

Financing the Fascist Wars: The Bank of Italy and the Consorzio per Sovvenzioni sui Valori Industriali, 1936–43

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1. Introduction

In periods of large-scale warfare, the relationship between fiscal and monetary authorities tends to change profoundly. Extraordinary military expenditures, limited access to foreign capital markets, and external constraints often require governments to rely more heavily on domestic financial institutions. In such contexts, central banks can assume a central role in sustaining public finances, not only through traditional lending functions but also by supporting specific institutional arrangements designed to facilitate State borrowing.

This paper examines the Italian case between 1936 and 1943, focusing on the transformation of the Bank of Italy (BoI) during the years of autarky and war. After the suspension of gold standard constraints in 1936, monetary policy became increasingly subordinated to the needs of the Treasury. We focus in particular on how the Italian institutional framework evolved in response to these pressures and on how the Bank of Italy contributed to the financing of rearmament and wartime expenditure.

The German experience of the 1930s — particularly the MEFO bills scheme and the role of the Reichsbank — have been widely studied (James 1999; Schacht 1955). By contrast, although important contributions have addressed Italian public finance, the “circuiti dei capitali,” and the broader political economy of Fascist autarky (Zamagni 1998; Della Torre 2001; Astore, Perugini, Torreggiani 2024), the interaction between the Bank of Italy, the Treasury, and the Consorzio per Sovvenzioni su Valori Industriali (CSVI) has not been fully reconstructed within a unified analytical framework. This paper seeks to fill that gap. We argue that, from 1936 onward, Italy developed a system of war finance based on two main pillars: direct advances from the Bank of Italy to the Treasury and the use of CSVI “special operations,” whose bills were rediscounted by the central bank. These operations allowed the regime to channel credit to firms engaged in State procurement while deferring part of the immediate visibility of monetary financing. Although this mechanism presents clear similarities with the German MEFO scheme, important differences must be stressed. Unlike Germany in 1933, Italy did not start from a position of widespread idle industrial capacity. The expansion of war production therefore required new fixed investment, with correspondingly stronger pressures on prices and monetary stability.

The paper contributes to three strands of literature. First, it offers a quantitative reconstruction of the growing exposure of the Bank of Italy to the Treasury, including the role of CSVI rediscounting. Second, it sheds light on the progressive erosion of central bank autonomy under conditions of fiscal dominance in an authoritarian regime. Third, it places the Italian case in comparative perspective, highlighting both institutional parallels and structural divergences with Germany.

The remainder of the paper is structured as follows. Section 2 outlines the transformation of the Italian economy under autarky and the progressive relaxation of monetary constraints after 1935. Section 3 analyzes the mechanisms of war finance, with particular attention to the role of the Bank of Italy and the CSVI. Section 4 concludes.

2. Italy and the autarkic economy

By the mid-1930s it was already evident that the fundamental structures of the world economy had undergone profound changes compared with the preceding decade.

Between 1931 and 1933, Britain and the United States had left the gold standard, increased tariffs, and initiated a series of competitive devaluations. As the stage was being set for the failure of the 1933 World Economic Conference in London, the groundwork began to be laid for the creation of regional economic blocs, as exemplified by the imperial tariff concessions within the Commonwealth area, decided at the Ottawa Conference in 1932. In these circumstances, the appreciation of other currencies relative to the Italian lira did not help Italy's economic situation. Despite an initial revision of customs duties, in the early months of 1934 Italy's trade balance, along with exports and the gold reserves of the Bank of Italy, showed clear signs of deterioration (Banca d'Italia 1935, Cotula and Spaventa 1993, Tattara 1993). The Minister of Finance, Guido Jung, decided to address the situation with a comprehensive maneuver aimed at reducing public spending, production costs, prices, and monetary circulation, and at instituting stricter exchange controls, and implementing clearing exchange deals with international partners, of which the most important was the one signed with Germany in September 1934. But these measures failed to yield the expected effects. The 1934 trade balance closed with a deficit more than one billion lire greater than in the immediately preceding years and the reserves of the Bank of Italy recorded continuous outflows totaling 619.7 million lire during the second half of that year (Guarneri 1953, 318-332).

Given the severe conditions mentioned above, the subsequent turning point took the form of a more aggressive foreign policy, in line with developments in Germany and after Italian diplomacy's substantial failure throughout the 1920s to gain recognition of Italy's hegemonic role

in the Mediterranean (Petri 2002, 115). In monetary and fiscal terms, signs of this change began to emerge in late 1934 and early 1935, as preparations got under way for the October 1935 invasion of Ethiopia. On December 8, 1934, the shift in Italian trade policy materialized with the reinstatement of the monopoly on foreign exchange operations under the National Institute for Foreign Exchange (Italian acronym: INCE; see Raitano 1995 and Astore 2014). The change of course of 1934 could not have been more radical: Italy's exchange controls became, after Germany's, the most comprehensive among those in any capitalist country, extending to all exchange transactions (whether commercial, financial, or tourist-related) and all means of payment.

On January 7, 1935, Paolo Thaon di Revel was appointed minister of finance. In February he imposed a regime of ministerial licensing for all imports. As in Germany, the public monopoly on foreign exchange was coupled with stringent controls on imports by means of a system of quotas and licenses. In February Italy abruptly abandoned its traditional allegiance to the policy of the most-favored-nation clause and multilateral trade, fully embracing the principle of balanced trade: after a "partial experiment" with applying this principle during 1934, and facing a dire situation, the Fascist government decided to make a new, larger-scale attempt, hoping that by elevating the principle of balanced trade to a system it would succeed in saving the lira (Guarneri 1953, 350-351). The problem of reorganizing all the services responsible for regulating imports, exports, and foreign means of payment under a single direction and unified command was solved in May 1935 with the creation of the Currency Exchange Supervision Office headed by Felice Guarneri, a representative of Confindustria (Zani 1988 and Gagliardi 2006). The imposition of an import control regime and the creation of a General Directorate for War Production were harbingers of the aggression against Ethiopia in October.

