

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSRS
September 05, 2008

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)

Ronald E. Robison
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: 6/30/08

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:

2008 Semi-Annual Report

June 30, 2008

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

Morgan Stanley

Investment Management Inc.

Investment Adviser

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2008, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund) had total returns, based on net asset value and market value per share (including reinvestment of distributions), of -0.71%, net of fees, and -0.93%, respectively, compared to its benchmark, the J.P. Morgan Emerging Markets Bond Global Index (the Index) which returned -0.18%. On June 30, 2008, the closing price of the Fund's shares on the New York Stock Exchange was \$9.30, representing a 14.1% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The emerging markets debt (EMD) asset class trended mostly sideways over the course of the six-month reporting period, ending slightly negative on a year-to-date basis. During the first quarter, emerging market bond prices rose a bit but failed to keep pace with the dramatic rally in the U.S. Treasury market, where yields fell precipitously on the back of interest rate cuts by the Federal Open Market Committee and expectations of a sharp slowdown in U.S. economic growth.
- The financial crisis that began with subprime mortgage-related securities continued to spread to other segments of the bond market, forcing investors to write down assets for huge paper losses and stoking concerns about counterparty risk throughout the financial system. Although several investment banks have been affected to varying degrees, Bear Stearns was a notable casualty, as it was forced to sell itself to JPMorgan Chase in a fire-sale brokered by the U.S. Federal Reserve. Although this news weighed on all risky assets, EMD remained liquid, while exhibiting relatively low volatility.
- As in the past, Emerging Markets (EM) country's macroeconomic performance continued to surprise on the upside in terms of growth and exports. While most EM countries appear well positioned to withstand today's less hospitable global environment, in the short term inflation fears and the deleveraging process underway in other credit markets are likely to keep risk premia at elevated levels.
- Our emphasis on local currency-denominated securities over external debt during the period aided relative performance, as a number of EM currencies rallied versus the U.S. dollar.

- Overweights in Brazilian, Mexican, and Russian local market securities bolstered relative returns, as did an underweight and security selection in Brazil and Turkey. Conversely, an underweight in Lebanese debt and security selection in Russia detracted from the fund's relative performance.

Management Strategies

- The Fund maintained a neutral spread and below-benchmark interest rate duration (a measure of interest-rate sensitivity) during the period.
- We retained a substantial overweight exposure to local-currency denominated securities, favoring these over external debt during the period.

Sincerely,

Ronald E. Robison
President and Principal Executive Officer

July 2008

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (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 Investment Adviser 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 Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the Adviser and 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 advisory and administrative 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. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance Relative to Comparable Funds Managed by Other Advisers

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Fund, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Fund's performance for the one-, three- and five-year periods ended December 31, 2007, as shown in a report provided by Lipper (the Lipper Report), compared to the performance of comparable funds selected by Lipper (the performance peer group). The Board also discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. The Board concluded that the Fund's performance was competitive with that of its performance peer group.

Fees Relative to Other Proprietary Funds Managed by the Adviser with Comparable Investment Strategies

The Board noted that the Adviser did not manage any other proprietary funds with investment strategies substantially comparable to the Fund.

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

The Board reviewed the advisory and administrative fee (together, the management fee) rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by Lipper (the expense peer group), managed by other advisers with investment strategies comparable to those of the Fund, as shown in the Lipper Report. The Board concluded that the Fund's management fee rate and total expense ratio were competitive with those of its expense peer group.

Breakpoints and Economies of Scale

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it does not include breakpoints. The Board considered that the Fund is a closed-end fund and, therefore, that the Fund's 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.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and 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. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory

Agreement Approval (cont d)

Fall-Out Benefits

The Board considered so-called fall-out benefits derived by the Adviser and affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund shares and float benefits derived from handling of checks for purchases and sales of Fund shares, through a broker-dealer affiliate of the Adviser. The Board also considered that, from time to time, the Adviser may, directly or indirectly, effect trades on behalf of certain Morgan Stanley Funds through various electronic communications networks or other alternative trading systems in which the Adviser's affiliates have ownership interests and/or board seats. The Board concluded that the sales commissions were competitive with those of other broker-dealers and the fall-out benefits were relatively small.

