

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC  
Form N-CSRS  
September 03, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-07694

Morgan Stanley Emerging Markets Debt Fund, Inc.  
(Exact name of registrant as specified in charter)

522 Fifth Avenue New York, NY  
(Address of principal executive offices)

10036  
(Zip code)

Randy Takian  
522 Fifth Avenue New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-231-2608

Date of fiscal year end: 12/31

Date of reporting period: 6/30/09

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.



ITEM 1. REPORTS TO STOCKHOLDERS.

The Fund's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

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INVESTMENT MANAGEMENT

Morgan Stanley Emerging Markets Debt Fund, Inc. (MSD)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Semi-Annual Report**

June 30, 2009

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## Morgan Stanley Emerging Markets Debt Fund, Inc.

### Overview (unaudited)

### Letter to Stockholders

### Performance

For the six months ended June 30, 2009, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund ) had total returns of 17.81%, based on net asset value, and 20.72% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Emerging Markets Bond Global Index (the Index ), which returned 14.56%. On June 30, 2009, the closing price of the Fund's shares on the New York Stock Exchange was \$8.29, representing a 17.6% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

### Factors Affecting Performance

- The first months of 2009 were characterized by unprecedented government intervention in financial markets with policy moves ranging from bank nationalization to fiscal and monetary activism. Widespread easing of monetary policy announced by numerous governments around the world complemented this fiscal support, while monetary authorities that have limited scope for further rate cuts moved to quantitative easing. In addition, leaders from the G-20 (Group of Twenty Finance Ministers and Central Bank Governors) pledged to support a package of measures which will provide funding of over \$1 trillion to contain the global downturn.
- The second quarter of 2009 was characterized by signs of a rebound in economic activity (so called "green shoots") and increased risk appetite in the financial markets. Financial conditions improved and markets started to normalize. Emerging markets (EM) debt staged a strong rally, benefiting from expectations that downside risks for the global economy had diminished. EM debt fund flows turned positive after losing \$3.8 billion since the beginning of the year.
- This market normalization was driven by the massive injection of liquidity on the part of world's central banks, the sharp easing of monetary policy, and the recent stabilization of supply side variables such as industrial production. However, negative news at the global level, particularly from the demand side (retail sales, auto sales, exports, etc.), still appears to indicate that the real economy remains stressed and the recovery will likely be slow and fragile.
- EM primary debt markets have been very active so far this year, with issuance volumes (sovereign and quasi-sovereign only) at an average of \$7.6 billion a month. Issuance volume for the first half of the year totaled \$45.1 billion, 5% more than the \$42.9 billion issued in the first half of 2008 when market conditions were more favorable. However, market access remained limited to high quality names, those with adequate economic fundamentals and a good track record of economic policies.
- For the first half of the year, emerging markets external debt, as measured by the Index, returned 14.56%, benefiting from the rally in risk assets.
- The Fund's overweights and security selection in Venezuela, Kazakhstan, Russia and Mexico bolstered relative returns, as did an underweight in Malaysia. Conversely, detractors from performance included overweights in Brazil and Turkey as well as security selection in Indonesia.



**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**Overview (unaudited)**

**Letter to Stockholders (cont d)**

**Management Strategies**

- The Fund favored securities in Brazil, Indonesia, Peru and Russia.
- We maintained a long spread duration and moderately lower interest-rate duration relative to the Index throughout most of the period.
- On a fundamental basis, we believe the market is correct in repricing EM risk and that EM debt spreads will be well supported over the next few months assuming risk appetite remains robust and investors continue to return to the emerging markets. We will, however, monitor valuations for signs of excessive euphoria, as we believe there should be a strong distinction between pricing assets for a more stable environment (our expectation) and pricing assets for a stronger growth environment. On average, our valuation models point to many EM credits being near fair value at current levels. We expect that some lower beta credits will be constrained by the relatively wide valuations in other credit markets and by the slight deterioration in some of their credit ratios. We also expect the strength in the EM corporate market to dissipate over the next few months. The higher-than-expected bank refinancings and strong crossover buying following inflows into U.S. high yield mutual funds are both supporting factors which we believe are likely to deteriorate on the margin during the second half of the year.

Sincerely,

Randy Takian

President and Principal Executive Officer

July 2009

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Investment Advisory Agreement Approval**

**Nature, Extent and Quality of Services**

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Adviser under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The advisory and administration agreements together are referred to as the Management Agreement.) The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper, Inc. (Lipper).

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

**Performance, Fees and Expenses of the Fund**

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2008, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was better than its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the management fee) for this Fund relative to comparable funds advised by the Adviser and compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that while the management fee was higher than but close to the peer group average, the total expense ratio was lower than the peer group average. After discussion, the Board concluded that the Fund's management fee, total expense ratio and performance were competitive with the peer group average.

**Economies of Scale**



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The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Investment Advisory Agreement Approval (cont d)**

to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

**Profitability of the Adviser and Affiliates**

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

**Other Benefits of the Relationship**

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, float benefits derived from handling of checks for purchases and sales, research received by the Adviser generated from commission dollars spent on funds portfolio trading and fees for distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of its costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

**Resources of the Adviser and Historical Relationship Between the Fund and the Adviser**

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

**Other Factors and Current Trends**

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

**General Conclusion**

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the Independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009 (unaudited)

## Portfolio of Investments

*(Showing Percentage of Total Value of Investments)*

|   | Face<br>Amount<br>(000) | Value<br>(000) |
|---|-------------------------|----------------|
| <b>DEBT INSTRUMENTS (98.8%)</b>   |                         |                |
| <b>Argentina (2.3%)</b>   |                         |                |
| <b>Sovereign (2.3%)</b>   |                         |                |
| Republic of Argentina,<br>Zero Coupon, 8/3/09                               | \$ 6,486                | \$ 850         |
| 1.68%, 8/3/12 (a)   | 7,073                   | 3,448          |
| 8.28%, 12/31/33   | 1,764                   | 931            |
|   |                         | 5,229          |
| <b>Belize (0.1%)</b>  |                         |                |
| <b>Sovereign (0.1%)</b>   |                         |                |
| Government of Belize,<br>4.25%, 2/20/29 (b)                                 | 465                     | 216            |
| <b>Brazil (16.6%)</b>   |                         |                |
| <b>Sovereign (16.6%)</b>  |                         |                |
| Banco Nacional de Desenvolvimento Economico e Social,<br>6.37%, 6/16/18 (c) | 5,000                   | 4,938          |
| Federative Republic of Brazil,<br>5.88%, 1/15/19                            | 7,530                   | 7,635          |
| 7.13%, 1/20/37  | 550                     | 600            |
| 8.00%, 1/15/18  | 5,623                   | 6,326          |
| 8.88%, 10/14/19 - 4/15/24   | 6,188                   | 7,628          |
| 10.50%, 7/14/14   | 1,740                   | 2,175          |
| 11.00%, 8/17/40 (d)   | 6,880                   | 8,985          |
|   |                         | 38,287         |
| <b>Bulgaria (0.4%)</b>  |                         |                |
| <b>Sovereign (0.4%)</b>   |                         |                |
| Republic of Bulgaria,<br>8.25%, 1/15/15 (c)                                 | 898                     | 943            |
| <b>Chile (0.5%)</b>   |                         |                |
| <b>Sovereign (0.5%)</b>   |                         |                |
| Empresa Nacional de Petroleo,<br>6.75%, 11/15/12 (c)                        | 1,140                   | 1,220          |
| <b>Colombia (4.0%)</b>  |                         |                |
| <b>Sovereign (4.0%)</b>   |                         |                |
| Republic of Colombia,<br>7.38%, 3/18/19                                     | 5,090                   | 5,459          |
| 11.75%, 2/25/20   | 2,795                   | 3,829          |
|   |                         | 9,288          |
| <b>Ecuador (0.5%)</b>   |                         |                |