Following Italy's invasion of Ethiopia in 1935–36, the League of Nations imposed economic sanctions on Italy, triggering an intensified pursuit of national self-sufficiency known as autarky. The "autarkic plans" formulated in the spring of 1936 and autumn of 1937 set domestic production targets for essential raw materials and industrial products to be achieved by 1941 (or 1940 for certain agricultural goods). Concurrently, private corporations were incentivized with subsidies and other financial measures to increase their fixed capital investment. Autarky facilitated the reallocation of resources towards heavy industry and arms production. Light industry, including chemical and man-made fiber production, also received significant benefits from autarky (Bertilorenzi, Cerretano, and Perugini 2022).

Along with the financial commitments necessary for autarkic development plans, wartime expenditures rose steadily. Following the war in Ethiopia, Italy became embroiled in the Spanish Civil War (1936 to 1939), and in 1939 it invaded Albania before officially entering World War II

in June 1940. Throughout the period from 1935 to 1943, the finance minister, Thaon di Revel, identified escalating inflationary pressure stoked by public spending as a primary concern. To address the risk of runaway inflation, the regime implemented measures in two principal directions. Firstly, it tried to prevent the formation of excessive demand through wage and price controls. With Italy's entry into the Second World War in June 1940, this discipline became a general wage freeze. Secondly, the minister sought to contain price growth through rationing and other measures designed to curb private consumption and investment.

These two approaches were implemented with a series of fiscal measures put in place in the period stretching from 1935 through the war years. In 1935, a special tax of 10%, later raised to 20%, was imposed on income from bearer securities. In 1941, the tax was extended to newly introduced registered shares. The limit on distributed profits was set at 6% in 1935; after a few years of experimentation with a progressive tax on dividends, the limit was reinstated in 1940 and set at 7%. On that occasion, a tax was also introduced that effectively blocked transfers of reserves to share capital by subjecting them to a 100% tax rate. Starting in 1935, the formation of new companies and the issuance of shares and bonds required ministerial approval. In October 1936, the lira was pegged to the dollar through a devaluation of 41%. A forced loan was imposed on property owners, who were also subject to an extraordinary tax earmarked to service the loan. In February 1937, the conversion to capital and distribution of revaluation gains resulting from the lira alignment were also prohibited. Finally, war-related increased profits were subjected to a progressive tax in 1940, with rates ranging from 10% to 60%. The portion of increased profits not absorbed by the tax was earmarked in 1942 for investment in Treasury bonds bearing 3% interest. In conjunction with the devaluation of the lira, the government introduced an extraordinary tax of 10% on the capital of joint-stock companies. Capital gains arising from real estate transactions, compared with pre-war values, were taxed at a rate of 60% starting in 1940. In 1941, capital gains from stock transactions became subject to a progressive tax, which was soon changed to a flat rate of 20%. The securities trading tax underwent two increases in 1935 and then in 1940. The second increase was accompanied by a surcharge equal to 4% of the value of the securities traded. The surcharge was raised to 5% in 1942. From that year onward, companies were obligated to invest one-fifth of the capital raised through equity issues in Treasury bonds bearing 3%. Buyers of shares were compelled to invest in these bonds in an amount equivalent to their share purchases (Baffi 1965, 226-228).

While the large increase in public spending contributed to an upturn in Italian economic growth in the second half of the 1930s, the shift to an autarkic economy had a major impact on the relationship between the Bank of Italy and the Treasury, to the detriment of the former's

operational autonomy. From December 1935 onwards, the obligation for the Bank of Italy to hold gold or equivalent reserves equal to at least 40% of its sight liabilities was suspended. For the first time in the Bank's history, there was no formal limit on the increase in circulation. Furthermore, the government gained unrestricted access to central bank credit. In December 1936, two months after the devaluation of the lira, extraordinary advances to the Treasury were reintroduced without any cap on their amount. With this step, the Fascist government essentially asserted its right to resort to the monetary instrument to cover its financial needs whenever and to whatever extent it deemed appropriate. Overall, the severing of the link with gold was associated with the creation of an institutional framework that subordinated monetary policy to the needs of the Treasury (Gelsomino 1992, 105).

The Bank of Italy provided a similar interpretation of the situation: "The currency, partially freed from the traditional rules of the gold reserve game, is now entrusted not to automatic control but to the wise management of monetary and financial policies" (Banca d'Italia 1937, p. 61). The primary mandate of the Bank of Italy was no longer to maintain the fixed exchange rate under the gold standard, but to ensure the full development of autarkic policies while limiting their inflationary effects. The chief outcome was the creation of a direct link between money creation and industrial capital accumulation, the former being responsible for actively promoting the latter, in accordance with the production priorities established by the Fascist regime through the autarkic plans.¹

As Bank of Italy Governor Vincenzo Azzolini argued in a speech delivered in September 1938:

[T]he implementation of the autarkic plans will subject our production apparatus to a complete overhaul. Problems will arise with the expansion of production and often also with the transformation of existing technical processes. The need to provide the national territory with the raw materials needed in some sectors of the economy, the employment of new labour forces and the technical overhaul of production facilities require that an additional mass of capital flow into production. It is up to the financing institutions to solve the problem of the most suitable technical instruments to facilitate the formation of savings and to direct the flow of savings towards autarkic initiatives.²

In the same speech, Azzolini emphasized the importance of preserving a clear distinction between bank credit for day-to-day business operations and medium-to long-term credit for

¹ On autarkic plans, see Bertilorenzi, Cerretano, and Perugini 2022.

² Azzolini's report to the Welfare and Credit Corporation, 20 September 1938, in ASBI (Archivio Storico della Banca d'Italia), Banca d'Italia, Direttorio Azzolini, folder 90, file 11, document no. 2.

enduring investments, and stated that only in private savings could there be a “secure source of financing for new initiatives.” As we show in the next section, this aspiration was destined to go largely unfulfilled.