Soft Dollar Benefits

The Board considered whether the Adviser realizes any benefits from commissions paid to brokers who execute securities transactions for the Fund (soft dollars). The Board noted that the Fund invests only in fixed income securities, which do not generate soft dollars.

Adviser Financially Sound and Financially Capable of Meeting the Fund's Needs

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

Historical Relationship Between the Fund and the Adviser

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 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.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments

(Showing percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
DEBT INSTRUMENTS (96.9%)		
Argentina (1.2%)		
Sovereign (1.2%)		
Republic of Argentina, 8.28%, 12/31/33	\$ 3,531	\$ 2,706
Republic of Argentina (Foreign), 8.28%, 12/31/33	(a)443	282
		2,988
Brazil (16.4%)		
Corporate (1.1%)		
Banco ABN Amro Real S.A., 16.20%, 2/22/10	BRL 4,240	2,711
Sovereign (15.3%)		
Banco Nacional de Desenvolvimento Economico e Social, 6.37%, 6/16/18	\$ 5,000	5,000
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/10	BRL 5,049	2,958
Federative Republic of Brazil, 6.00%, 1/17/17	\$ 6,850	7,001
8.00%, 1/15/18	6,403	7,127
8.88%, 10/14/19 - 4/15/24	5,688	7,145
10.50%, 7/14/14	1,740	2,205
11.00%, 8/17/40	4,250	5,626
		37,062
		39,773
Bulgaria (0.5%)		
Sovereign (0.5%)		
Republic of Bulgaria, 8.25%, 1/15/15	(b)1,149	1,308
Chile (1.3%)		
Corporate (1.3%)		
Empresa Nacional del Petroleo, 6.75%, 11/15/12	(b)3,090	3,216
Colombia (0.6%)		
Sovereign (0.6%)		
Republic of Colombia, 11.75%, 2/25/20	1,075	1,564
Ecuador (1.9%)		
Sovereign (1.9%)		
Republic of Ecuador, 9.38%, 12/15/15	2,053	2,119

Edgar Filing: MORGAN STANLEY EMERGING MARKETS DEBT FUND INC - Form N-CSRS

10.00%, 8/15/30		(c)2,500	2,444 4,563
Egypt (0.8%)			
Sovereign (0.8%)			
Arab Republic of Egypt, 8.75%, 7/18/12	EGP	10,510	\$ 1,911
Ghana (0.8%)			
Sovereign (0.8%)			
Republic of Ghana, 8.50%, 10/4/17	\$	1,916	1,978
Indonesia (5.2%)			
Corporate (1.4%)			
Pindo Deli Finance Mauritius, Tranche A, 4.93%, 4/28/15		(b)(d)484	370
Tranche B, 4.93%, 4/28/18		(b)(d)1,707	640
Tranche C, Zero Coupon, 4/28/25		(d)6,884	447
Tijiwi Kimia Finance Mauritius Ltd., Tranche A, 4.93%, 4/28/15		(d)1,596	1,221
Tranche B, 4.93%, 4/28/18		(b)(d)1,477	539
Tranche C, Zero Coupon, 4/28/27		(b)(d)3,352	218 3,435
Sovereign (3.8%)			
Republic of Indonesia, 6.88%, 1/17/18		2,452	2,317
7.75%, 1/17/38		7,222	6,825 9,142 12,577
Ivory Coast (0.3%)			
Sovereign (0.3%)			
Ivory Coast, 2.50%, 3/31/18		(e)2,045	736
Kazakhstan (2.6%)			
Sovereign (2.6%)			
Intergas Finance BV, 6.38%, 5/14/17		2,390	2,142
KazMunaiGaz Finance Sub BV, 9.13%, 7/2/18		(b)4,200	4,195 6,337
Malaysia (1.0%)			
Sovereign (1.0%)			
Government of Malaysia, 7.50%, 7/15/11		420	456
8.75%, 6/1/09		1,929	2,012 2,468

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

5

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments (cont d)

(Showing percentage of Total Value of Investments)