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|   |       |        |
|---|-------|--------|
| <b>Sovereign (0.5%)</b>                   |       |        |
| Republic of Ecuador,                      |       |        |
| 9.38%, 12/15/15                           | 1,715 | 1,243  |
| <b>Georgia (0.1%)</b>                     |       |        |
| <b>Sovereign (0.1%)</b>                   |       |        |
| Republic of Georgia,                      |       |        |
| 7.50%, 4/15/13                            | 200   | 171    |
| <b>Ghana (0.7%)</b>                       |       |        |
| <b>Sovereign (0.7%)</b>                   |       |        |
| Republic of Ghana,                        |       |        |
| 8.50%, 10/4/17 (c)                        | 1,916 | 1,533  |
| <b>Indonesia (8.5%)</b>                   |       |        |
| <b>Corporate (0.6%)</b>                   |       |        |
| Pindo Deli Finance Mauritius,             |       |        |
| Tranche A, Zero Coupon, 4/28/15 (a)(c)(e) | 335   | 101    |
| Tranche B, Zero Coupon, 4/28/18 (a)(c)(e) | 1,707 | 264    |
| Tranche C, Zero Coupon, 4/28/25 (a)(e)    | 6,884 | 172    |
| Tjiwi Kimia Finance Mauritius Ltd.,       |       |        |
| Tranche A, Zero Coupon, 4/28/15 (a)(e)    | 1,116 | 335    |
| Tranche B, Zero Coupon, 4/28/18 (a)(c)(e) | 1,477 | 332    |
| Tranche C, Zero Coupon, 4/28/27 (a)(c)(e) | 3,352 | 84     |
|   |       | 1,288  |
| <b>Sovereign (7.9%)</b>                   |       |        |
| Republic of Indonesia,                    |       |        |
| 6.88%, 1/17/18                            | 3,280 | 3,157  |
| 6.88%, 1/17/18 (c)                        | 2,452 | 2,360  |
| 7.75%, 1/17/38                            | 2,339 | 2,152  |
| 7.75%, 1/17/38 (c)                        | 1,130 | 1,040  |
| 11.63%, 3/4/19                            | 800   | 1,014  |
| 11.63%, 3/4/19 (c)                        | 6,669 | 8,478  |
|   |       | 18,201 |
|   |       | 19,489 |
| <b>Ivory Coast (0.2%)</b>                 |       |        |
| <b>Sovereign (0.2%)</b>                   |       |        |
| Ivory Coast,                              |       |        |
| Zero Coupon, 3/31/18 (e)(f)               | 2,045 | 525    |

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009 (unaudited)

## Portfolio of Investments (cont d)

*(Showing Percentage of Total Value of Investments)*

|  | Face<br>Amount<br>(000) | Value<br>(000) |
|--|-------------------------|----------------|
| <b>Kazakhstan (3.2%)</b>                                     |                         |                |
| <b>Sovereign (3.2%)</b>                                      |                         |                |
| Intergas Finance BV,<br>6.38%, 5/14/17                       | \$ 610                  | \$ 457         |
| KazMunaiGaz Finance Sub BV,<br>9.13%, 7/2/18                 | 2,000                   | 1,840          |
| 9.13%, 7/2/18 (c)  | 5,720                   | 5,134          |
|  |                         | 7,431          |
| <b>Mexico (11.6%)</b>  |                         |                |
| <b>Sovereign (11.6%)</b>                                     |                         |                |
| Pemex Project Funding Master Trust,<br>1.93%, 6/15/10 (a)(c) | 2,150                   | 2,118          |
| 8.63%, 12/1/23   | 1,740                   | 1,888          |
| 9.13%, 10/13/10  | 1,027                   | 1,110          |
| United Mexican States,<br>5.63%, 1/15/17 (d)                 | 7,558                   | 7,679          |
| 5.95%, 3/19/19   | 6,066                   | 6,157          |
| 6.75%, 9/27/34 (d)   | 7,689                   | 7,793          |
|  |                         | 26,745         |
| <b>Pakistan (0.4%)</b>                                       |                         |                |
| <b>Sovereign (0.4%)</b>                                      |                         |                |
| Republic of Pakistan,<br>6.88%, 6/1/17                       | 530                     | 347            |
| 7.13%, 3/31/16   | 500                     | 336            |
| 7.13%, 3/31/16 (c)   | 197                     | 135            |
|  |                         | 818            |
| <b>Panama (2.3%)</b>   |                         |                |
| <b>Sovereign (2.3%)</b>                                      |                         |                |
| Republic of Panama,<br>7.13%, 1/29/26                        | 1,340                   | 1,394          |
| 8.88%, 9/30/27   | 430                     | 521            |
| 9.38%, 4/1/29  | 2,663                   | 3,355          |
|  |                         | 5,270          |
| <b>Peru (6.3%)</b>   |                         |                |
| <b>Sovereign (6.3%)</b>                                      |                         |                |
| Republic of Peru,<br>7.13%, 3/30/19                          | 3,360                   | 3,604          |
| 7.35%, 7/21/25   | 560                     | 602            |
| 8.75%, 11/21/33  | 8,500                   | 10,391         |
|  |                         | 14,597         |
| <b>Philippines (5.6%)</b>                                    |                         |                |
| <b>Sovereign (5.6%)</b>                                      |                         |                |

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|   |        |        |
|---|--------|--------|
| <b>Republic of Philippines,</b>                       |        |        |
| 8.38%, 6/17/19  | 1,041  | 1,202  |
| 8.88%, 3/17/15  | 4,308  | 4,933  |
| 9.00%, 2/15/13  | 2,240  | 2,514  |
| 9.50%, 2/2/30   | 3,409  | 4,176  |
|   |        | 12,825 |
| <b>Qatar (0.7%)</b>                                   |        |        |
| <b>Sovereign (0.7%)</b>                               |        |        |
| State of Qatar (Registered),                          |        |        |
| 9.75%, 6/15/30  | 1,260  | 1,644  |
| <b>Russia (13.2%)</b>                                 |        |        |
| <b>Corporate (1.4%)</b>                               |        |        |
| TNK-BP Finance S.A.,                                  |        |        |
| 7.88%, 3/13/18 (c)                                    | 3,800  | 3,154  |
| <b>Sovereign (11.8%)</b>                              |        |        |
| RSHB Capital S.A. for OJSC Russian Agricultural Bank, |        |        |
| 6.30%, 5/15/17 (c)                                    | 2,004  | 1,733  |
| 7.18%, 5/16/13  | 270    | 258    |
| 7.18%, 5/16/13 (c)                                    | 2,800  | 2,674  |
| Russian Federation,                                   |        |        |
| 7.50%, 3/31/30 (b)(c)                                 | 849    | 839    |
| Russian Federation (Registered),                      |        |        |
| 12.75%, 6/24/28                                       | 4,000  | 5,780  |
| 7.50%, 3/31/30 (b)(d)                                 | 16,055 | 15,875 |
|   |        | 27,159 |
|   |        | 30,313 |
| <b>South Korea (1.5%)</b>                             |        |        |
| <b>Sovereign (1.5%)</b>                               |        |        |
| Korea Development Bank,                               |        |        |
| 8.00%, 1/23/14  | 1,320  | 1,433  |
| Republic of Korea,                                    |        |        |
| 5.75%, 4/16/14  | 1,950  | 2,002  |
|   |        | 3,435  |
| <b>Sri Lanka (0.1%)</b>                               |        |        |
| <b>Sovereign (0.1%)</b>                               |        |        |
| Republic of Sri Lanka,                                |        |        |
| 8.25%, 10/24/12                                       | 350    | 325    |

The accompanying notes are an integral part of the financial statements.

