investors—but face limited opportunities at home. Domestic infrastructure accounts for just 2% (or $52 billion) of Canadian **pension funds'** global assets, and only 6% of their domestic portfolios—compared to 15% for international holdings (chart 8). In contrast, domestic infrastructure **comprises** nearly half of Australian pension portfolios and two-thirds of those in the UK, with U.S. and European allocations still more than double Canada's (chart 9).

A disciplined national asset recycling agenda could help shift this landscape. Even a modest program leveraging just 2.5% of public assets (ranging from 5% for the most attractive to nil for others) could unlock nearly $25 bn for reinvestment. This would be broadly in line with Australia's experience. A slightly more ambitious scenario, with an effective recycling rate of 5.5%, could yield closer to $50 billion, while a transformative agenda could generate over $100 billion (chart 1; see annex for details). At these more ambitious levels, a small portion of less prioritized infrastructure—particularly social infrastructure such as community housing, healthcare, and educational institutions—enters the discussion.

This would still leave the public footprint above 60% (chart 10). These figures exclude potential dynamic gains from reinvestment—especially in high-impact, higher-risk projects—as well as potential efficiency improvements or reinvestment returns stemming directly from the transactions.

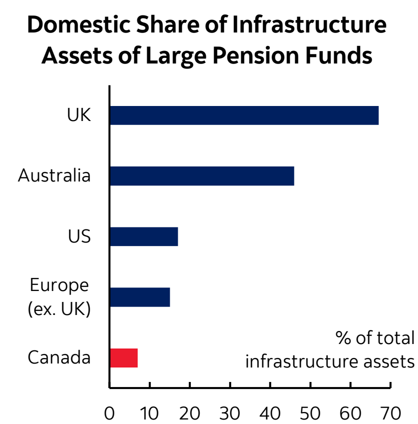
A credible pipeline of investable opportunities could attract both domestic and international capital. For example, if Canadian pension funds reallocated just 8–10% of their domestic portfolios to infrastructure (and well-below peer portfolio allocations), this could translate into $25–40 bn in new investment over time. Crucially, this capital should be drawn in by the strength of the opportunities—not through prescriptive mandates.

Chart 8



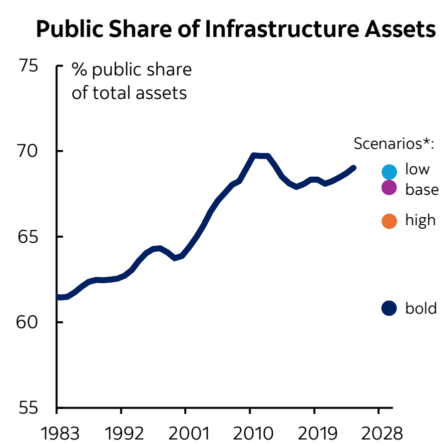
Sources: Scotiabank Economics, Statistics Canada.

Chart 9



Sources: Scotiabank Economics, Statistics Canada, CEM Benchmarking, GRI (Ambachtsheer, Betermier, Flynn).

Chart 10



Sources: Scotiabank Economics, Statistics Canada.
Does not make assumptions on C-5 investment split. See Annex for details.

The 2024 Fall Economic Statement's nudged open the door to greater private participation in airports. This would be an important start but remains piecemeal—if not pragmatic—by targeting only the most attractive assets on the federal balance sheet. A national framework would be bolder, provide greater coherence, and suited to the moment. It would also allow for the introduction of safeguards to manage inevitable foreign investment, ensuring alignment with long-term public interest.

BUTTRESSING THE FISCAL FORTRESS

As the federal government launches an ambitious investment agenda, asset recycling could also serve as a valuable safeguard against fiscal risk. While Canada's general government gross debt is moderate at around 106% of GDP, the country lacks reserve currency status and remains exposed to global bond market volatility. Moreover, national debt figures obscure significant variation across federal, provincial, and municipal levels.

Asset recycling offers a way to offset new borrowing needs, particularly in today's elevated and uncertain interest rate environment. A federal incentive to entice sub-national participation could provide an additional cushion for provinces and municipalities. On a consolidated basis, annual tax dollars servicing public debt is likely to surpass $100 bn this year. For illustration only, borrowing an additional $25–50 bn could add $1.0–1.5 bn annually in debt service costs—$5.0–7.5 bn over five years—on top of already substantial annual debt charges. In our bold scenario, that number approaches $20 bn over 5 years. This is all before factoring in potential dynamic gains.