3. The Bank of Italy and the monetary financing of war

Starting in autumn of 1937, the Bank's leaders began to focus more closely on the new institutional mandate, paying special attention to the German example. Governor Azzolini received insights into the "principles of doctrine and practice guiding the autarkic policy of the National Socialist regime,"³ most notably from Antonino Cimino, the Bank's delegate in Berlin, and Giuseppe Di Nardi, a young economist in its Research Department. The similarities with the German experience were striking. On the one hand, there were the government's pursuit of economic self-sufficiency, the necessity to step up production for domestic needs, difficulties in accessing international credit, and scarcity of gold reserves. On the other hand, the country was run by a highly centralized economic organization, with a banking system operating under direct public control.

The increase in public spending on public works and rearmament in Germany after 1933 had been financed through the discounting of special bills presented to banks by public-works contractors and producers of war matériel. This short-term bank credit was later consolidated into long-term loans funded by private savings. The key elements characterizing Germany's success in the years 1933-1936 were, in summary, price and production controls, the halt of private loan issues in favor of State-contracted loans and rationing of credit and raw materials. According to Cimino's detailed communication to Governor Azzolini, the pivotal role played by the German central bank in funding the autarkic plan through the discounting of bills from the Metallurgischen Forschungsgesellschaft (MEFO: Metallurgical Research Company) was crucial. Conceived by the president of the Reichsbank, Hjalmar Schacht, the MEFO was a financial vehicle wholly owned by the central bank and responsible for financing military provisioning of different types:

The operation of this institution concerning the creation of securities would roughly unfold as follows. The supplier would issue the draft, also affixing its signature. Subsequently, a signature would be provided by a specific entity closely associated with the Reich, established in the form of a limited liability company [...], essentially serving no other purpose than to provide the guarantee

³ Finanziamento di piani autarchici in Germania, anonymous note, undated, in ASBI, Banca d'Italia, Direttorio Azzolini, folder 90, file 6.

of the Reich. Packaged in this way, the commercial drafts would be accepted by the banks, which, when necessary, could discount them at the Reichsbank.⁴

The MEFO bills yielded 4% annual interest and had short (three- or four-month) maturities. However, they could be renewed for up to five years. Industrial firms accepting MEFO bills in payment could choose either not to renew them or to discount them with the Reichsbank, receiving German marks. About half of the MEFO bills were not discounted and remained in the hands of the private sector. This was attributed to their ready discountability and the 4% interest rate they guaranteed. By means of this mechanism, the MEFO – indirectly representing the Reichsbank and, essentially, the State – could not only collect funds but also defer payments for industrial orders. In other words, it could support public spending, finance production, and stimulate demand. Its operations were kept confidential in order to conceal German rearmament efforts (Schacht 1955, 317-318; James 1999, 34).

The difference between the German and the Italian cases lay in the economic context in which the autarkic experiment unfolded. At the advent of Nazism in 1933, Germany's primary economic challenge was pronounced underutilization of existing industrial capacity, which had been renewed and expanded in the second half of the 1920s thanks to foreign loans. The solution achieved through the MEFO bills scheme generated the financial liquidity necessary to restart the production cycle using the factories available, thereby stimulating economic activity. With the economic recovery, GDP and savings started to rise again. Savings, in particular, “through the subscription of treasury bonds, funded the State spending [...] for its ambitious programs of public works and armaments” (Di Nardi 1938)⁵.

In Italy, the starting point for implementing autarky was different and, accordingly, the intervention of the central bank had to be managed with greater caution. The economy was already expanding and there was no significant margin of spare capacity; the challenge, rather, was to create new plant capacity. As early as the summer of 1938, the debate within the Bank of Italy acknowledged that it was substantially impossible for the credit system to absorb the increased demand for financial capital without affecting the money stock. In the comments on a document prepared by Di Nardi (Di Nardi 1938) on the financing of autarkic plans, the following observation was made:

⁴ Letter from A. Cimino to V. Azzolini, October 11, 1937, in ASBI, Banca d'Italia, Direttorio-Azzolini, folder 90.

⁵ G. Di Nardi, *Il finanziamento dei piani autarchici*, in ASBI, Banca d'Italia, Direttorio-Azzolini, cart. 90, fasc. 6, 1938.

Everything suggests that the financing of autarkic plans may have to rely partly on inflation. In other words, the funding will require the utilization of future savings, which the issuing institution will be called upon to advance. The risks of the operation could be mitigated if the State, minimizing expenses and avoiding future direct appeals to the market for purposes other than autarkic ones, allows future savings to be directed towards autarkic enterprises. This would enable these enterprises to repay the advances received.

However, the country's wartime needs were pressing, as was the push to finance them through money creation: Italy's experience of financing autarky and above all the war ended up resembling Germany's. As in the German case, the State's war contracts were financed through the direct creation of new currency by the central bank ("extraordinary advances" to the Treasury) and, partially, through "special operations" of the Consorzio Sovvezioni per Valori Industriali (CSVI), whose bills, which were supposed to finance private business, were rediscounted by the central bank itself.