		Face Amount (000)		Value (000)
Mexico (12.9%)				
Sovereign (12.9%)				
Mexican Bonos, 8.00%, 12/17/15	MXN	30,739	\$	2,804
Pemex Project Funding Master Trust, 4.08%, 6/15/10		\$ (b)(d)4,250		4,277
5.75%, 3/1/18		(b)1,840		1,826
6.63%, 6/15/35		5,000		4,958
8.63%, 12/1/23		1,740		2,162
9.13%, 10/13/10		4,040		4,414
United Mexican States, 5.63%, 1/15/17	\$	6,278		6,360
6.75%, 9/27/34		1,479		1,573
7.50%, 1/14/12		1		1
8.38%, 1/14/11		2,665		2,921
				31,296
Nigeria (1.1%)				
Sovereign (1.1%)				
UBS AG, Federal Republic of Nigeria, Credit Linked Unsecured Notes, Zero Coupon, 4/9/09	NGN	351,300		2,765
Panama (2.8%)				
Sovereign (2.8%)				
Republic of Panama, 7.13%, 1/29/26	\$	1,910		2,025
7.25%, 3/15/15		1,148		1,240
9.38%, 4/1/29		2,663		3,495
				6,760
Peru (5.9%)				
Sovereign (5.9%)				
Republic of Peru, 6.55%, 3/14/37		2,613		2,652
8.38%, 5/3/16		1,150		1,339
8.75%, 11/21/33		5,846		7,541
9.88%, 2/6/15		2,342		2,877
				14,409
Philippines (6.8%)				
Sovereign (6.8%)				
Republic of Philippines, 8.88%, 3/17/15		(f)9,315		10,374
9.00%, 2/15/13		2,240		2,470
9.50%, 2/2/30		2,909		3,560

			16,404
Qatar (0.8%)			
Sovereign (0.8%)			
State of Qatar (Registered),			
9.75%, 6/15/30	\$	1,260	1,903
Russia (16.4%)			
Corporate (3.4%)			
Gaz Capital S.A.,			
6.21%, 11/22/16		(b)2,202	2,063
8.63%, 4/28/34		489	540
JPMorgan Chase & Co.,			
7.00%, 6/28/17	RUB	62,000	2,056
TNK-BP Finance S.A.,			
7.88%, 3/13/18	\$	(b)3,800	3,677
			8,336
Sovereign (13.0%)			
Citigroup, Inc., OJSC Russian Agricultural Bank,			
Credit Linked Unsecured Notes,			
7.34%, 2/24/10		2,414	2,451
RSHB Capital S.A. for OJSC Russian			
Agricultural Bank			
6.30%, 5/15/17		(b)2,004	1,854
7.18%, 5/16/13		(b)2,800	2,810
7.18%, 5/16/13		270	271
Russian Federation,			
7.50%, 3/31/30		(c)871	980
Russian Federation (Registered),			
7.50%, 3/31/30		(c)10,199	11,473
11.00%, 7/24/18		321	450
12.75%, 6/24/28		4,000	7,095
Russian Ministry of Finance,			
3.00%, 5/14/11		4,230	4,046
			31,430
			39,766
South Korea (0.4%)			
Sovereign (0.4%)			
Korea Development Bank,			
5.30%, 1/17/13		1,000	994
Trinidad (0.9%)			
Corporate (0.9%)			
National Gas Co. of Trinidad & Tobago Ltd.,			
6.05%, 1/15/36		(b)2,369	2,174

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments (cont d)

(Showing percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Turkey (7.3%)		
Sovereign (7.3%)		
Republic of Turkey,		
6.75%, 4/3/18	\$ 7,005	\$ 6,550
11.00%, 1/14/13	(f)7,145	8,270
11.50%, 1/23/12	320	368
11.88%, 1/15/30	1,737	2,449
		17,637
Ukraine (0.9%)		
Sovereign (0.9%)		
Republic of Ukraine,		
6.58%, 11/21/16	2,410	2,145
Venezuela (8.1%)		
Sovereign (8.1%)		
Republic of Venezuela,		
9.25%, 9/15/27	11,581	10,898
10.75%, 9/19/13	8,330	8,684
		19,582
TOTAL DEBT INSTRUMENTS		
(Cost \$235,890)		235,254
	No. of Warrants	
WARRANTS (0.4%)		
Nigeria (0.2%)		
Central Bank of Nigeria,		
expiring 11/15/20	3,000	654
Venezuela (0.2%)		
Republic of Venezuela Oil-Linked		
Payment Obligation,		
expiring 4/15/20	11,350	406
TOTAL WARRANTS		
(Cost \$)		1,060
	Shares	Value (000)
SHORT-TERM INVESTMENT (2.7%)		
United States (2.7%)		
Investment Company		
Morgan Stanley Institutional Liquidity	(g)6,529,765	\$ 6,530
Money Market Portfolio		
Institutional Class		