7

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009 (unaudited)

## Portfolio of Investments (cont d)

*(Showing Percentage of Total Value of Investments)*

|   | Face<br>Amount<br>(000) | Value<br>(000) |
|---|-------------------------|----------------|
| <b>Trinidad (0.8%)</b>  |                         |                |
| <b>Sovereign (0.8%)</b>   |                         |                |
| National Gas Co. of Trinidad & Tobago Ltd.,<br>6.05%, 1/15/36 (c) | \$ 2,369                | \$ 1,794       |
| <b>Turkey (10.4%)</b>   |                         |                |
| <b>Sovereign (10.4%)</b>  |                         |                |
| Republic of Turkey,<br>6.75%, 4/3/18                              | 6,005                   | 5,979          |
| 6.88%, 3/17/36  | 1,174                   | 1,080          |
| 7.50%, 11/7/19  | 2,300                   | 2,392          |
| 8.00%, 2/14/34  | 867                     | 911            |
| 11.00%, 1/14/13   | 7,145                   | 8,360          |
| 11.50%, 1/23/12   | 320                     | 369            |
| 11.88%, 1/15/30   | 3,237                   | 4,953          |
|   |                         | 24,044         |
| <b>Ukraine (1.7%)</b>   |                         |                |
| <b>Sovereign (1.7%)</b>   |                         |                |
| Ukraine Government,<br>6.58%, 11/21/16                            | 2,986                   | 2,120          |
| 6.75%, 11/14/17   | 120                     | 85             |
| 7.65%, 6/11/13  | 2,176                   | 1,698          |
|   |                         | 3,903          |
| <b>Uruguay (0.2%)</b>   |                         |                |
| <b>Sovereign (0.2%)</b>   |                         |                |
| Republic of Uruguay,<br>8.00%, 11/18/22                           | 545                     | 572            |
| <b>Venezuela (6.9%)</b>   |                         |                |
| <b>Sovereign (6.9%)</b>   |                         |                |
| Republic of Venezuela,<br>5.75%, 2/26/16                          | 987                     | 570            |
| 7.00%, 3/31/38  | 1,631                   | 803            |
| 9.00%, 5/7/23   | 617                     | 381            |
| 9.25%, 9/15/27  | 5,406                   | 3,703          |
| 10.75%, 9/19/13   | 8,330                   | 6,914          |
| 9.25%, 5/7/28   | 5,651                   | 3,490          |
|   |                         | 15,861         |
| <b>TOTAL DEBT INSTRUMENTS (Cost \$231,717)</b>                    |                         | <b>227,721</b> |

No. of  
Warrants



|   |               |                 |
|---|---------------|-----------------|
| <b>WARRANTS (0.2%)</b>  |               |                 |
| <b>Nigeria (0.2%)</b>   |               |                 |
| Central Bank of Nigeria, expires 11/15/20 (a)(g)  |               |                 |
| (Cost \$ )  | 3,000         | 315             |
|   | <b>Shares</b> |                 |
| <b>SHORT-TERM INVESTMENT (1.0%)</b>   |               |                 |
| <b>United States (1.0%)</b>   |               |                 |
| <b>Investment Company (1.0%)</b>  |               |                 |
| Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (h) |               |                 |
| (Cost \$2,407)  | 2,406,604     | 2,407           |
| <b>TOTAL INVESTMENTS (100.0%) (Cost \$234,124)</b>  |               | <b>230,443</b>  |
| <b>LIABILITIES IN EXCESS OF OTHER ASSETS</b>  |               | <b>(19,641)</b> |
| <b>NET ASSETS</b>   | <b>\$</b>     | <b>210,802</b>  |

- 
- (a) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on June 30, 2009.
- (b) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2009. Maturity date disclosed is the ultimate maturity date.
- (c) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (d) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of June 30, 2009.
- (e) Issuer is in default.
- (f) Non-income producing security.
- (g) Security has been deemed illiquid at June 30, 2009.
- (h) See Note G within the Notes to Financial Statements regarding investment in Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class.

8 The accompanying notes are an integral part of the financial statements.

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## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009 (unaudited)

## Portfolio of Investments (cont d)

## Futures Contracts:

The Fund had the following futures contract(s) open at period end:

|                           | Number<br>of<br>Contracts |    | Value<br>(000) | Expiration<br>Date |    | Net<br>Unrealized<br>Appreciation<br>(Depreciation)<br>(000) |
|---------------------------|---------------------------|----|----------------|--------------------|----|--|
| <b>Short:</b>             |                           |    |                |                    |    |  |
| U.S. Treasury 10 yr. Note | 318                       | \$ | 36,972         | Sep-09             | \$ | 75   |

## Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's net assets as of June 30, 2009.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below. (See Note 6 to the financial statements for further information regarding fair value measurement.)

| Investment Type               | Level 1<br>Quoted<br>prices | Level 2<br>Other<br>significant<br>observable<br>inputs | Level 3<br>Significant<br>unobservable<br>inputs | Total          |
|-------------------------------|-----------------------------|---|--|----------------|
| <b>Assets:</b>                |                             |   |  |                |
| <b>Debt Instruments</b>       |                             |   |  |                |
| Finance                       | \$                          | \$  | 3,154  | \$ 3,154       |
| Industrials                   |                             |   | 1,288  | 1,288          |
| Sovereign                     |                             |   | 223,279  | 223,279        |
| <b>Total Debt Instruments</b> |                             |   | <b>227,721</b>                                   | <b>227,721</b> |
| <b>Futures</b>                | 75                          |   |  | 75             |
| <b>Short-Term Investment</b>  |                             |   |  |                |
| Investment Company            | 2,407                       |   |  | 2,407          |
| <b>Warrants</b>               |                             |   | 315  | 315            |
| <b>Total Assets</b>           | <b>2,482</b>                | <b>228,036</b>  |  | <b>230,518</b> |

**Liabilities:**

|                                     |    |       |                 |         |    |                 |
|-------------------------------------|----|-------|-----------------|---------|----|-----------------|
| <b>Reverse Repurchase Agreement</b> |    |       | (22,856)        |         |    | (22,856)        |
| <b>Warrants</b>                     |    |       | (746)           |         |    | (746)           |
| <b>Total Liabilities</b>            |    |       | <b>(23,602)</b> |         |    | <b>(23,602)</b> |
| <b>Total</b>                        | \$ | 2,482 | \$              | 204,434 | \$ | 206,916         |

**Portfolio Composition**

| <b>Classification</b> | <b>Percentage of<br/>Total Investments</b> |
|-----------------------|--|
| Sovereign             | 97.0%                                      |
| Other*                | 2.0  |
| Short-Term Investment | 1.0  |
| Total Investments     | 100.0%                                     |

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\* Industries representing less than 5% of total investments.

The accompanying notes are an integral part of the financial statements.

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009

## Financial Statements

## Statement of Assets and Liabilities

|   | June 30, 2009<br>(unaudited)<br>(000) |
|---|---------------------------------------|
| <b>Assets:</b>  |                                       |
| Investments in Securities of Unaffiliated Issuers, at Value (Cost \$231,717)                            | \$ 228,036                            |
| Investment in Security of Affiliated Issuer, at Value (Cost \$2,407)                                    | 2,407                                 |
| Total Investments in Securities, at Value (Cost \$234,124)  | 230,443                               |
| Interest Receivable   | 5,273                                 |
| Due from Broker   | 699                                   |
| Foreign Currency, at Value (Cost \$599)   | 623                                   |
| Receivable for Investments Sold   | 263                                   |
| Receivable for Lehman Brothers Closed Reverse Repurchase Transactions                                   | 149                                   |
| Dividends Receivable  | 1                                     |
| Receivable from Affiliate   | 1                                     |
| Other Assets  | 6                                     |
| <b>Total Assets</b>   | <b>237,458</b>                        |
| <b>Liabilities:</b>   |                                       |
| Payable For:  |                                       |
| Reverse Repurchase Agreements   | 22,904                                |
| Dividends Declared  | 2,723                                 |
| Outstanding Warrants  | 746                                   |
| Investment Advisory Fees  | 174                                   |
| Bank Overdraft  | 10                                    |
| Administration Fees   | 6                                     |
| Custodian Fees  | 5                                     |
| Other Liabilities   | 88                                    |
| <b>Total Liabilities</b>  | <b>26,656</b>                         |
| <b>Net Assets</b>   |                                       |
| Applicable to 20,943,315 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized) | \$ 210,802                            |
| <b>Net Asset Value Per Share</b>  | <b>\$ 10.07</b>                       |
| <b>Net Assets Consist of:</b>   |                                       |
| Common Stock  | \$ 209                                |
| Paid-in Capital   | 232,444                               |
| Undistributed Net Investment Income   | 2,005                                 |
| Accumulated Net Realized Loss   | (19,531)                              |
| Unrealized Appreciation (Depreciation) on Investments, Futures and Foreign Currency Translations        | (4,325)                               |
| <b>Net Assets</b>   | <b>\$ 210,802</b>                     |