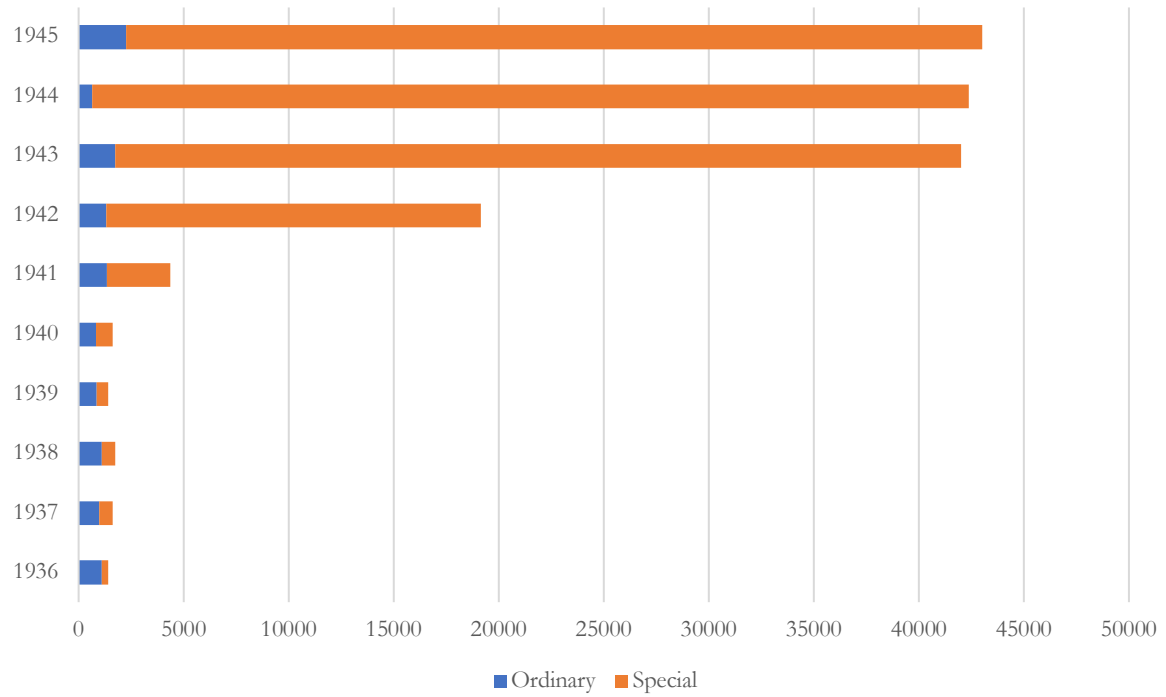
The CSVI was a financial vehicle created by the Italian government in 1914 as an exceptional and temporary entity in view of Italy's probable involvement in the First World War. It was later used by the Bank of Italy to carry out bank rescues during the banking crisis of 1921-1922 (Gigliobianco 1993), and it continued to operate under successive legislative extensions in the following years. Authorized by law to provide low-cost, medium-term loans to industrial firms against promissory notes secured by firms' stocks or bonds, and to rediscount its portfolio with the issue banks at 1.5 percent below the official discount rate, the CSVI consolidated its role as an industrial credit institution during the 1920s, emerging as a model for financing infrastructure and large industrial enterprises. This model would be firmly established in Italy during the 1930s and was based on a quasi-public bond circuit linking savings with fixed capital investment under the protection of a State guarantee. In 1924, the CSVI obtained the right to rediscount its portfolio of credits not only with issuing banks but also with other banking institutions (Astore and Perugini 2024). In addition, it was empowered to issue interest-bearing certificates. As the Italian banking system underwent restructuring in the early 1930s, with banks focusing on short-term ordinary credit after the banking reform of 1936, the CSVI's role evolved to complement Istituto Mobiliare Italiano (IMI), the new specialized institution for long-term financing of businesses. This restructuring was formalized with the banking reform, which made the CSVI an autonomous section of the IMI, while the presidency of both entities continued to be entrusted by law to the governor of the Bank of Italy.

As Governor Azzolini explained, IMI, established because of the bank rescues in the early 1930s, operated by "granting financial assistance to industrial business, mainly for the

reorganization and expansion of plants," while the CSVI facilitated "with its special operations, the execution of the most important State orders," including military ones (Banca d'Italia 1942, p. 86). The use of the CSVI seemed naturally to fit its characteristics and its special connection with the bank of issue: it was indeed "[well-suited] for agile emergency public spending [...] to support the most dynamic industrial sectors, and familiar with resolving business financial matters with State assistance" (Caracciolo 1992, 68-69). Another purpose of the "special operations" of the CSVI was to "hide" from the public a substantial share of the advances granted by the Bank of Italy to the Treasury. The CSVI's financings were indeed guaranteed by the State, and the Bank could discount CSVI bills beyond the discount limits fixed by the standard regulation. In this way, the CSVI effectively established a "deferred" creditor position vis-à-vis the Treasury, with a potentially unlimited time horizon. The mechanism of "special operations," very similar to that of the MEFO bills, allowed the Bank of Italy to finance military procurement from the end of 1935 onward and was also increasingly used to finance a variety of public expenditures (Caracciolo 1992, 70-71).

As shown in Figure 1, "special operations" significantly surpassed the CSVI's regular activities from 1939 on, constituting nearly the entirety of CSVI's operations during the Second World War. Their scope and objectives were diverse (Table 1), ranging from land reclamation initiatives to the financing of military expenditure, amongst a range of other strategic interventions. Between 1945 and 1937 (RDLs A, B, D), these operations were directed primarily toward war production supplies, the development of public works in East African, and land reclamation programs. By 1938 (RDLs E, F, G), the focus of financial allocations had shifted toward the naval industry due to the Royal Navy rearmament, the provision of industrial tax credits, and land improvements for combatants in Puglia and Volturno areas, in Southern Italy. During the years 1939–1941, the scope of intervention expanded further to include the requisition of assets from German minorities in Alto Adige (H) and Ljubljana (R), as well as continued support for war expenditures (L), public works projects (M), and credit for the cinematographic sector (N). The peak of these measures occurred wartime period of 1941–1943 (P, Q, S), when funding interested also the Ministry of Interior expenditures and war material supplies to Germany and Romania.

