

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSRS
September 08, 2011

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, 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: 212-296-6990

Date of fiscal year end: December 31, 2011

Date of reporting period: June 30, 2011

Item 1 - Report to Shareholders

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

Officers

Michael E. Nugent

Chairman of the Board and Director

Arthur Lev

*President and Principal
Executive Officer*

Stefanie V. Chang Yu

Vice President

Francis J. Smith

Treasurer and Principal Financial Officer

Mary Ann Picciotto

Chief Compliance Officer

Mary E. Mullin

Secretary

Investment Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

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. All investments involve risks, including the possible loss of principal.

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IU11-01725P-Y06/11

INVESTMENT MANAGEMENT

Morgan Stanley

Emerging Markets Debt

Fund, Inc. (MSD)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Semi-Annual
Report**

June 30, 2011

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2011, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had total returns of 5.32%, based on net asset value, and 4.80% 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 5.09%. On June 30, 2011, the closing price of the Fund's shares on the New York Stock Exchange was \$10.62, representing an 8.4% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The first three months of 2011 were volatile, with a number of unexpected global events including political turmoil in the Middle East and Africa, the Japan earthquake, and the precarious fiscal situation in Emerging Europe. However, emerging market-related asset classes performed well in the first quarter. In addition, the market digested a record \$84 billion (in U.S. dollars) of external debt supply in the first quarter of 2011, with 77% of this issuance coming from EM corporate debt.
- During the first quarter, emerging market central banks adopted divergent tightening strategies. Some central banks, such as Chile and Israel, surprised the market by stepping up the pace of rate hikes; others, including Brazil and Turkey, tightened prudential regulations in lieu of rate hikes. The Index spread widened 10 basis points to 299 basis points above U.S. Treasuries as risk aversion increased markedly during the first quarter.
- Global risk markets were mixed through the second quarter of 2011 as European officials lacked a clear resolution to Greece's sovereign-debt crisis and U.S. economic data disappointed. In addition to Greece, other European countries showed significant signs of stress, including Portugal, Italy and Spain. In the second quarter, emerging market asset classes performed well. Inflation continued to be an important concern in the emerging markets as rising food and energy prices prompted emerging market central banks to remain vigilant. Against this backdrop, many emerging market central banks resumed monetary tightening policies to combat inflationary pressures.
- In the second quarter, Greece's debt problems and fear of contagion caused U.S. Treasuries to rally in conjunction with weak U.S. economic data. As demand pushed prices up, yields on the 10-year Treasury fell below 3% before retracing. Emerging markets debt yield spreads, as measured by the Index, tightened 11 basis points to 288 basis points above U.S. Treasuries for the quarter primarily driven by the Treasury sell-off at the end of June as investor appetite for global risk assets bounced back.
- The portfolio benefited from overweight exposure to Brazil, Chilean local markets, Kazakhstan, Mexican local markets, Russian local markets, Venezuela, and the South Korean won. Venezuelan bonds rallied after President Hugo Chavez sought medical treatment in Cuba for cancer and international investors speculated that the left-leaning president might have to leave office. Brazil benefited from dissipating inflationary expectations as the central bank hiked its benchmark interest rate and Moody's upgraded Brazil's sovereign credit rating. Mexican local markets also benefited from dissipating inflationary expectations. Kazakhstan and Russian local markets, and Chile, the world's largest copper producer, benefited from high commodity prices.

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont'd)

Security selection in Argentina also contributed to relative returns. The Korean won was relatively undervalued compared to other regional currencies and Korean officials have been supportive of currency market strengthening to offset inflationary pressures.

- Conversely, underweight exposure to the Philippines as well as exposure to local markets in South Africa and Turkey detracted from performance. The Philippines benefited from foreign and local currency long-term bond rating increases by Moody's due to control of its budget deficit and its central banks efforts to keep inflation in check. In Turkey, the central bank left its key benchmark rate unchanged despite rising inflation, continuing its unorthodox approach to monetary policy. Security selection in Indonesia hurt performance.

