

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-Q  
September 28, 2011

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

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-22011

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

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

10036  
(Zip code)

Arthur Lev

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

Registrant's telephone number, including area code: 212-296-6963

Date of fiscal year end: October 31, 2011

Date of reporting period: July 31, 2011

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**Item 1. Schedule of Investments.**

The Fund's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

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**2011 Third Quarter Report****July 31, 2011 (unaudited)**

Portfolio of Investments

**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.***(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
<b>Fixed Income Securities (98.5%)</b>		
<b>Brazil (17.6%)</b>		
<b>Sovereign (17.6%)</b>		
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/17	BRL 517,847	\$ 297,714
<b>Chile (0.6%)</b>		
<b>Sovereign (0.6%)</b>		
Chile Government International Bond, 5.50%, 8/5/20	CLP 4,665,000	10,565
<b>Colombia (4.5%)</b>		
<b>Sovereign (4.5%)</b>		
Colombia Government International Bond, 7.75%, 4/14/21	COP 29,000,000	18,730
12.00%, 10/22/15	33,000,000	23,722
Republic of Colombia, 9.85%, 6/28/27	46,000,000	34,333
		76,785
<b>Hungary (7.6%)</b>		
<b>Sovereign (7.6%)</b>		
Hungary Government Bond, 6.75%, 2/24/17	HUF 14,588,920	76,568
7.50%, 11/12/20	9,480,000	51,261
		127,829
<b>Indonesia (13.3%)</b>		
<b>Corporate Bonds (0.2%)</b>		
Pindo Deli Finance BV, Tranche A		
2.26%, 4/28/15 (a)(b)(c)	\$ 137	25
3.25%, 4/28/15 (a)(b)(c)(d)	1,391	250
Tranche B		
3.26%, 4/28/18 (a)(b)(c)(d)	8,336	875
Tranche C		
Zero Coupon, 4/28/27 (a)(b)(c)(d)	2,227	78
Tjiwi Kimia Finance BV, Tranche A		
3.26%, 4/28/15 (a)(b)(c)	627	113

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3.26%, 4/28/15 (a)(b)(c)(d) Tranche B		4,152	750
3.26%, 4/28/18 (a)(b)(c)(d) Tranche C		9,360	1,067
Zero Coupon, 4/28/27 (a)(b)(c)(d)		998	35
			3,193
<b>Sovereign (13.1%)</b>			
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17	IDR	600,000,000	82,008

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	Face Amount (000)	Value (000)
Credit Suisse, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17	\$ 154,683,530	\$ 21,142
Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked Notes, 11.00%, 12/15/20	60,000,000	8,938
11.50%, 9/23/19 (d)	235,000,000	35,321
12.80%, 6/22/21	150,000,000	24,776
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 8.25%, 7/17/21	185,000,000	23,776
10.00%, 7/19/17 (a)	192,525,000	26,314
		222,275
		225,468
<b>Malaysia (4.2%)</b>		
<b>Sovereign (4.2%)</b>		
Malaysia Government Bond, 3.83%, 9/28/11	MYR 55,030	18,591
3.84%, 8/12/15	110,000	37,697
5.09%, 4/30/14	42,152	14,895
		71,183
<b>Mexico (15.9%)</b>		
<b>Sovereign (15.9%)</b>		
Mexican Bonos, 8.00%, 6/11/20	MXN 998,200	93,769
10.00%, 12/5/24 11/20/36	1,628,375	175,703
		269,472
<b>Peru (1.6%)</b>		
<b>Sovereign (1.6%)</b>		
Peru Government Bond, 7.84%, 8/12/20	PEN 37,745	15,377
Peruvian Government International Bond, 7.84%, 8/12/20	30,000	12,222
		27,599
<b>Philippines (0.9%)</b>		
<b>Sovereign (0.9%)</b>		
Philippine Government International Bond, 4.95%, 1/15/21	PHP 648,000	15,283