Figure 1: CSVI ordinary and special operations, 1936-1945 (millions lire)



Source: our elaboration from ASBI

Table 1: List of Laws and Ministerial Regulations Governing CSVI Operations in the State's Interest or under State Guarantee, 1935–1943

Law and Code	Object
RDL 14.11.1935 n. 1934 – A	Supplies for war production, land reclamation, etc.
RDL 10.02.1937 n. 210 – B	War supplies and public works in East Africa
RDL 15.11. 1938 n. 1873 – E	Industrial Financing for the Royal Navy
RDL 19.12.1936 n. 2370 – D	Land reclamation projects
RDL 17.11.1938 n. 1847 – G	Financing of land improvement works carried out by the National Organization for Combatants in the Tavoliere delle Puglie and the Volturno areas
RDL 19.11.1938 n. 1720 – F	Credits related to the extraordinary capital tax on industrial and commercial businesses
RDL 27.11.1939 n. 1780 – H	Requisition of assets belonging to foreign residents of Alto Adige repatriated to Germany
RDL 13.1.1941 n. 27 – L	Extraordinary expenditures for war needs
Legge 11.7.1941 n. 809 – M	Extraordinary public works
RDL 19.07.1941 n. 865 – N	Increase of the endowment fund of the Autonomous Section for Cinematographic Credit at the Banca Nazionale del Lavoro
RDL 21.5.1942 n. 521 – P	Extraordinary expenditures of the Ministry of the Interior
Convenzione 9.7.42 KGK – Q	Supply of war material to Germany
Convenzione 11.10.1943 – EMONA – R	Requisition of assets of German foreign resident in the province of Ljubljana repatriated to Germany
Convenzione 18.01.1943 – AIR – S	Supply of war material to Romania

(a) RDL – Regio Decreto-Legge – Royal Decree

(b) Convenzione – Law

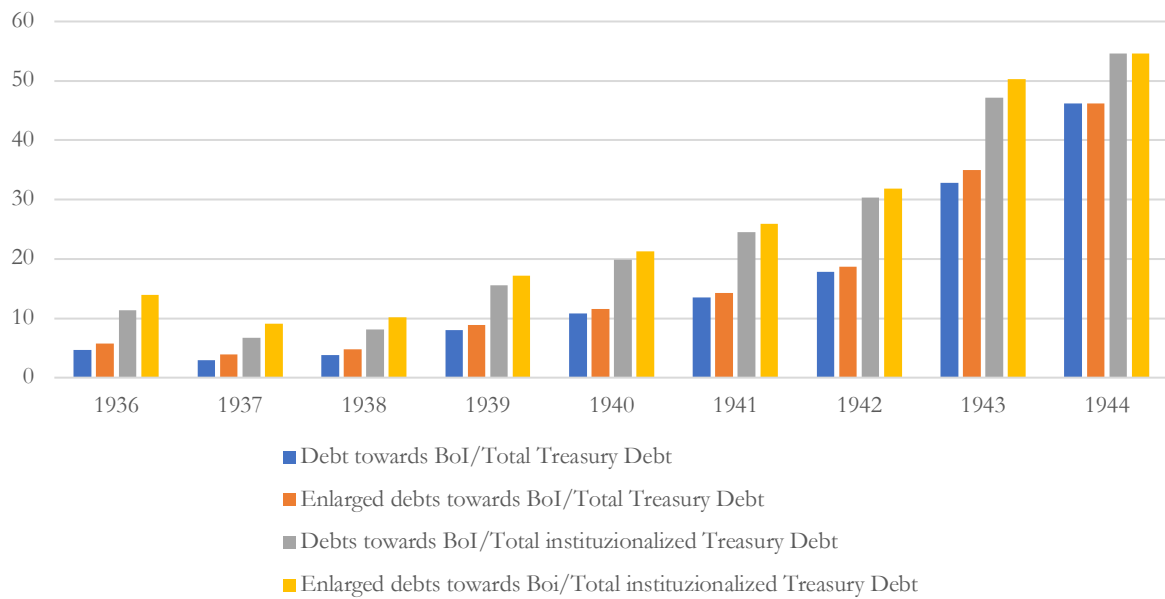
The bulk of the overall funding for the CSVI's special operations came from monetary circulation, i.e. from the Bank of Italy. The share of total Treasury debt consisting of debt towards the Bank of Italy — including the CSVI's special operations — trended considerably upward between 1936 and 1945 (Figure 2). This trend grew more pronounced starting in 1939, with the share increasing from 7.97% to reach 46.10% in 1944. The numbers are even higher when we look at the ratio between the debt towards the Bank of Italy and the institutionalized debt of the Treasury. The latter refers to the portion of debt held by public institutions or institutions influenced by economic policy authorities.⁶ In this case, the percentage of the debt towards the Bank of Italy reached a peak of 54.58 % in 1944. We can observe similar trends, although with a slightly upward shift, if we include in the debt towards the Bank of Italy medium and long-term government bonds held by the Bank of Italy (“enlarged debt towards the Bank of Italy” in Figure 2).

More generally, the importance of public-monetary institutions grew from the mid-1930s until the armistice. As a result, the portion of debt held by the private sector fell drastically, while the expansion of "institutionalized" debt demonstrates the hegemonic role played by public institutions in financing the Treasury during the war (Della Torre 2001, 186)⁷.

⁶ Following Della Torre's reconstruction, these include Cassa Depositi e Prestiti and the institutes it administered, the major public banks, the National Social Security Institute (INPS), the National Workplace Accident Insurance Institute (INAIL), the National Insurance Institute (INA), the Bank of Italy, and the banking system (Della Torre 2001, 183).

⁷ Institutionalized public debt refers to the debt held by the public sector and the Central Bank. Confalonieri (Confalonieri, 1952, 276) estimates that at the end of 1939 in Italy, the total public debt was distributed as follows: 12.1% held by credit institutions, 20.3% by the Cassa Depositi e Prestiti, and 6.4% by the Bank of Italy.

Figure 2: Debt towards the Bank of Italy (with or without bonds) as a percentage of Treasury debt and “institutionalized” Treasury debt.