Management Strategies

- We expect growth in the developed world to recover in the second half of 2011, reflecting expansionary monetary policies particularly in the U.S. However, the unresolved fiscal sustainability issues in the periphery of Europe and in the U.S., as well as geopolitical developments, are likely to generate periodic bouts of risk aversion during the year. As recently witnessed, the developed world will have periods of subpar growth, but we expect these to be temporary phenomena. Expansionary policies in the developed world are likely to provide further support to commodity prices and capital inflows to EM countries, but will also exacerbate inflationary and currency appreciation pressures.
- Our constructive view on EM assets in 2011 reflects strong domestic demand-driven growth, supportive terms of trade and large capital inflows. EM countries are likely to respond to expansionary policies in the developed world by hardening capital controls or allowing moderate currency appreciation to help offset imported inflation, while continuing to hike rates at a pace to contain domestic inflationary pressures. Overall, we believe that EM central banks will be able to slow but not to reverse the appreciation trend in their currencies.
- The impact of the strong EM macroeconomic fundamentals on sovereign risk premium appears to be fully priced in most countries, with pockets of undervaluation on which we will focus. In contrast, we believe that higher carry and continued portfolio flows will continue to support EM currencies. Several currencies in Asia and certain commodity currencies remain undervalued, in our view, and could potentially benefit further from a benign external environment and accommodative monetary policy in the developed world.

Sincerely,

Arthur Lev
President and Principal Executive Officer July 2011

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (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, 2010, or since inception, 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 three- and five-year periods, but below its peer group average for the one-year period. 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 and/or other accounts advised by the Adviser and/or 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 the Fund's management fee and total expense ratio were lower than its peer group average. After discussion, the Board concluded that the Fund's performance, management fee and total expense ratio were competitive with its peer group average.

Economies of Scale

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 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.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (unaudited)

Investment Advisory Agreement Approval (cont'd)

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 the Adviser's 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, 2011 (unaudited)

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
FIXED INCOME SECURITIES (94.4%)		
Argentina (3.9%)		
Sovereign (3.9%)		
Argentina Bonos, 7.00%, 10/3/15	\$ 11,199	\$ 11,081
Belarus (0.4%)		
Sovereign (0.4%)		
Republic of Belarus, 8.75%, 8/3/15	1,030	930
8.95%, 1/26/18	380	334
		1,264
Belize (0.2%)		
Sovereign (0.2%)		
Government of Belize, 6.00%, 2/20/29 (a)	770	535
Brazil (11.1%)		
Corporate Bonds (2.2%)		
Banco Safra Cayman Islands Ltd., 6.75%, 1/27/21	230	240
6.75%, 1/27/21 (b)	1,360	1,421
Fibra Overseas Finance Ltd., 6.75%, 3/3/21 (b)	1,650	1,737
Odebrecht Finance Ltd., 6.00%, 4/5/23 (b)	2,870	2,867
		6,265
Sovereign (8.9%)		
Banco Nacional de Desenvolvimento Economico e Social, 5.50%, 7/12/20 (b)	1,960	2,085
6.37%, 6/16/18 (b)	1,380	1,552
Brazilian Government International Bond, 5.88%, 1/15/19	8,525	9,910
7.13%, 1/20/37	3,290	4,080
8.88%, 10/14/19	5,504	7,582
		25,209

