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## Impact of Global Economic Trends on Indian Startups

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### Abstract:

*This research paper studies how global economic trends such as changes in world growth rates, interest rates, trade relations, and investor behaviour have affected Indian startups. The paper explains how these trends influence funding, business costs, customer demand, and market opportunities for startups in India. It also highlights how Indian startups have responded to these challenges and what the government is doing to support them. Data from international organizations like the IMF, World Bank, and reports from NASSCOM, KPMG, and Bain & Company have been used. The findings show that global economic slowdown and rising interest rates have reduced investment in startups, but India's large market, digital growth, and government policies continue to create opportunities for long-term success.*

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### Introduction:

The startup ecosystem has become one of the most important parts of India's economic growth story. Over the past decade, thousands of new businesses have emerged in areas like technology, healthcare, education, and renewable energy. These startups have created jobs, encouraged innovation, and attracted billions of dollars of investment from all over the world.

However, startups do not operate in isolation. They are influenced by global economic trends because most of them depend on international investors, global supply chains, and foreign markets. When the global economy faces problems such as inflation, interest rate hikes, or trade disruptions, startups in India also feel the effects.

The main purpose of this research is to understand how global economic trends

are affecting Indian startups. The paper also suggests what startups and policymakers can do to face global economic challenges.

### Methodology:

This research paper is based on secondary data collected from reliable sources like the International Monetary Fund (IMF), World Bank, NASSCOM, KPMG, and Economic Times. Reports on venture capital (VC) investments and startup funding trends have been studied. The paper uses qualitative analysis to explain how these global factors affect Indian startups instead of complex mathematical models. The focus is on understanding the link between global and local economic changes in simple and clear terms.

**Major Global Economic Trends:**

- a) **Global Slowdown and Economic Uncertainty:** The world economy has gone through major ups and downs since 2020. The COVID-19 pandemic slowed production and trade across countries. Even after recovery, new challenges such as the Russia-Ukraine war and rising energy prices have continued to create uncertainty. As a result, many developed economies like the United States and countries in Europe experienced slower growth. When the global economy slows down, investors become more cautious, and startups find it harder to raise money. Demand for exports also drops, affecting Indian technology and service startups that work with international clients.
- b) **Changes in Interest Rates and Inflation:** To control rising inflation after the pandemic, central banks like the US Federal Reserve and European Central Bank increased interest rates. When global interest rates go up, investors prefer safe options like government bonds rather than risky investments like startups. This leads to lower capital inflow into emerging markets such as India. Indian startups that relied on foreign venture capital faced a shortage of funds, which forced many to reduce spending, lay off employees, or delay expansion plans.
- c) **Global Venture Capital Trends:** In 2021, Indian startups raised record funding of around \$42 billion. However, by 2023, global venture capital investment fell sharply due to economic slowdown and tighter monetary policy. Investors started looking for profitable and sustainable businesses instead of

those focused only on growth. In 2025, as the world economy shows signs of recovery, funding has started to rise again, especially in sectors like artificial intelligence (AI), green technology, fintech, and software-as-a-service (SaaS).

- d) **Supply Chain Shifts and Trade Policies:** The trade tensions between the United States and China and disruptions in global supply chains have changed how companies operate. Many global firms are now adopting the “China+1” strategy, meaning they want to reduce dependence on China and invest in other countries like India. This trend has opened new opportunities for Indian startups in manufacturing, logistics, and supply chain technology. However, some hardware-based startups still face challenges because of the high cost of imported components and the lack of advanced local suppliers.
- e) **Currency Fluctuations:** Exchange rate changes also affect startups. When the Indian rupee weakens against the US dollar, imports like raw materials, cloud services, or software licenses become more expensive. This increases the operational costs for startups that rely on foreign services. On the other hand, startups that earn in dollars, such as exporters or IT companies, benefit because they receive higher returns in rupees.
- f) **Geopolitical Factors:** Geopolitical tensions and wars create uncertainty in trade and energy prices. For example, the Russia-Ukraine conflict increased oil prices, raising transportation and production costs. However, India’s stable political environment and strong

diplomatic relations have made it an attractive location for foreign investors who are looking for stability.

### **Impact on Indian Startups:**

#### **a) Funding and Investment Availability:**

The biggest effect of global trends has been seen in startup funding. When global investors became cautious, late-stage startups found it difficult to raise large funding rounds. Many companies had to cut down on marketing expenses and focus on survival. According to KPMG (2024), total venture funding in India dropped by nearly 40% compared to 2021. However, early-stage startups continued to attract investors because of India's large population and digital growth potential.

#### **b) Valuation and Exit Opportunities:**

During the funding boom of 2021, valuations of startups reached unrealistic levels. When the economy slowed, investors started correcting these valuations. Many startups had to raise funds at lower valuations or "down rounds." Similarly, exit opportunities through IPOs also reduced because stock markets were volatile. By mid-2025, however, the IPO market started recovering slowly, with successful listings from sectors like fintech and green energy.

