Hungary

Orbán turns to China to boost recession-hit economy

Hungary has captured more than a quarter of Chinese capital flowing into Europe since 2022

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Marton Dunai in Budapest, **Edward White** in Shanghai and **Alex Irwin-Hunt** in London
6 HOURS AGO

Viktor Orbán has turned Hungary into the main home for Chinese capital in Europe, capturing more than a quarter of all Chinese investment coming into the continent over the past two years.

The outsized share, including a wave of investment into EV factories, has been a fillip to an otherwise struggling Hungarian economy hit by the EU withholding about €20bn of funding over rule of law concerns.

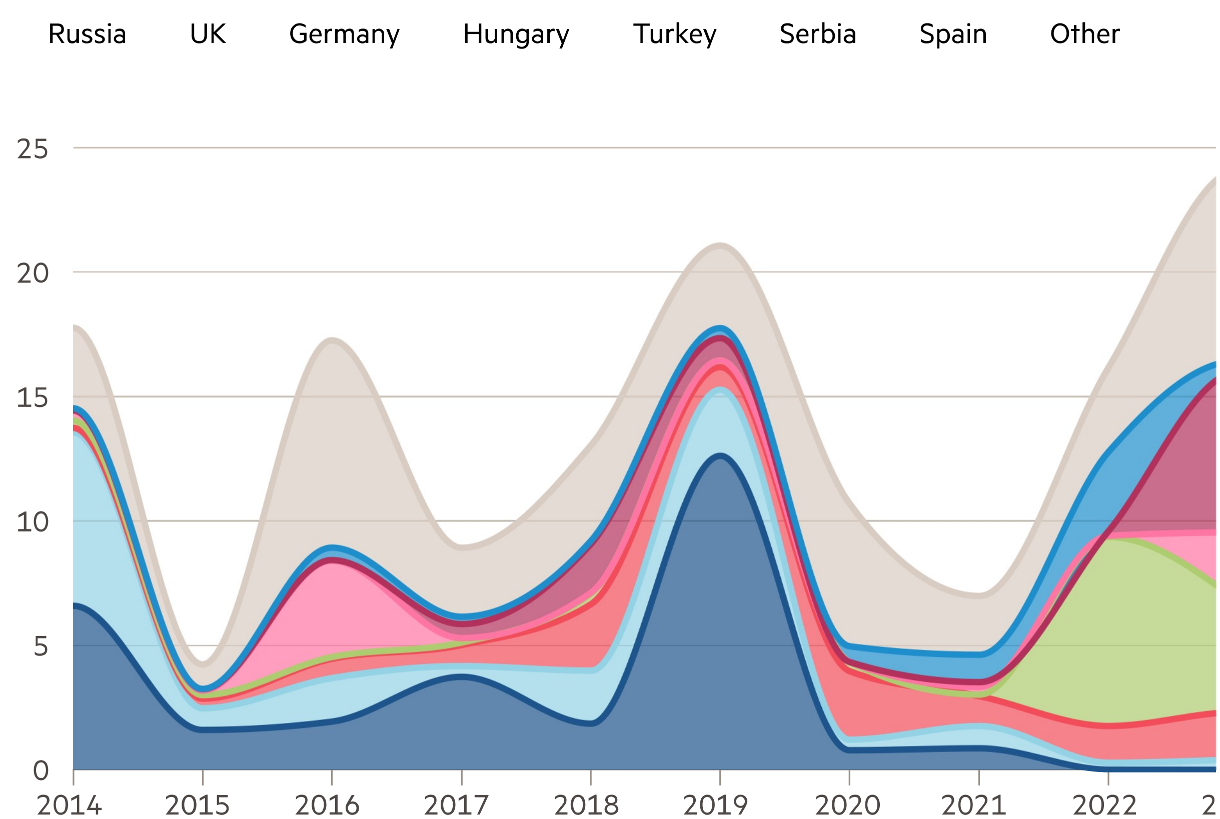
Orbán's challenge now is pulling off the diplomatic gymnastics required to simultaneously remain an ally to Xi Jinping and Donald Trump's incoming administration of China hawks, while managing the threat of a chronic decline in EU funds.

Even against the backdrop of his rule of law dispute with Brussels, Orbán has exacerbated tensions with other EU capitals by maintaining strong diplomatic ties with both Beijing and Moscow.

Márton Nagy, economy minister and a former adviser to prime minister Orbán, told the Financial Times that China's investments had helped maintain the country's car industry as "a very strong core" of its economy, which is eventually expected to account for almost a third of GDP.

