Investment Trends 2025: What's Hot and What's Not for CEE Investors

BY ANA MARIJA KOSTANIC · 4 MARCH 2025 · 7 MINS READ · CEE , EUROPE

CEE, Europe ~
"Right now, many startups are facing a harsh reality—follow-on funding is drying up, and VCs are becoming ruthless in their selection."

The venture capital landscape in 2025 is not for the faint of heart. Sky-high valuations from the boom years are coming back down to earth, AI dominance is reshaping industries overnight, and geopolitical instability continues to shake investor confidence. The era of easy money is over—VCs are more selective than ever, doubling down on capital-efficient startups while entire sectors struggle to stay afloat.

In the lines below we will break down some of the insights we got from recent VC survey with CEE investors: the biggest risks they think investing markets face, which industries are set for contraction, and where the real opportunities lie in the coming year.

Investment challenges in 2025

1) Macroeconomic & geopolitical issues

Inflation remains a pressing concern for investors worldwide, as fluctuating interest rates affect the funding availability. Many CEE investors point out that the ongoing war in Ukraine and broader geopolitical tensions contribute to market instability, making cross-border investments riskier than before.

> *"There's just too much geopolitical uncertainty right now—between Ukraine, the U.S.-China tensions, and the broader macro conditions, it's harder than ever to assess long-term risks."*

2) AI disruption

While AI presents massive opportunities, it also creates significant risks. Smaller AI startups struggle to keep up as dominant players like OpenAI and Google release groundbreaking models that quickly render competitors obsolete. Besides, as one respondent points: "*The problem is that **AI is moving too fast**—what looks innovative today might be irrelevant in six months. How do you justify a big investment when the landscape is this unstable?*"

The AI hype cycle could also lead to overinflated valuations and eventual market corrections.

essentially wrappers around OpenAI's models. If your differentiation is minimal, you're not surviving long-term."

3) Regulatory uncertainty

Governments worldwide are tightening policies on mergers, acquisitions, and foreign investments, adding layers of complexity to VC-backed startups. Additionally, regulatory shifts in industries like Web3, AI, and climate tech are making it harder for investors to predict the playing field: "***Startups operating in heavily regulated industries** need to factor in compliance costs and the risk of sudden legal shifts—this makes them much harder to bet on compared to five years ago*."

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4) Slower funding dynamics

The era of easy money is over. Startups are struggling to secure follow-on rounds, and many are facing painful down rounds as valuations from the boom years deflate. Some VCs who participated in the survey said they will concentrate their bets on fewer, stronger investments, rather than covering many smaller ones.

"We're only backing companies that can demonstrate clear capital efficiency and sustainable unit economics—if you're burning cash without a path to profitability, it's game over."

Andrew Gray from Tilia Impact Ventures warns about this "flight to quality" where less capital is available to startups overall, but those that are hot are able to raise bigger rounds than ever before. "*This behaviour is bad for innovation in general. **Fewer founders get a shot at building something big**, and meanwhile, there appears to be somewhat of a bubble forming in company valuations in the AI space (which ultimately harms those working in the space).*"

5) Switch of sectors popularity

Certain industries are feeling the squeeze more than others. SaaS companies, once seen as reliable bets, are now facing recalibration as differentiation becomes harder and AI automation begins replacing traditional software solutions. "***SaaS isn't dead, but finding winners is getting increasingly hard**. AI-native companies are killing off traditional software plays*," pointed out one of the investors.

Many respondents mentioned that climate tech and web3 are experiencing a cooling of interest due to inconsistent regulatory support and challenges in scaling. For example, some expressed skepticism about climate tech "*…because so much of it relies on government incentives that could disappear with a political shift*."

Consumer-focused industries, such as e-commerce and travel, are also vulnerable to economic slowdowns. "*Consumer startups are facing an uphill battle—CACs (customer acquisition costs) are climbing, and people are spending less on non-essentials*."

Investment opportunities in 2025

1) Defense Tech & Dual-Use Technologies

***Europe**. Governments are pouring money into next-gen security solutions, and startups in this space have a massive opportunity*."