		31,474
Chile (1.5%)		
Corporate Bond (0.7%)		
Banco Santander Chile, 6.50%, 9/22/20	CLP 931,000	1,897
	Face Amount (000)	Value (000)
Sovereign (0.8%)		
Chile Government International Bond, 5.50%, 8/5/20	CLP 1,080,000	\$ 2,331 4,228
Colombia (2.8%)		
Sovereign (2.8%)		
Colombia Government International Bond, 7.38%, 3/18/19 (c)	\$ 2,550	3,192
11.75%, 2/25/20	3,015	4,679
		7,871
Croatia (0.5%)		
Sovereign (0.5%)		
Croatia Government International Bond, 6.63%, 7/14/20 (b)	1,340	1,422
Dominican Republic (0.8%)		
Sovereign (0.8%)		
Dominican Republic International Bond, 7.50%, 5/6/21 (b)	590	617
7.50%, 5/6/21	670	700
9.04%, 1/23/18	754	852
		2,169
Ecuador (0.8%)		
Sovereign (0.8%)		
Ecuador Government International Bond, 9.38%, 12/15/15	2,235	2,241
Ghana (1.2%)		
Sovereign (1.2%)		
Republic of Ghana, 8.50%, 10/4/17	1,080	1,229
8.50%, 10/4/17 (b)(c)	2,016	2,288
		3,517
India (0.3%)		
Corporate Bond (0.3%)		
Reliance Holdings USA, Inc., 6.25%, 10/19/40 (b)	810	750

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Indonesia (5.4%)		
Corporate Bonds (0.4%)		
Pindo Deli Finance BV, Tranche A 3.28%, 4/28/15 (b)(d)(e)(f)	\$ 421	\$ 89
Tranche B 3.28%, 4/28/18 (b)(d)(e)(f)	1,852	211
Tranche C Zero Coupon, 4/28/27 (b)(d)(e)(f)	7,471	269
Tjiwi Kimia Finance BV, Tranche A 3.28%, 4/28/15 (d)(e)(f)	1,404	253
Tranche B 3.28%, 4/28/18 (b)(d)(e)(f)	1,621	185
Tranche C 1.00%, 4/28/27 (b)(d)(e)(f)	3,620	125
		1,132
Sovereign (5.0%)		
Indonesia Government International Bond, 6.88%, 1/17/18	320	376
7.75%, 1/17/38	630	796
7.75%, 1/17/38 (b)	1,353	1,703
11.63%, 3/4/19	1,930	2,854
11.63%, 3/4/19 (b)	2,169	3,208
Majapahit Holding BV, 7.75%, 1/20/20	4,480	5,264
		14,201
		15,333
Ivory Coast (0.3%)		
Sovereign (0.3%)		
Ivory Coast Government International Bond, 2.50%, 12/31/32 (a)(f)	1,563	832
Kazakhstan (4.1%)		
Sovereign (4.1%)		
Development Bank of Kazakhstan JSC,	1,250	1,302

5.50%, 12/20/15 (b)(c)		
5.50%, 12/20/15	230	239
Intergas Finance BV, 6.38%, 5/14/17	700	759
	Face Amount (000)	Value (000)
KazMunayGas National Co., 6.38%, 4/9/21 (b)	\$ 2,430	\$ 2,582
6.38%, 4/9/21	440	468
9.13%, 7/2/18	1,930	2,384
9.13%, 7/2/18 (b)	3,080	3,811
		11,545
Lithuania (1.0%)		
Sovereign (1.0%)		
Lithuania Government International Bond, 6.13%, 3/9/21 (b)		
	520	554
6.75%, 1/15/15 (b)	160	177
7.38%, 2/11/20	1,790	2,071
		2,802
Malaysia (1.0%)		
Sovereign (1.0%)		
Malaysia Government Bond, 3.21%, 5/31/13		
	MYR 8,110	2,691
Mexico (13.3%)		
Corporate Bonds (0.8%)		
Cemex SAB de CV, 9.00%, 1/11/18		
	\$ 280	286
9.00%, 1/11/18 (b)	1,900	1,943
		2,229
Sovereign (12.5%)		
Mexican Bonos, 8.00%, 6/11/20		
	MXN 88,082	8,090
Mexico Government International Bond, 5.63%, 1/15/17		
	\$ 419	478
5.95%, 3/19/19 (c)	3,782	4,359
6.05%, 1/11/40	1,760	1,881
6.75%, 9/27/34	4,674	5,457
Pemex Project Funding Master Trust, 6.63%, 6/15/35 - 6/15/38		
	4,316	4,561
8.63%, 12/1/23	1,990	2,452
Petroleos Mexicanos, 5.50%, 1/21/21		
	5,430	5,721
8.00%, 5/3/19 (c)	1,750	2,167
		35,166
		37,395

