ECONOMIC VIEWPOINT

Federal Infrastructure Spending

A New Tune or the Same Old Song?

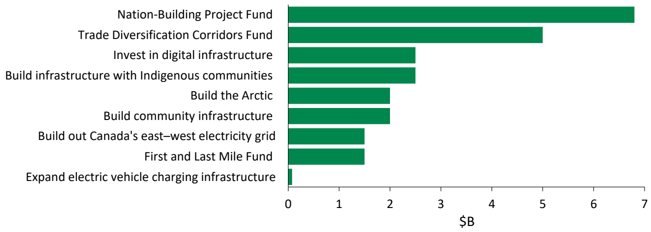
By Randall Bartlett, Deputy Chief Economist

HIGHLIGHTS

- In its 2025 election platform, the Liberal Party of Canada committed to investing nearly $25B over the next four years in non-defence, non-residential infrastructure related to transportation, energy, digital assets and other priorities. There was also a commitment to attract more private sector infrastructure investment in Canada.
- However, Canadians may be understandably skeptical of these ambitious plans. Following the 2015 election, nearly $188B in new and existing infrastructure spending was approved under the Investing in Canada Plan, but less than $110B ultimately made it out the door.
- The single most successful infrastructure investment by the Government of Canada in the last decade may instead have been the Trans Mountain Expansion Project (TMX). TMX demonstrated that the Government of Canada can improve the transparency, accountability and outcomes of federal infrastructure investment when it has a direct ownership stake. In contrast, transfers tend to miss the mark in achieving federal priorities.
- If the federal government delivers on its plan to invest almost $25B in infrastructure over the next four years, it could increase the level of real GDP by 0.6%. But regulatory, financial, labour and capital constraints could be significant headwinds.

A major focus of the newly elected Prime Minister's election platform and ministerial mandate letter is building infrastructure in Canada. The platform included billions of dollars for things like transportation, energy and digital infrastructure, with an emphasis on "dual-use infrastructure" to help meet the current 2% of GDP NATO defence spending target by 2030. Looking to non-defence, non-residential infrastructure specifically, the federal government has proposed a plan to invest nearly $25B more over the next four fiscal years (graph 1), while attracting additional private sector investment in infrastructure.

Graph 1
The Government of Canada Plans to Spend Nearly $25B More on Infrastructure
Newly planned non-defence, non-residential infrastructure investment over four years

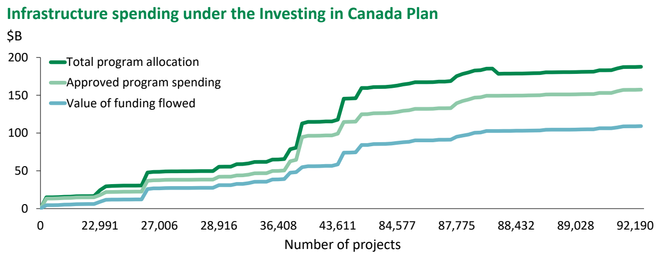


Liberal Party of Canada and Desjardins Economic Studies

Reasons for Skepticism

But Canadians may be skeptical of lofty promises of federal infrastructure investment. They heard a similar pledge a decade ago in the 2015 election campaign. From the 2015 election through to Budget 2017, the Liberal Party of Canada committed $188B in new and existing funding over 12 years to the Investing in Canada Plan (ICP), which includes the Canada Infrastructure Bank (CIB). However, less than $110B ultimately made it out the door to get shovels in the ground (graph 2 on page 2).

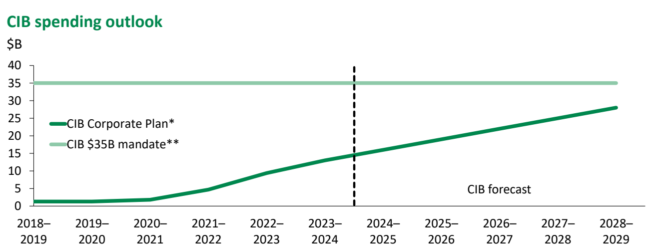
Graph 2
Federal Infrastructure Spending Has Fallen Short of Expectations