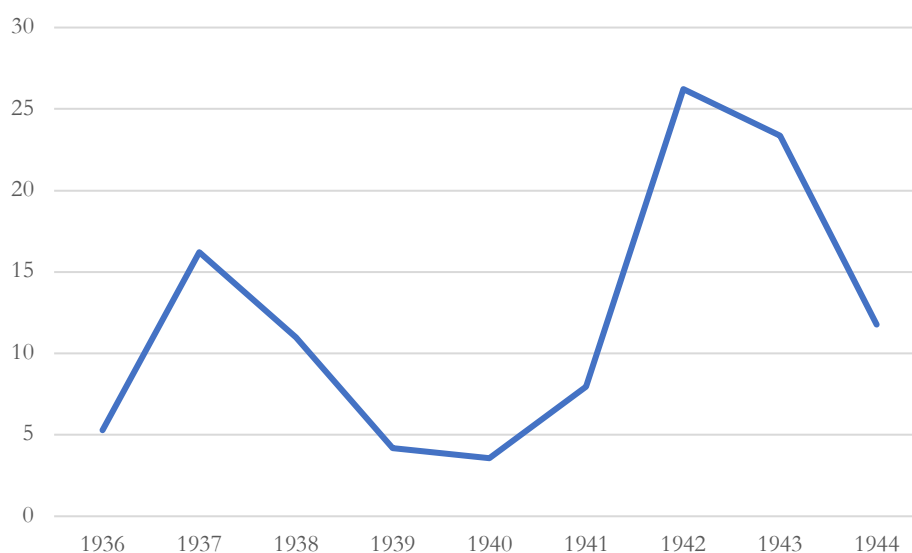


Source: Astore, Perugini, Torreggiani (2024, 95)

Note: In this chart we do not consider banknotes and coins, but the “State circulation” was a not insignificant form of Treasury financing in a still relatively underdeveloped financial system like that of Italy during the interwar period (Salvemini and Zamagni, 1998, 159).

If, on the other hand, we consider the trend of special operations in relation to the debt towards the Bank of Italy alone, the series exhibits greater variability (Figure 3).

Figure 3: CSVI special operations as percentage of the debt towards the Bank of Italy



Source: Astore, Perugini, Torreggiani (2024, 96)

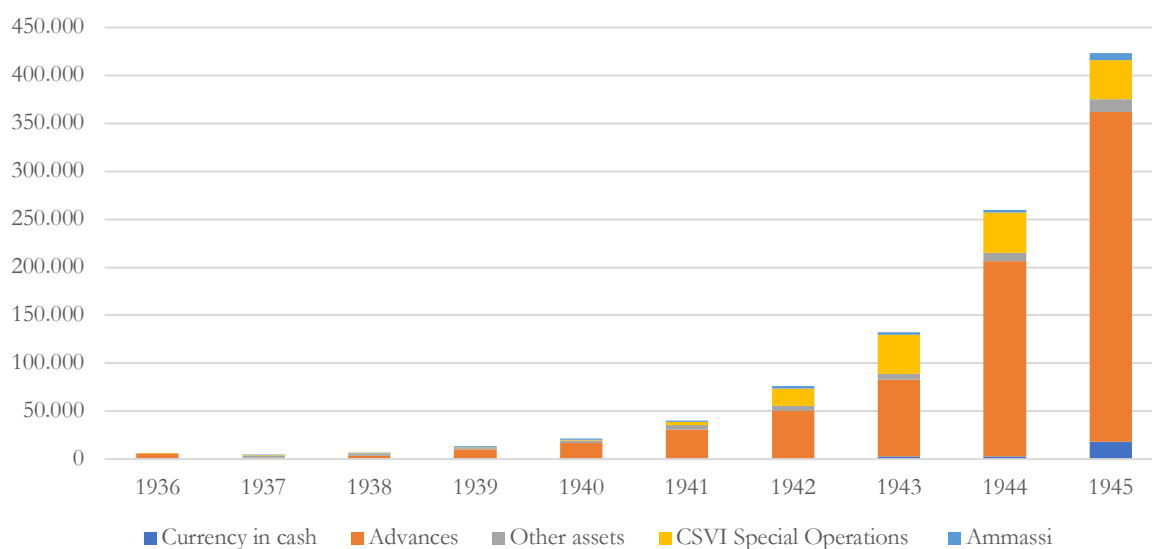
The debt towards the Bank of Italy comprised various components besides government securities. In addition to the special operations with the CSVI, it also included: State banknotes and coins in the Bank of Italy's vaults, advances to the Treasury, other assets related to the Treasury, and, starting from 1937, the rediscount of stockpiling bills.⁸

As can be seen from Figure 4, advances to the Treasury were the principal component of the debt to the central bank. After the restoration of the convertibility of the lira with *Quota Novanta*, the possibility for the Treasury to request extraordinary advances was abolished, and temporary advances, up to an amount of 450 million lire, were instituted. In 1936, the constraints on Treasury financing were essentially dismantled: not only was the ceiling on temporary advances

⁸ With the enactment of Royal Decree-Law No. 273 on June 15, 1936, free trade in wheat was terminated. The introduction of obligatory stockpiles for agricultural products (wheat initially, other agricultural products starting in 1939) aimed at keeping prices low for these commodities, particularly bread. Farmers had to store their harvests in designated warehouses, receiving monetary compensation in return. Storage entities sought financing from the banking system, which provided credit through commercial bills backed by real collateral – namely, the agricultural products stockpiled in the warehouses. Owing to the distinctive nature of the collateral, these bills became known as “Carta ammassi” (Stockpile Paper). Subsequently, banks could present them for discounting at the Bank of Italy (Strangio 2012).

increased to one billion lire, but it was also stipulated that for extraordinary needs the Bank would make additional funds available based on a simple agreement between the Ministry of Finance and the governor, against the issuance of special Treasury bonds as collateral (Salvemini and Zamagni 1998, 161-162). This option was utilized from 1936 on throughout the wartime period.

