

ABSTRACT

The research aims to deliver understanding towards asset purchases works during COVID-19 in Indonesia done by Central Bank. This part of unconventional monetary policy is still becoming a debate against its effect on bank soundness. However, to affect the aggregate economy in the country, asset purchases still need direct and indirect transmission channels on several aspects. Therefore, this research raised the main question of which side has a bad or better interaction between asset purchases and banks' risk behavior during a lax monetary policy.

Ultimately, this research was inspired by some previous studies and resulted that prevailing monetary policies have varying effects on bank health situations based on the proxies used. Moreover, bank performances greatly influence the results of the interaction estimates with these monetary policies. Thus, the use of non-conventional policies could not be separated from their incompatibility with bank stability.

Keywords: *Asset Purchases, Transmission Channel, Generalized Method of Moments, Monetary Policy, COVID-19*