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009

## Financial Statements (cont d)

## Statement of Operations

|   | Six Months Ended<br>June 30, 2009<br>(unaudited)<br>(000) |
|---|---|
| <b>Investment Income:</b>   |   |
| Interest from Securities of Unaffiliated Issuers (Net of \$34 Foreign Taxes Withheld) | \$ 9,115  |
| Dividends from Security of Affiliated Issuer  | 6   |
| <b>Total Investment Income</b>  | <b>9,121</b>  |
| <b>Expenses:</b>  |   |
| Investment Advisory Fees (Note B)   | 970   |
| Administration Fees (Note C)  | 78  |
| Professional Fees   | 54  |
| Stockholder Reporting Expenses  | 17  |
| Custodian Fees (Note D)   | 10  |
| Stockholder Servicing Agent Fees  | 4   |
| Directors Fees and Expenses   | 2   |
| Other Expenses  | 17  |
| <b>Expenses Before Non Operating Expenses</b>   | <b>1,152</b>  |
| Interest Expense on Reverse Repurchase Agreements                                     | 66  |
| Bank Overdraft Expense  | @   |
| <b>Total Expenses</b>   | <b>1,218</b>  |
| Waiver of Administration Fees (Note C)  | (42)  |
| Rebate from Morgan Stanley Affiliates (Note G)  | (2)   |
| Expense Offset (Note D)   | @   |
| <b>Net Expenses</b>   | <b>1,174</b>  |
| <b>Net Investment Income</b>  | <b>7,947</b>  |
| <b>Net Realized Gain (Loss) on:</b>   |   |
| Investments   | (5,422)   |
| Foreign Currency Transactions   | (3,626)   |
| Futures Contracts   | 854   |
| <b>Net Realized Loss</b>  | <b>(8,194)</b>  |
| <b>Change in Unrealized Appreciation (Depreciation) on:</b>                           |   |
| Investments   | 31,320  |
| Foreign Currency Translations   | 168   |
| Future Contracts  | 75  |
| <b>Change in Unrealized Appreciation (Depreciation)</b>                               | <b>31,563</b>   |
| <b>Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)</b>  | <b>23,369</b>   |
| <b>Net Increase in Net Assets Resulting from Operations</b>                           | <b>\$ 31,316</b>  |

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 @ Amount is less than \$500.



## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009

## Financial Statements (cont d)

## Statements of Changes in Net Assets

|  | Six Months Ended<br>June 30, 2009<br>(unaudited)<br>(000) | Year Ended<br>December 31,<br>2008<br>(000) |
|--|---|---|
| <b>Increase (Decrease) in Net Assets</b>   |   |   |
| Operations:  |   |   |
| Net Investment Income  | \$ 7,947  | \$ 13,913                                   |
| Net Realized Loss  | (8,194)   | (2,664)                                     |
| Net Change in Unrealized Appreciation (Depreciation)   | 31,563  | (47,040)                                    |
| <b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>   | <b>31,316</b>   | <b>(35,791)</b>                             |
| Distributions from and/or in Excess of:  |   |   |
| Net Investment Income  | (4,922)   | (18,360)                                    |
| Capital Share Transactions:  |   |   |
| Repurchase of Shares (173,000 and 699,771 shares)  | (1,298)   | (5,974)                                     |
| <b>Total Increase (Decrease)</b>   | <b>25,096</b>   | <b>(60,125)</b>                             |
| <b>Net Assets:</b>   |   |   |
| Beginning of Period  | 185,706   | 245,831                                     |
| <b>End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$2,005 and \$(1,020))</b> | <b>\$ 210,802</b>   | <b>\$ 185,706</b>                           |

12

The accompanying notes are an integral part of the financial statements.

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009

## Financial Statements (cont d)

## Statement of Cash Flows

|  | Six Months Ended<br>June 30, 2009<br>(unaudited)<br>(000) |
|--|---|
| <b>Cash Flows From Operating Activities:</b>   |   |
| Proceeds from Sales and Maturities of Long-Term Investments  | \$ 105,688  |
| Purchase of Long-Term Investments  | (110,495)   |
| Net (Increase) Decrease in Short-Term Investments  | 5,255   |
| Net (Increase) Decrease in Foreign Currency Holdings   | (120)   |
| Net Increase (Decrease) in Cash Overdraft  | (127)   |
| Net Realized Gain (Loss) for Foreign Currency Transactions   | (3,626)   |
| Net Realized Gain (Loss) on Futures Contracts  | 854   |
| Net Investment Income  | 7,947   |
| <b>Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:</b> |   |
| Net (Increase) Decrease in Receivables Related to Operations   | 65  |
| Net (Increase) Decrease in Payables Related to Operations  | 75  |
| Accretion/Amortization of Discounts and Premiums   | (19)  |
| Net Cash Provided (Used) by Operating Activities   | 5,497   |
| <b>Cash Flows From Financing Activities:</b>   |   |
| Cash Received for Reverse Repurchase Agreements  | 29,882  |
| Cash Paid for Reverse Repurchase Agreements  | (23,493)  |
| Payment for Fund Shares Repurchased  | (1,298)   |
| Cash Distributions Paid  | (10,588)  |
| Net Cash Provided (Used) for Financing Activities  | (5,497)   |
| Net Increase (Decrease) in Cash  |   |
| <b>Cash at Beginning of Period</b>   |   |
| <b>Cash at End of Period</b>   | \$  |
| <b>Supplemental Disclosure of Cash Flow Information:</b>   |   |
| Interest Paid on Reverse Repurchase Agreements during the Period   | \$ 22   |

The accompanying notes are an integral part of the financial statements.