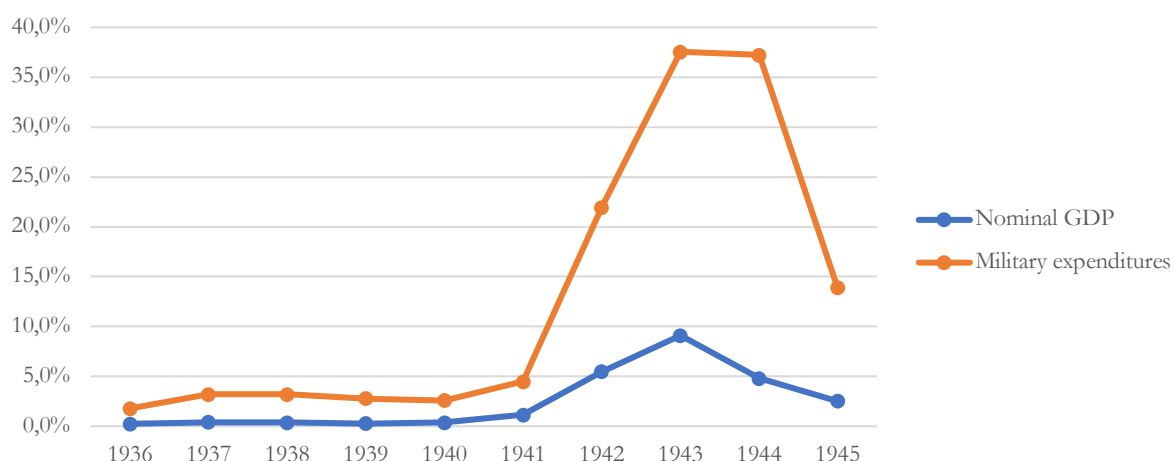
Figure 4: Components of the debt towards the Bank of Italy (millions of lire)



Source: Zamagni (1998, 227)

Figure 5 reports the evolution of CSVI special operations (gross issuance) as a percentage of Italy's nominal GDP and CSVI debt as a percentage of military expenditure over the period 1936–1945. Since the two series are expressed relative to different aggregates, the comparison should be interpreted in dynamic rather than absolute terms. A broadly similar timing can nonetheless be observed, particularly from 1941 onward, when both ratios increase markedly in conjunction with the intensification of the war effort. While the rise in special operations reflects their growing macroeconomic weight relative to overall output, the increase in CSVI debt relative to military expenditure suggests a closer financial linkage between special credit mechanisms and wartime spending.

Figure 5: CSVI Special Operations (% of GDP) and CSVI Debt (% of Military Expenditure), 1936–1945



Source: our elaborations from Baffigi 2015 and Minniti 1978

The first five firms or institutions by total amount receiving special operations between 1938 and 1938 were overwhelmingly concentrated in large-scale heavy industry (Table 2). The vast majority of the businesses involved – Ansaldo, Cantieri Riuniti dell’Adriatico, Odero Terni Orlando, FIAT, Ilva, SIAC, SNIA, NAFTA, and AGIP – belonged to key sectors such as mechanics, steelmaking, chemicals, and energy. These firms were strategically essential for armaments and naval production (Ansaldo, Cantieri Riuniti, Odero Terni Orlando), steel and special alloys (Ilva, SIAC), fuel supply (AGIP, NAFTA), and mechanical and automotive manufacturing (FIAT). The only relative exception is Società Anonima Nazionale Cogne, a mining company that was nonetheless crucial for the provision of strategic raw materials.

If operations prior to 1938 (not reported in the table) are also taken into account, funding amounts appear more limited, and financial or quasi-public institutions feature alongside individual industrial firms such as Isotta Fraschini, Alfa Romeo, and Pignone. This suggests that, in the second half of the 1930s, special operations functioned as a flexible instrument, partly oriented toward financial stabilization and partly toward the targeted support of specific productive sectors, prior to their full militarization. When the analysis is extended to the period 1939–1943, financial volumes increase by an order of magnitude, marking a clear quantitative break as well as a shift in the actors involved. Alongside industrial firms, operations explicitly directed toward the Ministry of Finance also emerge, reinforcing the interpretation of the CSVI as having effectively become a channel for indirect Treasury financing, formally framed as industrial credit. The resulting pattern highlights a marked concentration of resources in large corporate groups that constituted the core pillars of the wartime economy.

Table 2: Special Operations – Total Amount Granted to the Five Largest Recipients per Year, 1938–1943 (Lire)

	1938	1939	1940	1941	1942	1943
Concessionari Bonifiche (Annualità)	300.000.000					
Cantieri Riuniti dell'Adriatico	38.519.000					
Saverio Parisi	4.524.250					
Impresa Astaldi Costruzioni e Lavori Pubblici	4.100.000					
Impresa Ceratto Martino	3.049.500					
Ansaldo		241.699.818,30	220.511.965	3.098.890.728,37	1.704.542.280,37	2.780.663.347,86
Ministero delle Finanze		230.000.000				
Cantieri Riuniti dell'Adriatico		194.583.100	196.263.316	484.205.631,45	1.388.719.226,80	1.873.721.989,64
Odero Terni Orlando		157.282.243			1.738.142.542,27	
Terni Società per l'Industria e l'Elettricità		97.500.000	159.637.779			
Società Italiana Acciaierie Cornigliano SIAC			181.750.538			
Ministero delle Finanze			150.000.000			
Bombrini Parodi Delfino				607.163.948,88	1.602.118.743	
Metallurgica Italiana				568.343.792		
FIAT				378.923.968,67	1.586.106.392	2.595.321.864,20
Italiana Ernesto Breda per Costruzioni Meccaniche						1.297.910.099,57
Innocenti						1.289.922.729,27

Source: our elaborations from Archivio Storico della Banca d'Italia (ASBI)