Housing, Infrastructure and Communities Canada and Desjardins Economic Studies

Looking specifically to the CIB, it was initially intended to catalyze a substantial increase in private infrastructure investment in Canada. However, it never meaningfully fulfilled this mandate. According to the CIB's latest corporate plan, capital deployment remains on track to be well short of the pace needed to meet its original 11-year mandate of $35B by 2026–2027 (graph 3). And while the share of private sector capital in CIB-participating investments isn't clear from reporting documents, the latest tally by the PBO put it at about 20%. A 2025 study by KPMG commissioned by the CIB put this share at more than 35%, although this reflected only a subset of 10 case studies as opposed to the entirety of the CIB's portfolio of investments.

Graph 3
The CIB Is Likely to Fall Short of Its $35B Target for Capital Deployment



* Excludes the CIB's "forecast of $10B of larger scale projects over five years but whose exact timing cannot be ascribed to a specific year," which would take the forecast for the cumulative capital deployed above $35B;
** The CIB's original 11-year mandate was to be achieved by the end of the 2026–2027 fiscal year.
Canada Infrastructure Bank (CIB) and Desjardins Economic Studies

Why Did the ICP Fall Short of Expectations?

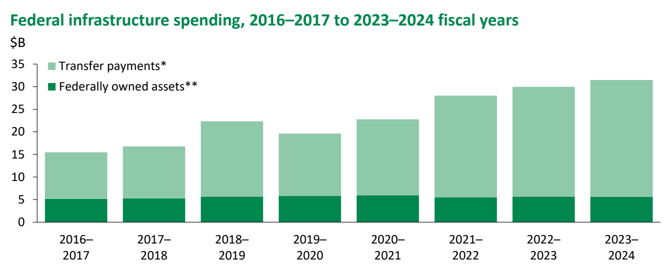
The ICP's underperformance seems to be in part because of misalignment between the priorities of the federal government and those of provincial, territorial and municipal governments as well as the private sector. Projects may also have been too small for the CIB and potential partners to participate in.

Worse still, analysis by the PBO found that there was no incremental increase in provincial infrastructure investment despite higher federal transfers from the ICP. In fact, it appears that additional federal money was largely offset by lower provincial infrastructure investment than would otherwise have been the case. On the bright side, the opposite is true for municipal infrastructure investment, which seems to have been boosted by the ICP. This could reflect the more fiscally constrained nature of municipal finances, which require budgets to be balanced and limit the ability to issue debt.

There were also issues of poor reporting and tracking of spent and unspent funds resulting from expenditure delays. According to the Auditor General, "Overall, Infrastructure Canada—as the lead department for the Investing in Canada Plan—was unable to provide meaningful public reporting on the plan's overall progress toward its expected results."

Instead of the federal government investing for the purpose of owning infrastructure assets, transfers to other levels of government have made up the bulk of actual and planned federal infrastructure spending under the ICP (graph 4). But once federal funds are transferred to other levels of government, the Government of Canada has less control over how those funds are used. This helps to explain the lack of federal accountability after funds are transferred and the poor tracking of how transferred funds are used.

Graph 4
Transfer Payments Dominate Federal Infrastructure Spending



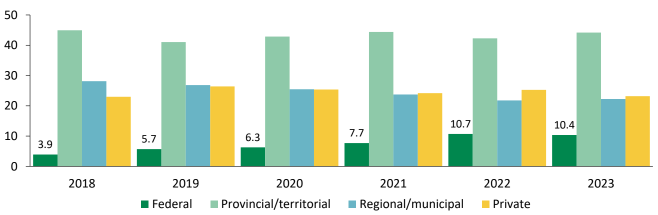
* Estimates (through the 2020–2021 fiscal year) and forecasts (after the 2020–2021 fiscal year) are from the PBO (2022); ** Figures represent the amortization of tangible capital assets from the Public Accounts of Canada.
Office of the Parliamentary Budget Officer (PBO), Government of Canada and Desjardins Economic Studies

Room for Cautious Optimism?

This said, there is a recent example of a moderately more successful federal infrastructure investment project: the Trans Mountain Expansion Project. While the project incurred substantial delays and cost overruns, independent analysis by the PBO and others determined that the value of the TMX is in the ballpark of its final $34B construction price tag. And that's before accounting for the economic benefits of higher, more diversified energy exports and a smaller difference between the prices of Canadian and US oil.