13



## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2009

## Financial Highlights

## Selected Per Share Data and Ratios

|  | Six Months<br>Ended June 30,<br>2009 (unaudited) | 2008       | 2007       | Year Ended December 31, |            |            | 2004 |
|--|--|------------|------------|-------------------------|------------|------------|------|
|  |  |            |            | 2006                    | 2005       |            |      |
| <b>Net Asset Value, Beginning of Period</b>                              | \$ 8.79  | \$ 11.27   | \$ 11.19   | \$ 10.80                | \$ 10.39   | \$ 10.24   |      |
| Net Investment Income  | 0.34   | 0.65       | 0.69       | 0.67                    | 0.91       | 0.83       |      |
| Net Realized and Unrealized Gain (Loss) on Investments                   | 1.17   | (2.32)     | 0.03       | 0.49                    | 0.44       | 0.19       |      |
| Total from Investment Operations   | 1.51   | (1.67)     | 0.72       | 1.16                    | 1.35       | 1.02       |      |
| Distributions from and/or in excess of:                                  |  |            |            |                         |            |            |      |
| Net Investment Income  | (0.24)   | (0.86)     | (0.66)     | (0.77)                  | (0.94)     | (0.87)     |      |
| Anti-Dilutive Effect of Share Repurchase Program                         | 0.01   | 0.05       | 0.02       |                         |            |            |      |
| <b>Net Asset Value, End of Period</b>                                    | \$ 10.07   | \$ 8.79    | \$ 11.27   | \$ 11.19                | \$ 10.80   | \$ 10.39   |      |
| <b>Per Share Market Value, End of Period</b>                             | \$ 8.29  | \$ 7.07    | \$ 9.70    | \$ 10.84                | \$ 10.88   | \$ 9.61    |      |
| <b>TOTAL INVESTMENT RETURN:</b>  |  |            |            |                         |            |            |      |
| Market Value   | 20.72%#  | (18.74)%   | (4.52)%    | 7.38%                   | 23.98%     | 7.95%      |      |
| Net Asset Value(1)   | 17.81%#  | (12.95)%   | 7.46%      | 11.66%                  | 13.83%     | 11.24%     |      |
| <b>RATIOS, SUPPLEMENTAL DATA:</b>  |  |            |            |                         |            |            |      |
| <b>Net Assets, End of Period (Thousands)</b>                             | \$ 210,802                                       | \$ 185,706 | \$ 245,831 | \$ 246,684              | \$ 238,091 | \$ 229,044 |      |
| Ratio of Expenses to Average Net Assets(2)                               | 1.21%*+  | 1.23%+     | 1.29%+     | 1.34%                   | 1.36%      | 1.22%      |      |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | 1.14%*+  | 1.15%+     | 1.10%+     | 1.16%                   | 1.16%      | 1.16%      |      |
| Ratio of Net Investment Income to Average Net Assets(2)                  | 8.19%*+  | 6.19%+     | 6.11%+     | 6.12%                   | 8.58%      | 8.18%      |      |
| Rebate from Morgan Stanley Affiliates to Average Net Assets              | 0.00%*§  | 0.00%§     | 0.00%§     | N/A                     | N/A        | N/A        |      |
| Portfolio Turnover Rate  | 50%#   | 64%        | 56%        | 44%                     | 50%        | 118%       |      |
| <b>(2) Supplemental Information on the Ratios to Average Net Assets:</b> |  |            |            |                         |            |            |      |
| Ratios Before Expenses Waived by Administrator:                          |  |            |            |                         |            |            |      |
| Ratio of Expenses to Average Net Assets                                  | 1.25%*+  | 1.28%+     | 1.34%+     | 1.38%                   | 1.41%      | 1.23%      |      |
| Ratio of Net Investment Income to Average Net Assets                     | 8.15%*+  | 6.14%+     | 6.06%+     | 6.08%                   | 8.53%      | 8.17%      |      |

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value per share of the Fund.

Per share amount is based on average shares outstanding.

§ Amount is less than 0.005%

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- + The Ratio of Expenses and Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The affect of the rebate on the ratios is disclosed in the above table as Rebate from Morgan Stanley Affiliates to Average Net Assets .
- \* Annualized
- # Not Annualized
- § Amount is less than 0.005%.

14

The accompanying notes are an integral part of the financial statements.

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**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements**

Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund) was incorporated in Maryland on May 6, 1993, and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to produce high current income and as a secondary objective, to seek capital appreciation, through investments primarily in debt securities of government and government-related issuers located in emerging market countries and of entities organized to restructure outstanding debt of such issuers. To the extent that the Fund invests in derivative instruments that the Adviser believes have economic characteristics similar to debt securities of government and government-related issuers located in emerging market countries and of entities organized to restructure outstanding debt of such issuers, such investments will be counted for purposes of the Fund's policy in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risks of such derivative instruments as described herein.

**A. Significant Accounting Policies:** The following significant accounting policies are in conformity with U.S. generally accepted accounting principles. Such policies are consistently followed by the Fund in the preparation of its financial statements. U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

**1. Security Valuation:** Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and asked prices obtained from reputable brokers. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, if it approximates market value.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Board of Directors (the Directors), although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

Most foreign markets close before the New York Stock Exchange (NYSE). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair



**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

**2. Reverse Repurchase Agreements:** The Fund may enter into reverse repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities the Fund is obligated to repurchase. Reverse repurchase agreements also involve credit risk with the counterparty to the extent that the value of securities subject to repurchase exceed the Fund's liability under the reverse repurchase agreement. Securities subject to repurchase under reverse repurchase agreements, if any, are designated as such in the Portfolio of Investments.

At June 30, 2009, the Fund had reverse repurchase agreements outstanding with UBS as follows:

|  |    | <b>Maturity in<br/>Less than<br/>365 Days</b> |
|--|----|---|
| Value of Securities Subject to Repurchase    | \$ | 29,309,000                                    |
| Liability Under Reverse Repurchase Agreement | \$ | 22,904,000                                    |
| Weighted Average Days to Maturity            |    | 73.15   |

The weighted average weekly balance of reverse repurchase agreements outstanding during the six months ended June 30, 2009 was approximately \$18,790,000 at a weighted average weekly interest rate of 0.77%.

**3. Foreign Currency Translation:** The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at the mean of the bid and asked prices of such currencies against U.S. dollars last quoted by a major bank as follows:

- investments, other assets and liabilities at the prevailing rates of exchange on the valuation date;
  
- investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from sales and maturities of foreign currency exchange contracts, disposition of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

A significant portion of the Fund's net assets consist of securities of issuers located in emerging markets or which are denominated in foreign currencies. Such investments may be concentrated in a limited number of countries and regions and may vary throughout the year. Changes in currency exchange rates will affect the value of and investment income from foreign currency denominated securities. Emerging market securities are often subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than U.S. securities. In addition, emerging market securities may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

**4. Derivatives:** The Fund may use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of another underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's portfolio holdings, including derivative instruments, are marked to market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is generally recognized.

Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Investment Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund may use and their associated risks:

**Futures:** A futures contract is a standardized agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Futures contracts are bilateral agreements, with both the purchaser and the seller equally obligated to complete the transaction. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the value of the contract (the variation margin). The risk of loss associated with a futures contract is in excess of the variation margin reflected on the Statement of Assets and Liabilities. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and





**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

the potential loss from futures can exceed the Fund's initial investment in such contracts.

**Options:** If a Fund buys an option, it buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or futures contract on the underlying instrument such as a security, currency or index, at an agreed upon price typically in exchange for a premium paid by the Fund. If a Fund sells an option, it sells to another person the right to buy from or sell to the Fund a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed upon price typically in exchange for a premium received by the Fund. Premiums are received and are recorded as liabilities. The liabilities are subsequently adjusted to reflect the current value of the options written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or are closed are added to or offset against the proceeds or amount paid on the transaction to determine the net realized gain or loss. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.

**Swaps:** A swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indexes, reference rates, currencies or other instruments. Most swap agreements provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the other). The Fund's obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each counterparty. Swap agreements are not entered into or traded on exchanges and there is no central clearing or guaranty function for swaps. Therefore, swaps are subject to credit risk or the risk of default or non-performance by the counterparty. Swaps could result in losses if interest rate or foreign currency exchange rates or credit quality changes are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected. When the Fund has an unrealized loss on a swap contract, the Fund has instructed the custodian to pledge cash or liquid securities as collateral with a value approximately equal to the amount of the unrealized loss. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate. Cash collateral is disclosed in the table following the Portfolio of Investments. Cash collateral has been offset against open swap contracts under the provisions of FASB Interpretation No. 39 Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105 and are included within Swap Contracts on the Statement of Assets and Liabilities. For cash collateral received, the Fund pays a monthly fee to the counterparty based on the effective rate for Federal Funds. This fee, when paid, is included within realized loss on swap contracts on the Statement of Operations.