A wide range of sensitivities could tip the math in either direction—including not only interest rate fluctuations but also potential foregone revenue streams from transferred assets. This underscores the need for strong early-stage design features: transparent valuation, appropriate risk- and revenue-sharing mechanisms, and clear performance obligations must be embedded to ensure that asset recycling enhances, rather than erodes, long-term fiscal sustainability.

IN IT FOR THE LONG GAME

A well-structured national asset recycling strategy can serve as both a catalyst and a safeguard for Canada's ambitious investment agenda. By shifting mature, cash-flowing assets to private investors—while retaining public oversight—governments can redeploy capital into high-impact, future-focused projects. This is not a call for privatization, but for smarter stewardship of public resources—balancing fiscal discipline, productivity gains, and infrastructure renewal.

Canada's public infrastructure market remains underdeveloped relative to its potential. Recycling mature assets can help deepen the domestic infrastructure market by tapping into strong demand from Canadian pension funds. Over time, a more robust national pipeline could not only attract greater institutional capital, but also evolve to support mid-sized projects and, eventually, diversified retail investment vehicles—broadening public ownership of Canada's economic future.

Canada cannot afford to delay. A national asset recycling strategy—anchored in transparency, accountability, and public-interest safeguards—can deliver meaningful fiscal and economic dividends. It offers a pragmatic path to closing the infrastructure gap while positioning Canada for long-term, globally competitive growth.

Let's not allow this to become another case where things must get worse before they get better.

ANNEX: EXPLORING THE POTENTIAL FOR ASSET RECYCLING

PUBLIC INFRASTRUCTURE FOOTPRINT

Sector	Government stock[1]		of which[2] (%)				Useful life ratio[4]	Private sector attractiveness
	$ bns	% of	Fed	Prov	Muni	GBE[3]		
Electric power infrastructure	180,327	62	0	0	0	99	60	5
Airports & passenger terminals	6,486	22	3	5	15	71	55	5
Seaports	4,004	39	34	5	7	49	72	5
Communications networks	1,291	3	1	3	16	78	60	5
Roads, highways, bridges & tunnels	209,647	96	3	51	43	2	55	4
Raillines	41,351	47	0	8	3	89	70	4
Oil & gas pipelines	23,829	25	0	0	0	100	72	4
Waterworks & sewage	109,299	77	1	4	82	9	55	3
Commercial buildings[4]	30,979	71	10	6	56	7	55	3
Transit rolling stock	10,645	45	1	2	7	87	57	3
Institutional buildings[5]	286,347	96	1	4	5	0	59	2

Notes:

1 Geometric end-year stock, 2024 (current dollars)
2 Does not always add to 100 as some social & defense infrastructure categorized separately
3 GBE = Government Business Enterprise (all levels of government)
4 Useful life ratio = age of asset/useful life of asset
5 Includes sports & recreation facilities, student residences, etc.
6 Includes hospitals, nursing homes, schools, universities, security facilities, etc.

PRIVATE SECTOR ATTRACTIVENESS

Assumptions on % share of government asset for potential recycling by scenario

Scoring (existing infrastructure)	Low	Mid	High	Bold
5 = Stable revenue streams, proven PPP/private models (ex. utilities)	3	5	10	25
4 = Potential for returns, PPP potential demonstrated abroad (ex. transport)	2	4	8	15
3 = Possible interest but weaker revenue potential (ex. water, social)	0	2	4	10
2 = Low attractiveness (ex. schools, hospitals, recreation)	0	0	1	5
1 = Security considerations	0	0	0	0

ESTIMATES OF POTENTIAL BY SCENARIO, $ bns

Sector	Low	Base	High	Bold
Electric power infrastructure	5,410	9,016	18,033	45,082
Airports & passenger terminals	195	324	649	1,622
Seaports	120	200	400	1,001
Communications networks	39	65	129	323
Roads, highways, bridges & tunnels	4,193	8,386	16,772	31,447
Raillines	827	1,654	3,308	6,203
Oil & gas pipelines	477	953	1,906	3,574
Waterworks & sewage	-	2,186	4,372	10,930
Commercial buildings	-	620	1,239	3,098
Transit rolling stock	-	213	426	1,065
Institutional buildings	-	-	2,863	14,317
TOTAL:	**11,260**	**23,617**	**50,097**	**118,661**
Effective rate of recycling:	**1.2**	**2.6**	**5.5**	**13.1**

Sources: Scotiabank Economics, Statistics Canada.