Summary:

A proposal to decrease stablecoin Interest Rate parameters across all Aave deployments.

Motivation

Following the anticipated decrease in DSR—from 13% to 10%—we believe it is prudent to update Aave stablecoin interest rates to best align with the broader market. Previously, we recommended increasing both UOptimal and Slope1 for stablecoins to reduce rate volatility. This recommendation was amended on the news of the DSR increase from 5% to 15%.

The new parameters went into effect on April 4, 2024, and thus far have helped improve rate stability and utilization rates. As part of our ongoing monitoring of broader markets, we note that MakerDAO is in the process of reducing the DAI Savings Rate, which could impact stablecoin rates throughout DeFi.

Following our methodology laid out in previous recommendations, we recommend more closely aligning Slope1 with the DSR to reduce the opportunity of rate arbitrage and ensure that borrow rates remains competitive. As a result, we propose decreasing Slope1 by an equivalent amount from 12% to 9%.

Caveats:

1. We do not recommend an update to the following assets on lower-cap stablecoins on Ethereum V2, as they are currently being deprecated.

2. Similar to the previous proposals, we recommend bridged USDC.e on all deployments to have a 1% higher slope1 to motivate the borrowing of native USDC.

Specification

Market

Asset

Current Slope1

Recommended Slope1

Ethereum V2

USDC

12%

9%

Ethereum V2

USDT

12%

9%

Ethereum V2

DAI

12%

9%

Ethereum V2

FRAX

12%

No Change

Ethereum V2

sUSD

12%

No Change

Ethereum V2

GUSD

12%

No Change

Ethereum V2

LUSD

12%

No Change

Ethereum V2

USDP

12%

No Change

Ethereum V3

USDC

12%

9%

Ethereum V3

USDT

12%

9%

Ethereum V3

FRAX

12%

9%

Ethereum V3

DAI

12%

9%

Ethereum V3

LUSD

12%

9%

Ethereum V3

pyUSD

12%

9%

Ethereum V3

crvUSD

12%

9%

Avalanche V2

USDC.e

13%

10%

Avalanche V2

USDT

12%

9%

Avalanche V2

DAI

12%

9%

Avalanche V3

USDC

12%

9%

Avalanche V3

USDT

12%

9%

Avalanche V3

DAI

12%

9%

Avalanche V3

MAI

12%

9%

Avalanche V3

FRAX

12%

9%

Polygon V2

USDC

12%

9%

Polygon V2

USDT

12%

9%

Polygon V2

DAI

12%

9%

Polygon V3

USDC

12%

9%

Polygon V3

USDT

12%

9%

Polygon V3

DAI

12%

9%

Polygon V3

MAI

12%

9%

Polygon V3

EURA

12%

9%

Polygon V3

EURS

12%

9%

Polygon V3

jEUR

12%

9%

Polygon V3

USDC.e

13%

10%

Optimism V3

USDC

12%

9%

Optimism V3

USDT

12%

9%

Optimism V3

DAI

12%

9%

Optimism V3

sUSD

12%

9%

Optimism V3

LUSD

12%

9%

Optimism V3

MAI

12%

9%

Optimism V3

USDC.e

13%

10%

Arbitrum V3

USDC

12%

9%

Arbitrum V3

USDC.e

13%

10%

Arbitrum V3

USDT

12%

9%

Arbitrum V3

DAI

12%

9%

Arbitrum V3

LUSD

12%

9%

Arbitrum V3

FRAX

12%

9%

Arbitrum V3

MAI

12%

9%

Arbitrum V3

EURS

12%

9%

Base V3

USDbC

13%

10%

Base V3

USDC

12%

9%

Metis V3

m.USDC

6%

No Change

Metis V3

m.USDT

6%

No Change

Metis V3

m.DAI

6%

No Change

BNB Chain V3

USDT

12%

9%

BNB Chain V3

USDC

12%

9%

BNB Chain V3

FDUSD

12%

9%

Scroll V3

USDC

12%

9%

Gnosis V3

WXDAI

12%

9%

Gnosis V3

USDC

12%

9%

Gnosis V3

EURe

12%

9%

Next Steps

1. Following community feedback, submit an Aave Improvement Proposal (AIP) to implement the proposed updates.

2. We believe this adjustment will align the protocol's rates more closely with current market conditions and borrower behavior. Based on the outcomes, potential future steps include:

3. Further adjustment of Slope 1:

Depending on the market's and community's response to the initial adjustment, additional adjustments in Slope1 could be considered to optimize the IR curves further.

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Depending on the market's and community's response to the initial adjustment, additional adjustments in Slope1 could be considered to optimize the IR curves further.

As always, our priority remains to monitor these developments closely and provide timely, data-driven recommendations to maintain Aave's competitive edge and market responsiveness.

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