The Fund adopted the provisions of the FASB Staff Position Paper No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45 (FSP FAS 133-1 and FIN 45-4), effective November 30, 2008. FSP FAS 133-1 and FIN 45-4 requires the seller of credit derivatives to provide additional disclosure about its credit derivatives. The Fund's use of swaps may include those based on the credit of an underlying security and

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

commonly referred to as credit default swaps. Where the Fund is the buyer of a credit default swap contract, it would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract only in the event of a default by a third party on the debt obligation. If no default occurs, the Fund would have paid to the counterparty a periodic stream of payments over the term of the contract and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation. The current credit rating of each individual issuer is listed in the table following the Portfolio of Investments and serves as an indicator of the current status of the payment/performance risk of the credit derivative. Alternatively, for credit default swaps on an index of credits, the quoted market prices and current values serve as an indicator of the current status of the payment/performance risk of the credit derivative. Generally, lower credit ratings and increasing market values, in absolute terms, represent a deterioration of the credit and a greater likelihood of an adverse credit event of the issuer.

**Structured Investments:** The Fund also may invest a portion of its assets in structured notes and other types of structured investments. A structured note is a derivative security for which the amount of principal repayment and/or interest payments is based on the movement of one or more factors. These factors include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR), referenced bonds and stock indices. Investments in structured notes involve risks including interest rate risk, credit risk and market risk. Changes in interest rates and movement of the factor may cause significant price fluctuations and changes in the reference factor may cause the interest rate on the structured note to be reduced to zero and any further changes in the reference factor may then reduce the principal amount payable on maturity. Other types of structured investments include interests in entities organized and operated for the purpose of restructuring the investment characteristics of underlying investment interests or securities. These investment entities may be structured as trusts or other types of pooled investment vehicles. Holders of structured investments bear risks of the underlying investment and are subject to counterparty risk. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

**Foreign Currency Forward Contracts:** In connection with its investments in foreign securities, the Fund also may enter into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date (forward contracts). A foreign currency forward contract is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Forward foreign currency exchange contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. A forward contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the contract is closed equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Hedging the Fund's currency risks

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

involves the risk of mismatching the Fund's objectives under a forward or futures contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts.

**Over-the-Counter Trading:** Securities and other derivative instruments that may be purchased or sold by the Fund may consist of instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater, and the ease with which the Fund can dispose of or enter into closing transactions with respect to such an instrument may be less, than in the case of an exchange-traded instrument. In addition, significant disparities may exist between bid and ask prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161), effective December 29, 2008. SFAS 161 is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of June 30, 2009.

| Primary Risk Exposure   | Statement of<br>Assets and<br>Liabilities | Futures<br>(000)(a) |
|-------------------------|---|---------------------|
| <b>Assets:</b>          |   |                     |
| Interest Rate Contracts | Receivables                               | \$ 75               |

(a) This amount represents the cumulative appreciation/depreciation of futures contracts as reported in the Portfolio of Investments. The Statement of Assets and Liabilities only reflects the current day variation margin, receivable/payable to brokers.

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the six months ended June 30, 2009 in accordance with SFAS 161.

Net Realized Gain (Loss)

| Primary Risk Exposure      | Statement of Operations                                     | Foreign Currency Contracts (000) | Futures (000) |
|----------------------------|---|----------------------------------|---------------|
| Interest Rate Contracts    | Realized Gain (Loss) on Futures Contracts                   | \$                               | \$ 854        |
| Foreign Currency Contracts | Realized Gain (Loss) on Foreign Currency Exchange Contracts | (177)                            |               |
| Total                      |   | \$ (177)                         | \$ 854        |

Change in Net Unrealized Appreciation (Depreciation)

| Primary Risk Exposure      | Statement of Operations   | Foreign Currency Contracts (000) | Futures (000) |
|----------------------------|---|----------------------------------|---------------|
| Interest Rate Contracts    | Change in Unrealized Appreciation (Depreciation) on Futures Contracts                   | \$                               | \$ 75         |
| Foreign Currency Contracts | Change in Unrealized Appreciation (Depreciation) on Foreign Currency Exchange Contracts | 25                               |               |
| Total                      |   | \$ 25                            | \$ 75         |

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

All open derivative positions at period end are reflected on the Portfolio of Investments and the volume of these open positions relative to the net assets of the Fund is generally representative of open positions throughout the reporting period for the Fund.

**5. Micro-Finance Loans:** A portion of the Fund's investments may include investments in microfinance loans. Microfinance loans are typically very small loans (microcredit) made for providing the means for people who are not served by traditional banking systems to expand their businesses or finance their families' basic needs by providing access to affordable credit. Microfinance loans carry many of the same risks associated with investing in emerging markets countries, but because some of the microfinance loans may be used to fund crop growing and livestock, microfinance loans may also be subject to climate and geography risk. In addition, most micro-clients have low incomes and little or no previous credit history. As a result, there is no assurance that micro-clients will be able to repay the microfinance loans.

**6. Fair Value Measurement:** In accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. SFAS 157 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

- Level 1 quoted prices in active markets for identical securities
  
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
  
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**7. Subsequent Event:** In accordance with the provisions set forth in Financial Accounting Standards Board Statement of Financial Accounting Standards No. 165, Subsequent Events, adopted by the Fund as of June 30, 2009, management has evaluated the possibility of subsequent events existing in the Fund's financial statements through August 28, 2009. Management has determined that there are no material events that would require disclosure in the Fund's financial statements through this date.

**8. Other:** Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis and discounts and premiums on investments purchased are accreted or amortized in accordance with the effective yield method over their respective lives, except where collection is in doubt. Dividend income and distributions are recorded on the ex-dividend

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

date (except certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

**B. Investment Advisory Fees:** Morgan Stanley Investment Management Inc. (the Adviser or MS Investment Management ) provides investment advisory services to the Fund under the terms of an Investment Advisory and Management Agreement (the Agreement ). Under the Agreement, the Adviser is paid a fee computed weekly and payable monthly at an annual rate of 1.00% of the Fund s average weekly net assets.

**C. Administration Fees:** MS Investment Management also serves as Administrator to the Fund pursuant to an Administration Agreement. Under the Administration Agreement, the administration fee is 0.08% of the Fund s average weekly net assets. MS Investment Management has agreed to limit the administration fee through a waiver so that it will be no greater than the previous administration fee (prior to November 1, 2004) of 0.02435% of the Fund s average weekly net assets plus \$24,000 per annum. This waiver is voluntary and may be terminated at any time. For the six months ended June 30, 2009, approximately \$42,000 of administration fees were waived pursuant to this arrangement. Under a sub-administration agreement between the Administrator and JPMorgan Investor Services Co. ( JPMIS ), a corporate affiliate of JPMorgan Chase Bank, N.A., JPMIS provides certain administrative services to the Fund. For such services, the Administrator pays JPMIS a portion of the fee the Administrator receives from the Fund. Administration costs (including out-of-pocket expenses) incurred in the ordinary course of providing services under the agreement, except pricing services and extraordinary expenses, will be covered under the administration fee.

**D. Custodian Fees:** JPMorgan Chase Bank, N.A., (the Custodian ) serves as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the 1940 Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

The Fund has entered into an arrangement with its Custodian whereby credits realized on uninvested cash balances were used to offset a portion of the Fund s expenses. These custodian credits are shown as Expense Offset on the Statement of Operations.

**E. Federal Income Taxes:** It is the Fund s intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements. Distributions to stockholders are recorded on the ex-dividend date.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/ or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned.

Financial Accounting Standards Board Interpretation No. 48 *Accounting for Uncertainty in Income Taxes (FIN 48)* sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in Interest Expense and penalties in Other expenses on the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Generally, each of the tax years in the four year period ended December 31, 2008, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown on the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes.