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They anticipate increased funding for startups developing cutting-edge security and surveillance technologies. Especially, "*dual-use technology—where civilian applications meet military use cases—is a major focus. Companies that can serve both markets are going to thrive*."

2) Cybersecurity

Even though years before, security concerns were more of a hindsight for enterprises, many investors argue that cybersecurity became non-negotiable. As cyber threats grow more sophisticated, businesses are doubling down on security infrastructure.

> *"Even in a downturn, **businesses cannot afford to cut corners on security**. Startups that can automate security workflows or provide better threat intelligence are in a strong position," pointed out Bogdan Pasca from Early Game Ventures.*

Startups that offer AI-powered threat detection, zero-trust security models, or advanced encryption are particularly well-positioned. "*With the rise of AI-driven threats, we're looking for startups that bring a **new approach to cyber defense**—automation, predictive security, and decentralized models are all exciting areas*," one investor claims.

3) AI & Industrial Automation

While general AI startups face stiff competition, specialized AI applications in enterprise create strong investment opportunities. "*The AI hype cycle is messy, but B2B AI startups that help businesses cut costs and improve efficiency are getting real traction*." **Companies focused on cost optimization, predictive analytics, and workflow automation** are likely to see strong demand.

The growing interest in industrial automation and AI implementation in logistics, manufacturing, and energy is also worth noting.

4) Deep Tech & Space Tech

While capital-intensive, startups working on next-gen computing, materials science, and satellite technology are also drawing CEE's investors interest:

> *"**We see deep tech as a long-term play**. Startups solving fundamental problems in materials, energy storage, and quantum computing have a real shot at massive value creation."*

European governments are also increasing their investment in deep tech and space innovation, which makes space tech "finally investable," as one respondent commented: "*…government contracts and commercial applications are making it a serious market*."

5) Healthtech

The hype over health tech subsided a bit after COVID 19, but in CEE it is still holding really well. Healthcare innovation continues to attract investment, especially in personalized medicine and AI-powered diagnostics.

"***Healthtech remains a solid investment** because regulation actually supports innovation here. AI-driven drug discovery and diagnostics are still big opportunities*," argues Bogdan Pasca from EGV.

Over biotech there are some differentiating opinions though.

6) Fintech

While consumer fintech is cooling, B2B fintech is still a strong opportunity, thinks Petr Šíma from Depo Ventures.

> *"Consumer fintech has become oversaturated, but the real opportunities now are in **payments infrastructure, B2B financial services, and regulatory tech**. Companies that help financial institutions navigate compliance will thrive."*

Are other European investors thinking the same?

"Securing equity financing" remains the most important challenge VC-backed companies face, reported EIF in its yearly assessment of Venture Capital in Europe. Fundraising difficulties are especially increased by structural **weaknesses within the European VC market**, they point.

Three out of the top-four challenges are related to fundraising, including the **lack of private domestic LPs and the availability of scale-up financing** (whose importance as a challenge increased over the last year).

As Andrew Gray explained, similar concerns exist on the CEE level: "*Regional fund performance and DPI is unimpressive across most CEE funds that are in their divestment periods. The result is not only a lack of LP liquidity for recycling into new funds but also causing LPs to shy away from VC as an asset class. This has happened in the past – in the wake of the GFC – and while many VC funds died out, those who lived on actually posted the best ever VC vintages. The same thing is likely playing out again but is somewhat disrupted by the justified excitement around AI*."

While fundraising is, on average, the biggest challenge seen in European VC business over time, **the exit environment has strongly increased in importance as a challenge over the last two years** as well.

Despite the prevailing challenges, there are signs of emerging optimism within the European VC community. Sectors such as **AI, Deep Tech, and Clean Tech are being highlighted as promising areas** for future investments. Many European fund managers have active companies in these areas, and they expect them to remain vital in future portfolios.

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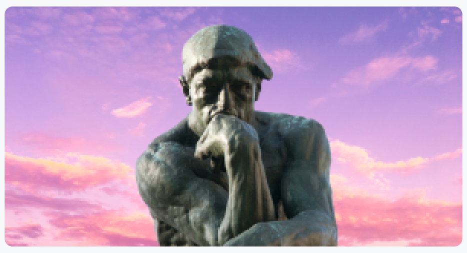

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