#### **c) Operational Costs and Profitability:**

Inflation, currency depreciation, and supply chain disruptions increased the cost of doing business. Startups had to spend more on imports and logistics. As a result, many companies started reducing their "burn rate" (monthly expenses) and working towards profitability. Those with a focus on

efficient operations managed to survive the funding winter, while those relying on constant capital inflow struggled.

#### **d) Domestic Demand and Market Opportunities:**

Even though global demand slowed down, the Indian domestic market remained strong. With a population of more than 1.4 billion and increasing internet users, India offers a huge customer base. Sectors like fintech, health tech, and e-commerce continued to grow because of rising digital adoption and changing consumer habits. This domestic resilience helped Indian startups balance the negative impact of global conditions.

#### **e) Employment and Talent Trends:**

Global tech layoffs in 2023-2024 released many skilled workers into the job market. Indian startups used this opportunity to hire top talent at reasonable costs. Remote working and hybrid models allowed startups to access global talent without high expenses. This shift also helped startups improve product quality and innovation.

#### **f) Sector-wise Impact:**

- **Positive Impact:** AI, fintech, renewable energy, and enterprise SaaS saw growth due to global interest in technology and sustainability.
- **Negative Impact:** Edtech and e-commerce faced reduced funding because of post-pandemic market corrections.

### **Case Studies and Examples:**

1. **Zomato:** After facing losses due to high costs, Zomato shifted focus toward profitability and cost control. It became one of the first major Indian startups to report profits in 2023-24.

2. **BYJU'S:** The global slowdown in education spending and heavy debt forced the company to restructure its operations.
3. **Ola Electric:** Benefited from global trends toward renewable energy and electric vehicles.
4. **Phone Pay and Razorpay:** Continued strong growth in the domestic fintech market due to government digitalization policies.

These cases show how startups that adapt to changing global trends can survive and grow even in difficult conditions.

#### **Strategies Adopted by Indian Startups:**

1. **Cost Efficiency and Profitability:** Startups are now focusing more on earning profits rather than only increasing revenue. They are cutting unnecessary spending, optimizing marketing budgets, and improving operational efficiency.
2. **Diversification of Funding Sources:** Instead of depending only on foreign venture capital, many startups are now raising money from domestic investors, government funds, and venture debt. This helps reduce the impact of global capital flow changes.
3. **Innovation and Technology Adoption:** Startups are using technologies like artificial intelligence (AI), blockchain, and cloud computing to stay competitive. These technologies help reduce costs and improve productivity.
4. **Risk Management and Currency Hedging:** Many startups are now learning to manage risks related to foreign exchange and global supply chains. They use hedging instruments and prefer local suppliers when possible.

5. **Focus on Domestic Market:** Startups are turning more towards India's large local market for stability. This reduces their dependence on uncertain global markets.

#### **Role of the Government and Policy Support: The Indian government has played a strong role in supporting startups through various initiatives:**

- a) **Startup India Mission (2016):** Provides tax benefits, funding support, and easier compliance for new businesses.
- b) **Make in India:** Encourages domestic manufacturing, benefiting hardware and EV startups.
- c) **Digital India:** Expands digital infrastructure, supporting fintech and SaaS sectors.
- d) **Production Linked Incentive (PLI) Schemes:** Attracts global manufacturers and boosts local supply chains.
- e) **RBI Policy Support:** Lower interest rates and liquidity measures during difficult times have helped stabilize financial markets.

These programs help Indian startups stay competitive despite global challenges.

#### **Challenges Still Faced by Startups:**

Even with policy support, several challenges remain:

- Limited access to long-term domestic capital.
- Complex regulatory processes for cross-border operations.
- Weak infrastructure in smaller cities.
- Dependency on imported technology components.
- Difficulty in scaling up profitably due to high competition.

**Future Outlook and Opportunities:**

Looking ahead, India's startup ecosystem has a strong future. The country is now the third largest startup hub in the world after the United States and China. The following trends are expected to shape the next decade:

1. **AI and Automation:** New startups will focus on artificial intelligence and robotics.
2. **Green Energy and Sustainability:** Electric mobility, solar, and waste management startups will rise.
3. **Health and Education Tech:** Affordable solutions for India's large population will remain in demand.
4. **Global Expansion:** More startups will expand to Southeast Asia, Africa, and the Middle East.

If global economic conditions stabilize and interest rates fall, Indian startups will see renewed investor confidence.

**Conclusion:**

Global economic trends have a powerful influence on Indian startups. The slowdown in the world economy, rising interest rates, and funding corrections have created short-term difficulties. However, India's strong domestic market, digital

transformation, and government policies have provided stability and new opportunities. Startups that adapt quickly, focus on profitability, and manage risks are likely to emerge stronger.

In the long run, global integration will continue to benefit India. With strategic planning, innovative thinking, and responsible growth, Indian startups can not only survive global challenges but also become global leaders in technology and innovation.

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