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		Face Amount (000)		Value (000)
<b>Poland (6.4%)</b>				
<b>Sovereign (6.4%)</b>				
Poland Government Bond, 5.50%, 10/25/19	PLN	307,287	\$	109,119
<b>Russia (2.5%)</b>				
<b>Sovereign (2.5%)</b>				
Russian Foreign Bond - Eurobond, 7.85%, 3/10/18 (d)	RUB	1,095,000		41,808
<b>South Africa (9.4%)</b>				
<b>Sovereign (9.4%)</b>				
South Africa Government Bond, 7.25%, 1/15/20	ZAR	985,200		139,193
8.00%, 12/21/18		140,000		20,830
				160,023
<b>Thailand (4.0%)</b>				
<b>Sovereign (4.0%)</b>				
Thailand Government Bond, 4.25%, 3/13/13	THB	1,597,940		54,025
5.25%, 7/13/13		395,100		13,621
				67,646
<b>Turkey (9.9%)</b>				
<b>Sovereign (9.9%)</b>				
Turkey Government Bond, Zero Coupon, 8/3/11 1/25/12	TRY	181,800		105,824
10.00%, 2/15/12		19,789		12,130
10.50%, 1/15/20		69,900		43,963
16.00%, 3/7/12		9,340		5,775
				167,692
<b>Venezuela (0.1%)</b>				
<b>Sovereign (0.1%)</b>				
Venezuela Government International Bond, 9.25%, 9/15/27	\$	1,349		1,015
<b>Total Fixed Income Securities (Cost \$1,578,813)</b>				<b>1,669,201</b>

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	Shares	Value (000)
<b>Short-Term Investment (1.5%)</b>		
<b>Investment Company (1.5%)</b>		
Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (e) (Cost \$25,629)	25,628,661	\$ 25,629
<b>Total Investments (100.0%) (Cost \$1,604,442) +</b>		1,694,830
<b>Liabilities in Excess of Other Assets</b>		(312,996)
<b>Net Assets</b>		\$ 1,381,834

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- (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 July 31, 2011.
- (b) Security has been deemed illiquid at July 31, 2011.
- (c) Issuer is in default.
- (d) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (e) The Fund invests in the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (the Liquidity Fund ), an open-end management investment company managed by the Adviser. Investment advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Fund with respect to assets invested by the Fund in the Liquidity Fund.
- + At July 31, 2011, the U.S. Federal income tax cost basis of investments was approximately \$1,604,442,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was approximately \$90,388,000 of which approximately \$126,151,000 related to appreciated securities and approximately \$35,763,000 related to depreciated securities.
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**Foreign Currency Exchange Contracts Information:**

The Fund had the following foreign currency exchange contract(s) open at period end:

Counterparty	Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase Bank	USD	104,185	8/11/11	RUB	2,917,637	\$ 1,280
JPMorgan Chase Bank	USD	65,673	8/18/11	MYR	197,710	\$ 861
JPMorgan Chase Bank	USD	51,001	8/22/11	THB	1,528,000	\$ 141
		\$ 220,859			\$ 223,141	\$ 2,282

BRL	Brazilian Real
CLP	Chilean Peso
COP	Colombian Peso
HUF	Hungarian Forint
IDR	Indonesian Rupiah
MXN	Mexican New Peso
MYR	Malaysian Ringgit
PEN	Peruvian Nuevo Sol
PHP	Philippine Peso
PLN	Polish Zloty
RUB	Russian Ruble
THB	Thai Baht
TRY	Turkish Lira
USD	United States Dollar
ZAR	South African Rand



**Fair Value Measurement Information:**

The following is a summary of the inputs used to value the Fund's net assets as of July 31, 2011. (See Note to the Portfolio of Investments for further information regarding fair value measurement.)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
<b>Assets:</b>				
<b>Fixed Income Securities</b>				
Corporate Bonds	\$	\$ 3,193	\$	\$ 3,193
Sovereign		1,666,008		1,666,008
<b>Total Fixed Income Securities</b>		1,669,201		1,669,201
<b>Short-Term Investment</b> Investment Company	25,629			25,629
<b>Foreign Currency Exchange Contracts</b>		2,282		2,282
<b>Total Assets</b>	\$ 25,629	\$ 1,671,483	\$	\$ 1,697,112

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of July 31, 2011, the Fund did not have any significant investments transfer between valuation levels.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

	Loans (000)
<b>Beginning Balance</b>	\$ 33,683
Net purchases (sales)	(33,540)
Amortization of discount	
Transfers in	
Transfers out	
Change in unrealized appreciation/depreciation	1,998
Realized gains (losses)	(2,141)
<b>Ending Balance</b>	\$
Net change in unrealized appreciation/depreciation from investments still held as of July 31, 2011	\$

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Notes to the Portfolio of Investments • July 31, 2011 (unaudited)

**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 except as noted below. 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 ask prices. 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. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Directors (the Directors) determines such valuation does not reflect the securities market value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

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

**Fair Value Measurement:** Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 820, Fair Value Measurements and Disclosure ( ASC 820 ), defines fair value as the value 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. ASC 820 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 Funds' investments. The inputs are summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments

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- 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. Factors considered in making this determination may include, but are not
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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.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

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**Item 2. 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-Q 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 Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

**Item 3. Exhibits.**

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

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**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.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
September 20, 2011

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.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
September 20, 2011

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
September 20, 2011

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