Now that the TMX is complete, the federal ownership share of infrastructure assets in Canada by value has gone from less than 4% in 2018 to more than 10% in 2022 and 2023 (graph 5). The Government of Canada's value share of transportation infrastructure assets specifically rose from about 6% to over 21% over the same period.

Graph 5
The Government of Canada Owns an Increasing but Still Small Share of Infrastructure
Canadian infrastructure assets by ownership



Statistics Canada and Desjardins Economic Studies

But overall, the federal government remains a small player in the ownership of infrastructure assets in Canada, overshadowed by provincial/territorial and municipal/regional governments as well as the private sector. And when it comes to the federal share of infrastructure investment, Canada is an outlier compared to other developed countries. Organisation for Economic Co-operation and Development (OECD) research suggests that public investment in infrastructure as a share of GDP tends to be higher in countries where the federal government plays a greater role.

How Can We Get Things Built in This Country?

What lessons can be learned from the past decade's seemingly well-intended but ultimately lacklustre performance in federal infrastructure investment in Canada?

Working with Other Levels of Government

Looking at examples like the ICP and TMX, it's clear that transfers to other levels of government may not always work to achieve federal infrastructure priorities. Instead, the Government of Canada should have skin in the game by taking a meaningful ownership share in infrastructure assets. That would mean approaching incremental new infrastructure investment with the intent of being a partner throughout the useful life of the asset. This would also allow the federal government to better track its success in achieving the intended goals of its infrastructure funding.

But the federal government can't go it alone. In her recent book "Health for All," former cabinet minister Dr. Jane Philpott lays out ten conditions for successfully developing any national program. These include:

1. Leaders understand and articulate a problem of national relevance.
2. Leaders understand and articulate a shared vision with a measurable end result.
3. Canadians demonstrate broad support for fixing the problem.
4. Leaders can point to how Canadians and others would benefit from fixing the problem.
5. The federal government has the authority to lead on solving the problem.
6. Provincial governments choose to collaborate with minimal squabbles about jurisdiction.
7. Regional and municipal leaders are engaged and prepared to help.
8. Canadians and communities are willing to pitch in with many types of support.
9. Government exhibits a willingness to realign bureaucratic policies and processes.
10. The federal government sets the goal, develops the overall plan and sees it through.

In light of the aggressive and antagonistic trade policies of the Trump administration toward Canada, many if not all of these conditions have been met. This wasn't the case in the context of the ICP following the 2015 election.

Selecting Projects to Invest In

In order for the federal government to set the goal, develop the overall plan and see it through, Dr. Philpott (based on the work of G.T. Doran) indicates that goals must be SMART: specific, measurable, achievable, relevant and time bound. Because the ICP lacked such goals, it predictably came up short. Indeed, one of the critiques of the "deliverology" approach pursued by the federal government after 2015 was that "When everything is a priority, nothing is a priority."

Part of the process of selecting infrastructure projects is identifying existing infrastructure gaps. An infrastructure gap is the difference between projected infrastructure need and planned infrastructure investment. In 2016, the federal government's Advisory Council on Economic Growth estimated that Canada had an infrastructure gap of between $150B and $1T. More recent estimates put Canada's infrastructure gap closer to between $110B and $270B. Meanwhile, McKinsey projected that if the ICP had delivered on its commitments, infrastructure spending would have met or even exceeded estimated infrastructure needs. Indeed, the most recent work available from the Global Infrastructure Hub indicates that Canada doesn't have an infrastructure gap at all. Of course, times have changed since then. But all of this suggests Canada doesn't yet know where the biggest infrastructure needs are that must be addressed and which needs are already being addressed by existing funding. That is a necessary starting condition for successfully investing in infrastructure.

To support the process of evidence-based project selection, prioritization and procurement, the OECD lays out principles for infrastructure governance. These are intended to not only promote value for money in public infrastructure investment, but also enhance transparency and public trust. Similarly, the World Bank outlines both social-environmental indicators, such as direct jobs created and environmental risks, and financial-economic indicators, like internal rate of return and multiplier effects, by which to evaluate and rank the costs and benefits of individual infrastructure projects. Indexes constructed from these indicators can help to prioritize infrastructure projects, provided there's room in the government's budget.

