I think the community agrees that GHO adoption is lacking its expectations. In this post, I wanna share some insights and propose a strategy-change.

Insight 1:

GHO borrowing rate below s-DAI interest(5%) and a stable GHO<>Dollar peg is not possible!

The reason for this insight is straight forward: Assuming both holds, then “rate-Arbitrators” will simply provide collateral on Aave to borrow GHO and exchange it to sDAI. Then they can deposit their sDAI into Aave and repeat the borrowing of GHO and exchange to sDAI. This way the rate-arbitrators build a leveraged position to exploit the rate difference between sDAI interest and the GHO borrowing rate. Rate-arbitrators would do that until the peg between GHO and DAI breaks again. (See appendix for more evidence **)

If both - having a stable peg and a below sDAI interest GHO borrowing rate - then the question is what is more important.

Insight 2:

A stable peg is more important than a below market competition interest rate

If the peg is not holding, then borrowers have an additional risk: They might realise losses due to the added volatility. The history of finance has shown that people advert non-calculateable risks and prefer products with a clear, predictable trajectory.

Also the accounting of GHO for all kind of purpose is harder, if the value of GHO is freely floating.

Do you agree with the insights?

- Insight 1 - peg and below market rate borrowing not possible
- Insight 2 - peg is more important than below market rate borrowing

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If people agree with these two insights, then I think there is only one reasonable option:

=> Increase the borrowing rate to at least the sDAI saving rate.

The only question is how quickly this should happen. Currently a rate increase of 50 bps is scheduled for each month, which would take at current circumstances another 3,5 months. Maybe we should do it quicker, but I am not sure. It depends on the end vision of GHO.

According to my current understanding from GHO, the strategy was to enable below market-rate borrowing to drive adoption. If this is not possible, what should be the vision?

I am really curious on your visions.

My humble proposal: Drive adoption with sGHO

This would entail:

- raise borrowing interest to at least sDAI saving rate and ensure the peg
- earned borrowing earnings are delegated into a sGHO contract (similar to sDAI).
- people can stake their GHO in the sGHO contract to earn the borrowing fees. This would allow them to earn at least the 5% and make the GHO coin attractive to hold.
- long-term there will be a small spread between sGHO interest and GHO borrowing rate that will be captured by the aave DAO.

This would make GHO (or sGHO) attractive to hold for its users. People would still want to borrow GHO, if they wanna build leveraging position via Aave.

Appendix

** A similar situation appeared just recently within the DAI ecosystem. The sDAI saving rate was 8% and the borrowing rate for DAI was 5%. The immediately - within days, the people were putting up a lot of collateral on spark to borrow at 5% and earn 8%. It’s easily visible in the trajectory and the maker governance had to change the interest rate of sDAI back to 5% (see here)