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Pakistan (0.2%)		
Sovereign (0.2%)		
Republic of Pakistan, 6.88%, 6/1/17	\$ 805	\$ 656
Panama (2.3%)		
Sovereign (2.3%)		
Panama Government International Bond, 5.20%, 1/30/20	1,810	1,994
7.13%, 1/29/26	1,140	1,411
8.88%, 9/30/27	483	687
9.38%, 4/1/29	1,569	2,338
		6,430
Peru (2.7%)		
Sovereign (2.7%)		
Peruvian Government International Bond, 7.35%, 7/21/25	2,410	2,956
8.75%, 11/21/33	3,340	4,571
		7,527
Philippines (4.5%)		
Sovereign (4.5%)		
Philippine Government International Bond, 4.00%, 1/15/21	5,506	5,430
8.38%, 6/17/19	1,491	1,925
8.88%, 3/17/15	669	834
9.50%, 2/2/30	3,072	4,474
		12,663
Russia (13.5%)		
Corporate Bonds (3.0%)		
Novatek Finance Ltd., 6.60%, 2/3/21 (b)	2,380	2,499
Vimpel Communications Via VIP Finance Ireland Ltd. OJSC, 7.75%, 2/2/21 (b)	1,390	1,439
VimpelCom Holdings BV, 7.50%, 3/1/22 (b)	4,420	4,446

8,384

	Face Amount (000)	Value (000)
Sovereign (10.5%)		
Russian Agricultural Bank OJSC Via RSHB Capital SA, 6.30%, 5/15/17 (b)		
	\$ 2,104	\$ 2,246
7.18%, 5/16/13 (b)		
	2,030	2,192
Russian Foreign Bond - Eurobond, 5.00%, 4/29/20		
	5,400	5,609
7.50%, 3/31/30 (a)(b)		
	1,026	1,213
7.50%, 3/31/30 (a)		
	6,731	7,959
7.85%, 3/10/18 (b)		
	RUB 80,000	3,008
12.75%, 6/24/28		
	\$ 4,225	7,499
		29,726
		38,110
Senegal (0.2%)		
Sovereign (0.2%)		
Senegal Government International Bond, 8.75%, 5/13/21 (b)		
	480	496
South Africa (1.3%)		
Sovereign (1.3%)		
Eskom Holdings Ltd., 5.75%, 1/26/21 (b)		
	3,556	3,698
Sri Lanka (0.4%)		
Sovereign (0.4%)		
Sri Lanka Government International Bond, 6.25%, 10/4/20 (b)		
	650	653
6.25%, 10/4/20		
	550	553
		1,206
Turkey (7.6%)		
Sovereign (7.6%)		
Turkey Government International Bond, 5.63%, 3/30/21		
	2,150	2,257
6.75%, 5/30/40		
	3,080	3,334
6.88%, 3/17/36		
	2,904	3,209
7.00%, 3/11/19		
	3,490	4,031
7.50%, 7/14/17 - 11/7/19		
	3,266	3,872
8.00%, 2/14/34		
	1,360	1,693
11.88%, 1/15/30		
	1,771	3,020
		21,416