**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

The tax character of distributions paid during fiscal 2008 and 2007 was as follows:

|                    | 2008 Distributions<br>Paid From:<br>(000) |                              | 2007 Distributions<br>Paid From:<br>(000) |                              |
|--------------------|---|------------------------------|---|------------------------------|
| Ordinary<br>Income |   | Long-term<br>Capital<br>Gain | Ordinary<br>Income                        | Long-term<br>Capital<br>Gain |
| \$                 | 18,360                                    | \$                           | 14,541                                    | \$                           |

The amount and character of income and capital gain distributions to be paid by the Fund are determined in accordance with Federal income tax regulations, which may differ from U.S. generally accepted accounting principles. The book/tax differences are considered either temporary or permanent in nature.

Temporary differences are generally due to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions and the timing of the deductibility of certain expenses.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions, basis adjustments on certain equity securities designated as issued by passive foreign investment companies and distribution redesignations, resulted in the following reclassifications among the components of net assets at December 31, 2008:

|  | Increase (Decrease) |   |                             |
|--|---------------------|---|-----------------------------|
| Undistributed<br>(Distributions in<br>Excess of)<br>Net Investment<br>Income (Loss)<br>(000) |                     | Accumulated<br>Net Realized<br>Gain (Loss)<br>(000) | Paid-in<br>Capital<br>(000) |
| \$   | 5,109               | \$ (5,109)  | \$                          |

At December 31, 2008, the components of distributable earnings on a tax basis were as follows:

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|    | Undistributed Ordinary<br>Income<br>(000) | Undistributed<br>Long-term Capital Gain<br>(000) |
|----|---|--|
| \$ | 47  | \$   |

At June 30, 2009, the U.S. Federal income tax cost basis of investments was approximately 234,124,000 and, accordingly, net unrealized depreciation for U.S. Federal income tax purposes was \$3,681,000 of which \$11,427,000 related to appreciated securities and \$15,108,000 related to depreciated securities.

Net capital, currency and passive foreign investment company ( PFIC ) losses incurred after October 31, and within the taxable year are deemed to arise on the first day of the Fund's next taxable year. For the year ended December 31, 2008, the Fund deferred to January 2, 2009, for U.S. Federal income tax purposes, capital losses of approximately \$913,000.

At December 31, 2008, the Fund had a capital loss carryforward for U.S. Federal income tax purposes of approximately \$8,272,000 available to offset future capital gains, of which \$3,458,000 will expire on December 31, 2009 and \$4,814,000 will expire on December 31, 2016.

To the extent that capital loss carryforwards are used to offset any future capital gains realized during the carryover period as provided by U.S. Federal income tax regulations, no capital gains tax liability will be incurred by the Fund for gains realized and not distributed. To the extent that capital gains are offset, such gains will not be distributed to the stockholders.

**F. Contractual Obligations:** The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**Morgan Stanley Emerging Markets Debt Fund, Inc.****June 30, 2009 (unaudited)****Notes to Financial Statements (cont d)**

**G. Security Transactions and Transactions with Affiliates:** The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio, an open-end management investment company managed by the Adviser. Investment Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of advisory and administration fees paid by the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio. For the six months ended June 30, 2009, advisory fees paid were reduced by approximately \$2,000 relating to the Fund's investment in the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio.

A summary of the Fund's transactions in shares of the affiliated issuer during the six months ended June 30, 2009 is as follows:

| Market<br>Value<br>December 31,<br>2008<br>(000) | Purchases<br>at Cost<br>(000) | Sales<br>Proceeds<br>(000) | Dividend<br>Income<br>(000) | Market<br>Value<br>June 30,<br>2009<br>(000) |
|--|-------------------------------|----------------------------|-----------------------------|--|
| \$ 7,662   | \$ 79,980                     | \$ 85,235                  | \$ 6                        | \$ 2,407                                     |

During the six months ended June 30, 2009, the Fund made purchases and sales totaling approximately \$110,414,000 and \$104,429,000, respectively, of investment securities other than long-term U.S. Government securities and short-term investments. There were no purchases or sales of long-term U.S. Government securities.

These investments may be traded by one market maker who may also be utilized by the Fund to provide pricing information used to value such securities. The amounts which will be realized upon disposition of the securities may differ from the value reflected on the Statement of Assets and Liabilities and the differences could be material.

During the six months ended June 30, 2009, the Fund incurred no brokerage commissions with Morgan Stanley & Co. Incorporated, an affiliated broker/dealer.

**H. Other:** On June 19, 2007, the Directors approved a procedure whereby the Fund may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of the purchase. During the six months ended June 30, 2009, the Fund repurchased 173,000 of its shares at an average discount of 14.76% from net asset value per share. Since the inception of the program, the Fund has repurchased 1,103,366 of its shares at an average discount of 15.74% from net asset value per share. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Directors.

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On June 19, 2009 the Officers of the Fund, pursuant to authority granted by the Directors, declared a distribution of \$0.1300 per share, derived from net investment income, payable on July 15, 2009, to stockholders of record on June 30, 2009.

On June 18, 2009, the Board of Directors of the Fund approved, subject to stockholder approval, a reorganization of Morgan Stanley Global Opportunity Bond Fund, Inc. ( MGB ) into Morgan Stanley Emerging Markets Debt Fund, Inc. Completion of the reorganization is subject to a number of conditions, including approval by the stockholders of MGB.

**I. Supplemental Proxy Information:** On June 17, 2009, an annual meeting of the Fund's stockholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Directors by all stockholders:

|                  | <b>For</b> | <b>Withhold</b> |
|------------------|------------|-----------------|
| Michael Bozic    | 17,154,483 | 1,454,899       |
| Michael F. Klein | 17,259,855 | 1,349,527       |
| W. Allen Reed    | 17,200,456 | 1,408,926       |

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Notes to Financial Statements (cont d)**

**For More Information About Portfolio Holdings**

The Fund provides a complete schedule of portfolio holdings in its semi-annual and annual reports within 60 days of the end of the Fund's second and fourth fiscal quarters. The semi-annual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semi-annual and annual reports to Fund stockholders and makes these reports available on its public website, [www.morganstanley.com/im](http://www.morganstanley.com/im). Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the Fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to stockholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, [www.sec.gov](http://www.sec.gov). You may also review and copy them at the SEC's public reference room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC toll free at 1-(800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address ([publicinfo@sec.gov](mailto:publicinfo@sec.gov)) or by writing the public reference section of the SEC, Washington, DC 20549-0102.

In addition to filing a complete schedule of portfolio holdings with the SEC each fiscal quarter, the Fund makes portfolio holdings information available by periodically providing the information on its public website, [www.morganstanley.com/im](http://www.morganstanley.com/im).

The Fund provides a complete schedule of portfolio holdings on the public website on a calendar-quarter basis approximately 31 calendar days after the close of the calendar quarter. The Fund also provides Top 10 holdings information on the public website approximately 15 business days following the end of each month. You may obtain copies of the Fund's monthly or calendar-quarter website postings, by calling toll free 1-(800) 231-2608.

**Proxy Voting Policy and Procedures and Proxy Voting Record**

A copy of (1) the Fund's policies and procedures with respect to the voting of proxies relating to the Fund's portfolio securities; and (2) how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, is available without charge, upon request, by calling toll free 1-(800) 548-7786 or by visiting our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). This information is also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Fund Management**

The Fund is managed within the Emerging Markets Debt team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are Eric J. Baurmeister, Federico L. Kaune and Abigail L. McKenna, each a Managing Director of the Adviser.

Mr. Baurmeister has been associated with the Adviser in an investment management capacity since 1997 and began managing the Fund in July 2002. Ms. McKenna has been associated with the Adviser in an investment management capacity since 1996 and began managing the Fund in July 2002. Mr. Kaune has been associated with the Adviser in an investment management capacity since 2002 and began managing the Fund in August 2002.

