

Summary

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

Motivation

Following the implementation of [AIP-375](#) to increase stablecoin borrow rates across Aave V2 and V3 deployments, we continue to observe volatility in borrow rates across Aave deployments. As we [highlighted](#) in the recent proposal, we recommend a more aggressive increase of the Slope1 parameter to stabilize borrows under the UOptimal point.

Previous IR Curve modification impact analysis

Stablecoins Total Supply and Borrow:

The data from the charts reflects an overall increase in both the supply and borrowing of stablecoins on the Ethereum V3 platform. From November 25th to December 12th we observed the following increases in supply and borrow across USDC, USDT, and DAI:

Asset

Total Supply (M) - Nov 25

Total Supply (M) - Dec 12

Total Supply Increase (M)

Supply Increase (%)

Total Borrow (M) - Nov 25

Total Borrow (M) - Dec 12

Total Borrow Increase (M)

Borrow Increase (%)

USDC

423

445

22

5.20%

378

406

28

7.40%

USDT

347

366

19

5.40%

265

332

67

25.20%

DAI

78

86

8

10.20%

70

79

9

12.80%

Total

848

897

49

20.80%

713

817

104

45.40%

We've observed an overall \$49M increase (20.8%) in supply across USDC, USDT and DAI on Ethereum V3, and a \$104M increase (45.4%) in borrows.

This general uptrend suggests that the AIP's changes were well received, with higher utilization for the assets following the parameter updates.

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Utilization Rate Analysis:

Our continuous monitoring of the utilization rates post AIP-375, setting Slope1 at 5%, shows sustained demand. When looking at the percentage of times in which utilization was above UOptimal, we can see that the AIP-375 increase didn't stabilize the utilization at or below the UOptimal. This could also be due to changing market dynamics with the recent increase in crypto asset prices.

During two distinct 16-day intervals, we observed the following:

- Pre-AIP-375 Period (11.09.23 - 11.25.23)
- Post-AIP-375 Period (11.25.23 - 12.12.23)

Percentage of Time of Utilization Above UOptimal:

Asset

Before AIP-375

After AIP-375

USDC

69.53%

77.34%

USDT

63.02%

33.09%

DAI

48.70%

63.24%

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The data demonstrates strong borrowing activity persisting after the interest rate curve adjustments, supporting a move towards higher interest rates. This pattern reflects a consistent, resilient demand among the top stablecoins on Ethereum V3.

Borrow Rate Analysis:

After executing the previous proposal, we continue to observe fluctuations in borrow rates, suggesting the previous increase did not achieve the anticipated stabilization. This situation suggests that further adjustments of the interest rate parameters are necessary to achieve more consistent and stable borrowing rates.

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Recommendation

Adjust Slope1 of stablecoins to 6%

The analysis indicates a necessity for further refinement of stablecoin interest rates, to achieve a more predictable and stable borrowing rate with an equilibrium utilization under the UOptimal point.

Therefore, we propose increasing Slope1 to 6% for stablecoins across all Aave deployments, in this iteration. Following this increase, we will continue monitoring the usage and equilibrium rate and make additional recommendations as necessary.

Specification

Market

Asset

Current Slope1

Rec Slope1

Ethereum V2

USDC

5%

6%

Ethereum V2

USDT

5%

6%

Ethereum V2

DAI

5%

6%

Ethereum V2

FRAX

5%

6%

Ethereum V2

sUSD

5%

6%

Ethereum V2

GUSD

5%

6%

Ethereum V2

LUSD

5%

6%

Ethereum V2

USDP

5%

6%

Ethereum V3

USDC

5%

6%

Ethereum V3

USDT

5%

6%

Ethereum V3

DAI

5%

6%

Ethereum V3

FRAX

5%

6%

Ethereum V3

LUSD

5%

6%

Avalanche V2

USDC

5%

6%

Avalanche V2

USDT

5%

6%

Avalanche V2

DAI

5%

6%

Avalanche V3

USDC

5%

6%

Avalanche V3

USDT

5%

6%

Avalanche V3

DAI

5%

6%

Avalanche V3

MAI

5%

6%

Avalanche V3

FRAX

5%

6%

Polygon V2

USDC

5%

6%

Polygon V2

USDT

5%

6%

Polygon V2

DAI

5%

6%

Polygon V3

USDC.e

7%

No Change

Polygon V3

USDC

5%

6%

Polygon V3

USDT

5%

6%
Polygon V3
DAI
5%
6%
Polygon V3
MAI
5%
6%
Optimism V3
USDC.e
7%
No Change
Optimism V3
USDC
5%
6%
Optimism V3
USDT
5%
6%
Optimism V3
DAI
5%
6%
Optimism V3
sUSD
5%
6%
Optimism V3
LUSD
5%
6%
Optimism V3
MAI
5%
6%

Arbitrum V3

USDC

5%

6%

Arbitrum V3

USDC.e

7%

No Change

Arbitrum V3

USDT

5%

6%

Arbitrum V3

DAI

5%

6%

Arbitrum V3

LUSD

5%

6%

Arbitrum V3

FRAX

5%

6%

Arbitrum V3

MAI

5%

6%

Base V3

USDC

5%

6%

Base V3

USDbC

7%

No Change

Metis V3

USDC

5%

6%

Metis V3

USDT

5%

6%

Gnosis V3

USDC

5%

6%

Gnosis V3

xDAI

5%

6%

Next Steps

1. Following community feedback, submit the ARFC for a snapshot vote for final approval.
2. If consensus is reached, submit an Aave Improvement Proposal (AIP) to implement the proposed updates.

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