Hungary has attracted a quarter of Chinese investment in Europe since 2022

Chinese greenfield foreign direct investment announcements by destination ($bn)



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China's most important EV and battery groups — BYD and CATL — were among those scouring the EU for local manufacturing sites, even before Brussels put new tariffs on Chinese exports.

BYD last year chose the southern Hungarian city of Szeged as the location for its first large factory in Europe. CATL is building a €7.3bn plant in the east of the country.

While both Chinese companies are privately owned, they have close ties with Beijing and have been key beneficiaries of a supportive Chinese industrial policy for years.

Hungary emerged as a perfect partner for the Chinese companies, with lower labour and land costs than other parts of Europe coupled with the backdrop of warm political ties between Beijing and Budapest.

China upgraded Hungary to one of its closest international partners in May, with Xi pledging to invest in key infrastructure projects during a visit to Budapest.

Nagy said both BYD and CATL would open their doors by the second half of next year, along with a string of other Chinese greenfield investments, with their impact on the economy and wages being "felt as soon as the work starts".

The paraphernalia across Nagy's desk, including dragons and a name plate featuring Chinese script, were a sign of Budapest's tireless efforts to court China.

Economy minister Márton Nagy in his office: 'Trump is a businessman, he will make deals' © Laszlo Balogh

With vehicles produced in the EU able to avoid tariffs of as much as 45 per cent levied by Brussels on exports coming directly from China, Nagy said the EU's "unfriendly step" was also "a rather stupid step".

"Such duties can be avoided if production is localised," he said. "And just because we [impose a duty], how will our own car industry be stronger in two, three or four years? We would have to give a lot of subsidies to the sector, research and development funds, to boost domestic production. But there is no sign of that."

Hungary's government believes China's investments will offer a lifeline to an economy facing severe challenges that have placed it among the weakest performers in the EU.

Hungary is now in recession, with GDP falling by 0.7 per cent in the third quarter. The government expects its budget deficit to hit around 4.5 per cent of GDP this year.

The government expects its budget deficit to hit around 4.5 per cent of GDP this year, well over the EU's 3 per cent limit.

Analysts think the 4.5 per cent figure may prove over-optimistic and are concerned that Orbán, facing re-election in 2026, will further weaken the fiscal situation by raising spending to levels the country cannot afford.

Both the economy minister and Orbán believe that Budapest's close ties with Beijing can be maintained while keeping Donald Trump onside, despite the US president-elect's threats to levy a tariff of 60 per cent on all imports from China into the world's largest economy.

"Trump is a businessman, he will make deals," Nagy said. "He will make a good deal for the US . . . for us the focus is on Europe-China relations. Don't forget that Biden already levied these tariffs and the trade war has already started."

Orbán told public radio station M1 last month that maintaining a balancing act between east and west was his economic policy's "strategic foundation" and claimed others, including the US, will pursue Chinese ties as well. "[China] is here, strong, developing, our task is to make good deals with them."

Ilaria Mazzocco, a senior fellow at the Center for Strategic and International Studies in Washington, said Budapest's strategy had been "effective", attracting investment not just from Chinese manufacturers but other EV suppliers.

"There is clearly much more political involvement," Mazzocco said. "This is no longer just a business decision."

But others think China is unlikely to be able to plug the gaps left by Brussels, with the EU also able to grant funds for social projects that produce no financial gain.

"Chinese FDI alone will not offset Hungary's current shortfall in EU funds," said Gregor Sebastian, a senior analyst at Rhodium Group.

Hungary used to receive around €5bn in annual EU transfers, worth about 2.5 per cent of GDP, according to the European Commission. Since confirming the BYD investment in February, China has made no new spending pledges to Hungary.

A lack of investment in public infrastructure has also made the government vulnerable to political attacks.

One casualty has been Hungary's battered railway network, where about €10bn-worth of mostly EU-funded investments have been cancelled, according to railway expert and opposition politician Dávid Vitézy. The domestic budget is too strained to replace them.

“We could have had a golden age in the rail sector in this decade,” Vitézy told the FT. “What is left is next to nothing.”

The only major railway construction project under way is a Chinese-funded rail line traversing sparsely populated areas between Budapest and the Serbian capital Belgrade. It is part of Beijing’s $1tn Belt and Road global infrastructure initiative and will mostly serve Chinese cargo.

Orbán’s fiercest opponent ahead of parliamentary elections in 2026, Péter Magyar, of the centre-right Tisza party, has seized on the railways’ dire state, saying earlier this year they were in “an unprecedented crisis” after a heatwave pushed the train system near to collapse.

Several trains derailed on malfunctioning old switches, narrowly avoiding accidents. “This train has gone,” he said. “Hungarians won’t wait.”