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Ukraine (4.0%)		
Sovereign (4.0%)		
Ukraine Government		
International Bond,		
6.58%, 11/21/16	\$ 2,849	\$ 2,877
6.75%, 11/14/17	4,580	4,643
7.75%, 9/23/20 (b)	1,700	1,768
7.75%, 9/23/20	1,930	2,007
		11,295
Uruguay (0.3%)		
Sovereign (0.3%)		
Uruguay Government		
International Bond,		
8.00%, 11/18/22	589	765
Venezuela (8.8%)		
Sovereign (8.8%)		
Petroleos de Venezuela SA,		
8.50%, 11/2/17	17,640	13,168
Venezuela Government		
International Bond,		
6.00%, 12/9/20	1,340	841
7.00%, 3/31/38	1,761	1,030
7.65%, 4/21/25	2,850	1,860
9.00%, 5/7/23	600	436
9.25%, 9/15/27 (c)	10,050	7,623
		24,958
TOTAL FIXED INCOME		
SECURITIES (Cost \$252,877)		266,370
	No. of Warrants	
WARRANTS (0.2%)		
Nigeria (0.1%)		
Central Bank of Nigeria,		
expires 11/15/20 (d)(e)	2,250	405
Venezuela (0.1%)		
Venezuela, Oil-Linked		
Payment Obligation,		
expires 4/15/20 (d)(e)	5,450	151

TOTAL WARRANTS (Cost \$) 556

	Shares	Value (000)
SHORT-TERM INVESTMENTS (5.4%)		
Securities held as Collateral on Loaned Securities (3.0%)		
Investment Company (2.4%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F)	6,885,547	\$ 6,886
	Face Amount (000)	
Repurchase Agreements (0.6%)		
Barclays Capital, Inc., (0.01%, dated 6/30/11, due 7/1/11; proceeds \$98; fully collateralized by a U.S. Government Obligation; U.S. Treasury Note 3.38% due 11/15/19; valued at \$100)	\$ 98	98
Nomura Holdings, Inc., (0.09%, dated 6/30/11, due 7/1/11; proceeds \$1,561; fully collateralized by U.S. Government Agencies; Federal National Mortgage Association 4.50% - 6.50% due 8/1/36 - 9/1/40; valued at \$1,592)	1,561	1,561
		1,659
TOTAL SECURITIES HELD AS COLLATERAL ON LOANED SECURITIES (Cost \$8,545)		
	Shares	8,545
Investment Company (2.4%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$6,920)	6,920,427	6,920
TOTAL SHORT-TERM INVESTMENTS (Cost \$15,465)		
		15,465
TOTAL INVESTMENTS (100.0%) (Cost \$268,342) Including \$8,479 of Securities Loaned (g)		
		282,391
LIABILITIES IN EXCESS OF OTHER ASSETS		
		(8,069)

NET ASSETS

\$ 274,322

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

(a) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2011. Maturity date disclosed is the final maturity date.

(b) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(c) All or a portion of this security was on loan at June 30, 2011.

(d) 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, 2011.

(e) Security has been deemed illiquid at June 30, 2011.

(f) Issuer is in default.

(g) Securities have been designated as collateral in connection with open foreign currency exchange contracts.

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 5,476	\$ 5,476	7/11/11	KRW 5,927,133	\$ 5,549	\$ 73
JPMorgan Chase Bank	USD 2,893	2,893	7/11/11	THB 87,743	2,855	(38)
JPMorgan Chase Bank	USD 1,515	1,515	7/25/11	CLP 716,345	1,529	14
		\$ 9,884			\$ 9,933	\$ 49

CLP Chilean Peso

KRW South Korean Won

MXN Mexican New Peso

MYR Malaysian Ringgit

RUB Russian Ruble

THB Thai Baht

USD United States Dollar

Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's net assets as of June 30, 2011. (See Note A-6 to the financial statements 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)
Assets:				
Fixed Income Securities				
Corporate Bonds	\$	\$ 20,657	\$	\$ 20,657
Sovereign		245,713		245,713
Total Fixed Income Securities		266,370		266,370
Warrants		556		556
Short-Term Investments				
Investment Company				