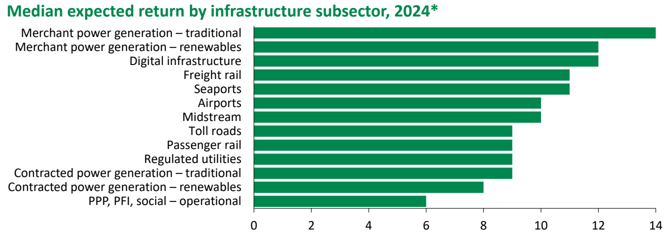
The newly elected Government of Canada would be wise to look to these principles and indicators to focus on those infrastructure projects that will help to best deliver on election promises while giving taxpayers the biggest bang for their buck. It would also help to increase the transparency of federal infrastructure investment, making it easier for private investors to assess the return potential of these projects.

Catalyzing Private Sector Investment

Infrastructure can be an extremely appealing asset class for investors (graph 6). To attract private sector funds, infrastructure assets must have a predictable revenue stream and be of sufficient size to attract long-term stable capital, such as that of Canadian pension funds. Ports, airports, railways and highways can all fall into this category, as can traditional and renewable energy generation and transportation projects.

Graph 6
Private Infrastructure Investment Is Known for Outstanding Returns

Median expected return by infrastructure subsector, 2024*



PPP: Public Private Partnership; PFI: Private Finance Initiative; * As of Q1 2024, reflecting an expected 1-year total shareholder return for operational assets.
JP Morgan Asset Management Infrastructure Research and Desjardins Economic Studies

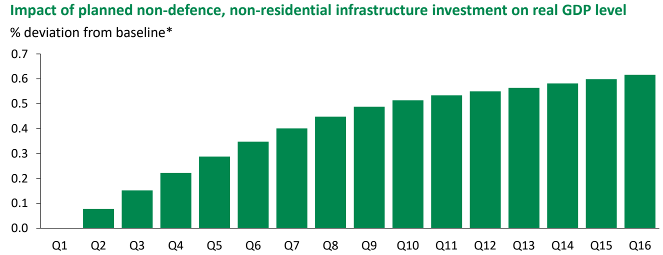
But barriers to institutional investment need to be reduced. The Fall Economic Statement 2024 initiated that process based on the recommendations of former Bank of Canada Governor Stephen Poloz. Early-stage capital may also be required from the federal government to get a project off the ground and attract private capital, as was the original intent of the CIB. Indeed, recent research by the C.D. Howe Institute makes a strong case for the role of infrastructure banks in catalyzing private sector investment globally. Again, much like the TMX, this speaks to the benefits of the federal government playing an active ownership role in public infrastructure investment in Canada.

What If the Federal Government's Plan Works?

If the federal government's infrastructure investment plan comes to pass, the PBO's fiscal multipliers could be used to get a sense of the potential real GDP impacts. As mentioned earlier, the Liberal Party of Canada's election platform included about $25B in planned new non-defence, non-residential infrastructure investment. If these investments are realized, the level of real GDP would be about 0.6% higher after four years (graph 7). Additional investment in defence- and residential-related infrastructure would boost real GDP even further.

Graph 7
Planned Infrastructure Investment Could Boost Real GDP

Impact of planned non-defence, non-residential infrastructure investment on real GDP level

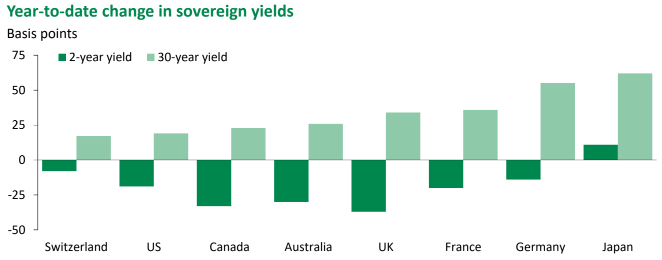


* Based on Desjardins Economic Studies May 2025 Economic and Financial Outlook.
Liberal Party of Canada and Desjardins Economic Studies

However, there are constraints on infrastructure investment that the federal government will need to overcome. For starters, much will depend on how long it takes to ramp up public infrastructure investment, which has taken a full fiscal year or more historically after funding has been committed. At a minimum, the approval process for private infrastructure projects could be streamlined to accelerate that investment while public sector funding gets approved. Recent analysis by the Public Policy Forum provides international examples and a template for what could be a "one-stop shop" for permitting projects. This would be in the spirit of what the Prime Minister has called "one project, one review."

