Hungary: a high-risk economic pivot towards China

Description

Hungary's pursuit of economic growth has increasingly relied on foreign investment, particularly from China. As the country struggles to unlock billions in frozen European Union (EU) funds due to rule-of-law concerns, Prime Minister Viktor Orbán has deepened Budapest's economic ties with Beijing.

Large-scale Chinese investments in the battery sector have positioned Hungary as one of Europe's key electric vehicle (EV) and battery production hubs. While these investments promise short-term economic benefits, they have also sparked serious environmental and social concerns. Residents in industrializing regions, particularly Debrecen, fear their communities will soon become a "battery wasteland".

Hungary's Struggles with EU Funds

At the beginning of 2025, Hungary was deprived of €1.04 billion in EU funds as Brussels maintained its financial sanctions against the country due to systemic corruption, rule of law violations, and democratic backsliding. The EU member state was required to implement 17 anti-corruption measures and fulfill democratic governance reforms by the December 31, 2024, deadline to avoid a permanent freeze of the funds. Additionally, the European Commission is retaining more than €16 billion in funding allocated for regional development and post-COVID economic recovery, making Hungary the only EU member state to face such financial restrictions. Efforts by Orbán's government to comply with EU requirements have fallen short. Before the deadline, Budget Commissioner Piotr Serafin remarked that Hungary's proposed reforms were "not quite what we were hoping for" after discussions with Hungarian European Affairs Minister János Bóka. The EU demands include stronger anti-corruption legislation, guarantees of judicial independence, and policy reforms across 11 strategic areas, which Hungary has yet to implement.

Despite some judicial reforms that allowed Hungary to regain €10 billion under the Multiannual Financial Framework (MFF), the bulk of EU aid remains inaccessible. The European Commission has emphasized that Hungary must address fundamental rights violations in the areas of academic freedom, LGBTQI rights, and asylum policies while also fulfilling 27 'super milestones' under the Recovery and Resilience Facility (RRF). However, the EU has stated that recent reforms will not impact the already frozen cohesion funds. As one EU diplomat said, "that's a lot of money for any country, but especially for Hungary." The timing of these financial restrictions is particularly damaging for Hungary, whose economy is struggling with low growth and a 5.4% budget deficit in 2024, one of the highest in the EU. After over a decade in power, Orbán's ruling Fidesz party now faces its most substantial political challenge from Péter Magyar, an opposition leader who has vowed to restore EU relations and unfreeze the funds if he wins the 2026 elections. With trust in Brussels eroding, Orbán's government faces mounting pressure to comply with EU demands or risk further financial and political isolation.

Hungary's Deepening Economic Partnership with China

With EU funding partially frozen, the Orbán government has turned to China as an alternative economic partner. Over the last decade, Hungary has positioned itself as China's closest ally within the EU, offering a politically favorable environment for significant Chinese investments. One of the most significant moves in this economic pivot is a €1 billion loan that Hungary quietly secured from China's Development Bank, Eximbank, and Bank of China, a deal that was never publicly announced by the Hungarian government. The exact terms, repayment schedule, and long-term impact of this debt remain unclear. With Hungary's national debt already at €133 billion, concerns are growing over Budapest's deepening dependence on Beijing. This is not the first time Hungary has relied on Chinese loans. In 2022, the government borrowed €820 million from China's Eximbank to finance the controversial Budapest-Belgrade railway project, a Belt and Road Initiative (BRI) venture that experts estimate will take 979 years to pay for itself.

Beyond loans, China's direct investments in Hungary have surged, particularly in the battery sector. The largest of these is CATL's €7.6 billion battery plant in Debrecen, announced in 2022, and one of the biggest foreign investments in Hungarian history. This single project could triple China's total investment in Hungary, making it one of Beijing's most important economic partners in Europe. Tamas Matura, a leading analyst on Chinese influence in Central Europe, warns that Chinese investments in Hungary are not purely economic. He argues that China follows a "multi-layered approach", where economic deals are accompanied by long-term strategic positioning. Matura also notes that while these factories may boost Hungary's GDP, much of the financial benefit flows back to China, as battery production relies heavily on Chinese-imported machinery, technology, and labor, leading to a widening trade deficit.

China's economic footprint in Hungary extends beyond battery production too. The Záhony Logistics and Industrial Belt near the Ukrainian border has become a strategic rail hub for China's Eurasian trade corridor. This infrastructure is a key entry point for Chinese goods into the European market, reinforcing Budapest's role as Beijing's leading partner in the EU.

Hungary's Battery Boom: A Short-Term Economic Boost

Under Orbán's leadership, Hungary has rapidly transformed into one of Europe's largest battery and EV production hubs. Speaking at the International Motor Show (IAA Mobility) in Munich in 2023, Foreign Minister Péter Szijjártó stated that the automotive sector is Hungary's economic backbone, accounting for one-third of industrial production and generating €30 billion in yearly revenue. The government has actively promoted Chinese and German investments, emphasizing that these projects will help Hungary recover from the recession. Significant investments have come from five of the world's top ten battery producers, including Eve Energy and CATL, both of Chinese origin.

With these projects, Hungary has become the fourth-largest battery producer globally and is projected to become the second-largest soon. Other industrial projects include the first European factory of Chinese EV giant BYD (Build Your Dreams) in Szeged and BMW's new production facility in Debrecen. The government expects these projects to drive 3.4% GDP growth in 2025, thereby stabilizing the economy ahead of the 2026 elections. However, critics argue that the government's focus on short-term economic gains ignores long-term risks. While investment records are being broken, concerns remain about the environmental impact and dominance of foreign capital in these industries.

Hungary's Battery Boom: The Long-Term Environmental & Social Costs

Hungary's battery boom has sparked widespread environmental concerns, particularly regarding pollution, water usage, and industrial waste. In Debrecen, residents have organized protests against CATL's lithium battery plant, fearing that their region is becoming a "battery wasteland." A survey found that 62% of locals oppose the project, citing water shortages and air pollution. Activist László Horváth, who lives near the factory, warns, "we are not against progress, but we would prefer another direction." The Hungarian government is criticized for allowing companies to operate with minimal oversight, with Greenpeace demanding greater transparency and alignment with EU regulations on toxic solvent levels, such as NMP.

While the government has encouraged battery recycling plants, incidents at South Korean SungEel factories in 2022, including explosions and fires, have raised alarms. Environmentalists have also expressed concerns over toxic solvent leaks and PFAS pollution, which have been detected in groundwater near such recycling factories. Similar facilities have faced strong public opposition in Poland, Germany, and the Czech Republic. In Hungary, however, the government has bypassed environmental approval processes by classifying these plants as "national priority investments".

As Hungary pushes forward with large-scale industrialization, questions remain about the long-term costs. While the country is reaping the economic benefits of foreign investment, local communities fear they will be left with permanent environmental damage.

Thumbnail: Chinese Lantern Festival in Debrecen, organized on February 21, 2025. The event was supported by the company CATL Debrecen (copyright: catl.com).

[Link to the French version of the article]

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To cite this article: Sai SUBRAMANIAN (2025), “Hungary: a high-risk economic pivot towards China,” *Regard sur l’Est*, June 23.

DOI 10.5281/zenodo.15721415

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date créée
23/06/2025
Champs de Méta
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