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Dividend Reinvestment and Cash Purchase Plan**

Pursuant to the Dividend Reinvestment and Cash Purchase Plan (the Plan ), each stockholder will be deemed to have elected, unless Computershare Trust Company, N.A. (the Plan Agent ) is otherwise instructed by the stockholder in writing, to have all distributions automatically reinvested in Fund shares. Participants in the Plan have the option of making additional voluntary cash payments to the Plan Agent, quarterly, in any amount from \$100 to \$3,000, for investment in Fund shares.

Dividend and capital gain distributions (Distributions) will be reinvested on the reinvestment date in full and fractional shares. If the market price per share equals or exceeds net asset value per share on the reinvestment date, the Fund will issue shares to participants at net asset value or, if net asset value is less than 95% of the market price on the reinvestment date, shares will be issued at 95% of the market price. If net asset value exceeds the market price on the reinvestment date, participants will receive shares valued at market price. The Fund may purchase shares of its Common Stock in the open market in connection with dividend reinvestment requirements at the discretion of the Board of Directors. Should the Fund declare a Distribution payable only in cash, the Plan Agent will purchase Fund shares for participants in the open market as agent for the participants.

The Plan Agent's fees for the reinvestment of Distributions will be paid by the Fund. However, each participant's account will be charged a pro rata share of brokerage commissions incurred on any open market purchases effected on such participant's behalf. A participant will also pay brokerage commissions incurred on purchases made by voluntary cash payments. Although stockholders in the Plan may receive no cash distributions, participation in the Plan will not relieve participants of any income tax which may be payable on such dividends or distributions.

In the case of stockholders, such as banks, brokers or nominees, that hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the stockholder as representing the total amount registered in the stockholder's name and held for the account of beneficial owners who are participating in the Plan.

Stockholders who do not wish to have Distributions automatically reinvested should notify the Plan Agent in writing. There is no penalty for non-participation or withdrawal from the Plan, and stockholders who have previously withdrawn from the Plan may rejoin at any time. Requests for additional information or any correspondence concerning the Plan should be directed to the Plan Agent at:

Morgan Stanley Emerging Markets Debt Fund, Inc.  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, Rhode Island 02940-3078  
1-(800) 231-2608





**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Morgan Stanley Institutional Closed End Funds  
An Important Notice Concerning Our U.S. Privacy Policy**

We are required by federal law to provide you with a copy of our Privacy Policy annually.

The following Policy applies to current and former individual investors in Morgan Stanley Institutional closed end funds. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders. Please note that we may amend this Policy at any time, and will inform you of any changes to this Policy as required by law.

**We Respect Your Privacy**

We appreciate that you have provided us with your personal financial information. We strive to maintain the privacy of such information while we help you achieve your financial objectives. This Policy describes what non-public personal information we collect about you, why we collect it, and when we may share it with others. We hope this Policy will help you understand how we collect and share non-public personal information that we gather about you. Throughout this Policy, we refer to the non-public information that personally identifies you or your accounts as personal information.

**1. What Personal Information Do We Collect About You?**

To serve you better and manage our business, it is important that we collect and maintain accurate information about you. We may obtain this information from applications and other forms you submit to us, from your dealings with us, from consumer reporting agencies, from our Web sites and from third parties and other sources.

For example:

- We may collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through applications and other forms you submit to us.
- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.

- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.
- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.
- If you interact with us through our public and private Web sites, we may collect information that you provide directly through online communications (such as an e-mail address). We may also collect information about your Internet service provider, your

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2009 (unaudited)**

**Morgan Stanley Institutional Closed End Funds  
An Important Notice Concerning Our U.S. Privacy Policy (cont d)**

domain name, your computer's operating system and Web browser, your use of our Web sites and your product and service preferences, through the use of cookies. Cookies recognize your computer each time you return to one of our sites, and help to improve our sites' content and personalize your experience on our sites by, for example, suggesting offerings that may interest you. Please consult the Terms of Use of these sites for more details on our use of cookies.

**2. When Do We Disclose Personal Information We Collect About You?**

To provide you with the products and services you request, to serve you better and to manage our business, we may disclose personal information we collect about you to our affiliated companies and to non-affiliated third parties as required or permitted by law.

**A. Information We Disclose to Our Affiliated Companies.** We do not disclose personal information that we collect about you to our affiliated companies except to enable them to provide services on our behalf or as otherwise required or permitted by law.

**B. Information We Disclose to Third Parties.** We do not disclose personal information that we collect about you to non-affiliated third parties except to enable them to provide services on our behalf, to perform joint marketing agreements with other financial institutions, or as otherwise required or permitted by law. For example, some instances where we may disclose information about you to nonaffiliated third parties include: for servicing and processing transactions, to offer our own products and services, to protect against fraud, for institutional risk control, to respond to judicial process or to perform services on our behalf. When we share personal information with these companies, they are required to limit their use of personal information to the particular purpose for which it was shared and they are not allowed to share personal information with others except to fulfill that limited purpose.

**3. How Do We Protect the Security and Confidentiality of Personal Information We Collect About You?**

We maintain physical, electronic and procedural security measures to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information. Third parties that provide support or marketing services on our behalf may also receive personal information, and we require them to adhere to confidentiality standards with respect to such information.

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**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**Directors**

Michael E. Nugent

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

W. Allen Reed

Fergus Reid

Kevin Klingert

*Vice President*

Stefanie V. Chang Yu

*Vice President*

James W. Garrett

*Treasurer and Chief Financial Officer*

Carsten Otto

*Chief Compliance Officer*

Mary E. Mullin

*Secretary*

**Officers**

Michael E. Nugent

*Chairman of the Board and Director*

Randy Takian

*President and Principal Executive Officer*

**Investment Adviser and Administrator**

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

**Custodian**

JPMorgan Chase Bank, N.A.

270 Park Avenue

New York, New York 10017

**Stockholder Servicing Agent**

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

**Legal Counsel**

Clifford Chance US LLP

31 West 52nd Street

New York, New York 10019-6131

**Independent Registered Public Accounting Firm**

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

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For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1-(800) 231-2608 or visit our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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IU09-03486I-Y06/09

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Item 2. Code of Ethics.

Not applicable for semiannual reports.

Item 3. Audit Committee Financial Expert.

Not applicable for semiannual reports.

Item 4. Principal Accountant Fees and Services

Not applicable for semiannual reports.

Item 5. Audit Committee of Listed Registrants.

Not applicable for semiannual reports.

Item 6. Schedule of Investments

Refer to Item 1.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable for semiannual reports.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Applicable only to annual reports filed by closed-end funds.



Item 9. Closed-End Fund Repurchases

Morgan Stanley Emerging Markets Debt Fund, Inc.\*

| <b>Period</b> | <b>TOTAL NUMBER OF<br/>SHARES PURCHASED</b> | <b>AVERAGE PRICE<br/>PAID PER SHARE</b> | <b>TOTAL NUMBER OF<br/>SHARES PURCHASED AS<br/>PART OF PUBLICLY<br/>ANNOUNCED PLANS<br/>OR PROGRAMS</b> | <b>MAXIMUM NUMBER<br/>OF SHARES THAT MAY YET<br/>BE PURCHASED UNDER<br/>THE PLANS OR PROGRAMS</b> |
|---------------|---|---|---|---|
| January       | 31,300                                      | \$ 7.59                                 | 31,300  | Unlimited   |
| February      | 141,700                                     | \$ 7.41                                 | 141,700   | Unlimited   |
| March         |   |   |   | Unlimited   |
| April         |   |   |   | Unlimited   |
| May           |   |   |   | Unlimited   |
| June          |   |   |   | Unlimited   |

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\* The Share Repurchase Program commenced on 6/19/2007.

The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Board of Directors.

Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits

(a) Code of Ethics - Not applicable for semiannual reports.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Morgan Stanley Emerging Markets Debt  
Fund, Inc.

By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: August 20, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: August 20, 2009

By: /s/ James W. Garrett  
Name: James W. Garrett  
Title: Principal Financial Officer  
Date: August 20, 2009

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