Another consideration is the cost of raising capital at a time of large projected deficits, a rising debt-to-GDP ratio and increasing sovereign bond yields around the world. While demand for Canadian fixed income is currently high as investors look for opportunities outside of the United States, that could change if US economic and fiscal policy normalizes. Negative action taken by rating agencies due to a rapidly deteriorating fiscal position or diminished budget transparency could also reduce demand for Government of Canada bonds. (See [our analysis]() of this potential risk.) And while spreads to US government bond yields have remained stable, yields on Government of Canada bonds are elevated, recently reaching their highest level this year (graph 8). (See our [Investment Strategy and Interest Rate Analysis]() for more information.)

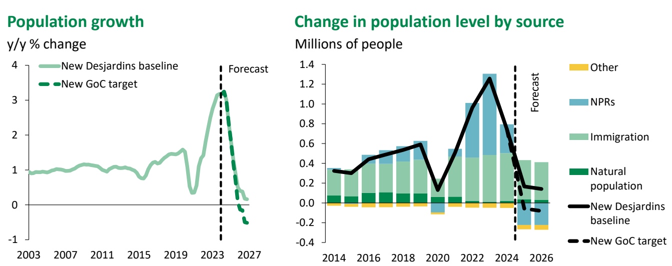
Graph 8
Longer-Term Government Borrowing Costs Are on the Rise



Bloomberg and Desjardins Economic Studies

Labour is also a binding constraint, as federal immigration targets could see Canada's population shrink over the next two years for the first time since World War II (graph 9). Housing investment will also be competing for skilled trades and unskilled labour with non-residential investment. The Liberal Party of Canada election platform committed to roughly doubling housing starts from their historic peak to around 500k annually. Given labour constraints and poor productivity in the construction sector, [our analysis]() has shown that the prior administration's even less ambitious targets were unrealistic.

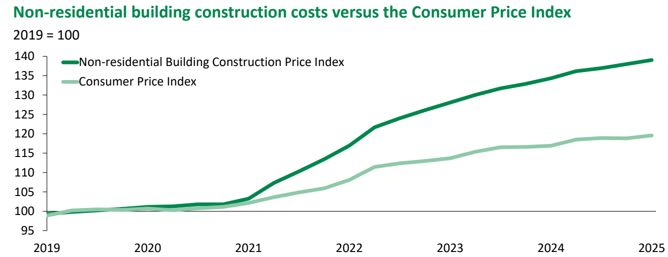
Graph 9
Slower Population Growth Means Fewer Workers Will Be Available



NPRs: Non-permanent residents; Note: Annual population is presented on a calendar-year basis.
Government of Canada (GoC), Statistics Canada, Bank of Canada and Desjardins Economic Studies

Finally, high materials costs are an issue for non-residential construction. Since COVID, they have risen at a significantly faster pace than consumer prices (graph 10), and will put further upward pressure on public infrastructure project costs and the federal deficits needed to finance them.

Graph 10
Non-Residential Building Construction Cost Are High



Statistics Canada and Desjardins Economic Studies

Conclusion

After a decade of falling short of its infrastructure investment plans, the Government of Canada has an opportunity to turn things around. To do so, it should consider taking a more direct ownership stake in infrastructure projects. But the federal government will still need to partner with all levels of government and the private sector to build infrastructure, and it will need to demonstrate leadership in working to align priorities across jurisdictions towards a common goal. Once the partners are at the table and the priorities agreed upon, a common set of indicators should be determined to select and prioritize projects. A transparent and evidence-based procurement process should also be employed. Otherwise the federal government risks doing more of the same as opposed to changing its tune on infrastructure investment.