In 1940, Ezio Vanoni, an economist collaborating with the Bank of Italy, argued that in order to contain inflation this increase in monetary financing needed to be accompanied by administrative measures (e.g., price and wage controls, rationing), along with the channeling of savings towards public securities (and a crackdown on speculation), at the expense of peacetime investments (Vanoni 1940, 103-104).⁹ In accordance with this scheme, which began to be referred to in the regime's documents as the “circuit of capital” (Astore, Perugini, Torregiani 2024), the excess

⁹ On Vanoni's contribution to the design of the circuit of capital, see Della Torre 2008.

monetary savings resulting from the restraint on private consumption imposed by rationing and price increases were supposed to be invested in public debt securities. In other words, the excess monetary savings were supposed to flow into the banking system in the form of deposits. The public debt securities were to be subscribed by institutional investors controlled by the State: publicly controlled banks, Cassa Depositi e Prestiti, and pension and insurance institutions. As for the business sector, the redirection of investment toward military purposes and the reduction of private investment in peacetime goods were to be achieved through a series of tax measures and anti-inflation policies which, as we have seen in the previous section, had already been implemented starting in 1935 by Finance Minister Thaon di Revel.

Bank deposits expanded in the early years of the war, thanks to the forced compression of consumption and reduced investment opportunities, but this increase was hardly sufficient: "[T]he overall trend was upward for both banknotes and deposits, but in moments of crisis, there were sudden conversions from deposits to banknotes. The rate of expansion was in the long run higher for banknotes than for deposits" (Baffi 1965, 229). The public, in fact, shifted from deposits to cash: for precautionary reasons, the public tended to accumulate reserves of banknotes, which, in the case of enterprises, were also hoarded to hide illegal profits. The flight from bank deposits was particularly significant in the autumn-winter of 1942-1943. According to Azzolini, this was partly due to the evacuations of cities, which made it advisable for individuals to leave with ample cash reserves, and to fear of restrictive measures, but mainly depended on the lack of reinvestment by enterprises. The Bank of Italy was also convinced that one of the main causes was a shortage of bank lending, which was blocking the recirculation of liquidity. This created tensions and misunderstandings between the central bank and the major banks (Toniolo 2022, pp. 701-702). Whatever the cause may have been, the shift from deposits to cash constituted the weak link in the circuit and hindered bank lending (Roselli 2017, 149). Purchases of government securities by institutional investors began to contract already in 1940 and their place was taken by monetary financing by the Bank of Italy. Between 1940 and 1942, the latter increased from 11% to 20% of the total Treasury debt and then surged in the following two years, reaching 60% in 1944. Over the period 1938-1945, the balance sheet of the central bank ballooned from 26.1 billion lire in 1938 to 504.7 billion in 1945, an increase of over 19 times (Della Torre 2001, 185). The most dynamic asset items were advances to the Treasury (growing 38 times), CSVI rediscounting, through which war contracts were financed (76 times), and the portfolio of government securities (53 times). At the end of the war, the Bank of Italy's exposure to the Treasury was equal to more than 95% of its balance sheet (Roselli 2017, 142).

The "circuit of capital" demonstrated its wartime resilience almost until the end of 1942, when the increasing expansion in public spending, widening the gap between expenditure and the fiscal reabsorption of purchasing power, accentuated the State's recourse to the central bank (Mancini 1948). Between 1942 and 1943, military defeats in North Africa and Russia, the fall of Fascism, and the political fragmentation of Italy's territory, led to a collapse of the monetary situation. The crisis of the circuit of capital erupted in 1943, with a 138% increase in circulation and a 50% rise in prices. Following the circuit's final breakdown, a purely inflationary approach to war finance was adopted, as evidenced by the circulation/bank deposits ratio, which was 37% in 1939 and exceeded 108% by the end of 1944 (Roselli 2017, 149-150).

4. Conclusion

The examination of wartime financing in Fascist Italy from 1935 to 1943 exemplifies the complex interplay between economic policy, military exigencies, and political instability, shedding light on the management of the economy during wartime – a topic that, unfortunately, is still relevant today. From 1936 onward, the progressive removal of statutory limits on advances to the Treasury and the extensive rediscounting of CSVI bills enabled a sustained expansion of monetary financing. While this system was initially embedded in a broader strategy aimed at containing inflation—through administrative controls, forced savings, and the channeling of deposits into public securities—the quantitative evidence indicates a steady increase in the exposure of the Bank of Italy to the Treasury. By the final phase of the war, central bank credit had become the dominant source of public financing.

The comparison with the German case highlights both similarities and differences. As in Germany, monetary instruments were used to sustain rearmament while attempting to limit the immediate inflationary consequences. However, the Italian economy entered the autarkic phase under different structural conditions, with limited spare capacity and weaker growth of private savings. As a result, the scope for financing war expenditure without sustained monetary expansion was more restricted. The "special operations" of the CSVI functioned as a mechanism to intermediate between State demand and industrial supply, but they ultimately relied on central bank liquidity to an increasing extent.

The attempt to stabilize the system through the "circuit of capital" proved only partially effective. As long as consumption was compressed and deposits continued to grow, monetary expansion could be partly reabsorbed. Once this mechanism weakened—particularly from 1942 onward—the reliance on direct central bank financing intensified, and inflation accelerated. The breakdown

of the circuit marked the transition from a managed form of monetary expansion to a predominantly inflationary mode of war finance.

More broadly, the Italian experience illustrates how institutional arrangements can temporarily mediate the tensions between fiscal needs and monetary stability, but cannot eliminate them when military expenditure expands beyond the capacity of domestic savings. It also shows how central bank autonomy can be progressively eroded not through a single formal rupture, but through incremental changes in legal provisions and operational practices that cumulatively subordinate monetary policy to fiscal priorities. Ultimately, the Italian case suggests that, even in highly controlled economic systems, the sustainability of war finance ultimately depends on the balance between monetary creation, the capacity of financial institutions to channel private savings into public debt, and real resource constraints.

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