Edgar Filing: MORGAN STANLEY EMERGING MARKETS DEBT FUND INC - Form N-CSRS

(Cost \$6,530)

TOTAL INVESTMENTS(100.0%)

(Cost \$242,420)

242,844

LIABILITIES IN EXCESS OF OTHER ASSETS

(10,349)

NET ASSETS

\$ 232,495

- (a) Security was valued at fair value At June 30, 2008, the Fund held a fair valued security, valued at approximately \$282,000, representing 0.1% of net assets.
- (b) 144A Security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (c) Step Bond coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2008. Maturity date disclosed is ultimate maturity.
- (d) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in designated base rates. The rates shown are those in effect on June 30, 2008.
- (e) Issuer is in default.
- (f) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of June 30, 2008. See Note A-3 within the Notes to Financial Statements.
- (g) See Note G within the Notes to Financial Statements regarding investments in Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class.

BRL	Brazilian Real
EGP	Egyptian Pound
MXN	Mexican Peso
NGN	Nigerian Naira
RUB	Russian Ruble

Futures Contracts:

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

	Number of Contracts	Value (000)	Expiration Date	Net Unrealized Appreciation (Depreciation) (000)
Short:				
2 Year U.S. Treasury Note	33	\$ 6,970	Sep-08	\$ (3)
5 Year U.S. Treasury Note	538	59,478	Sep-08	184
				\$ 181

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

7

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments (cont d)

(Showing percentage of Total Value of Investments)

Interest Rate Swap Contracts

The Fund had the following interest rate swap agreement(s) open at period end:

Swap Counterparty	Floating Rate Index	Pay/Receive Floating Rate	Fixed Rate	Termination Date	Notional Amount (000)	Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase	3 Month LIBOR	Pay	4.39%	12/11/12	\$54,409	\$ 493

LIBOR London Inter Bank Offer Rate

Graphic Presentation of Portfolio Holdings

The following graph depicts the Fund's holdings by industry and/or security type, as a percentage of total investments.

* Industries which do not appear in the above graph, as well as those which represent less than 5% of total

investments, if applicable, are included in the category labeled Other .

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

Financial Statements

	June 30, 2008 (unaudited) (000)
Statement of Assets and Liabilities	
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$235,890)	\$236,314
Investment in Security of Affiliated Issuer, at Value (Cost \$6,530)	6,530
Total Investments in Securities, at Value (Cost \$242,420)	242,844
Cash	149
Foreign Currency, at Value (Cost \$307)	306
Interest Receivable	4,856
Due from Broker	1,222
Unrealized Appreciation on Swap Agreements	493
Dividends Receivable	8
Receivable from Affiliate	@
Other Assets	12
Total Assets	249,890
Liabilities:	
Payable For:	
Reverse Repurchase Agreements	9,595
Investments Purchased	4,166
Dividends Declared	3,328
Investment Advisory Fees	195
Administration Fees	7
Directors Fees and Expenses	6
Custodian Fees	5
Other Liabilities	93
Total Liabilities	17,395
Net Assets	
Applicable to 21,473,115 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$232,495
Net Asset Value Per Share	\$ 10.83
Net Assets Consist of:	
Common Stock	\$ 215
Paid-in Capital	236,285
Undistributed (Distributions in Excess of) Net Investment Income	(1,646)
Accumulated Net Realized Gain (Loss)	(3,473)
Unrealized Appreciation (Depreciation) on Investments, Foreign Currency Translations, Futures Contracts and Swap Agreements	1,114
Net Assets	\$232,495
@ Amount is less than \$500.	

The accompanying notes are an integral part of the financial statements

9

Morgan Stanley Emerging Markets Debt Fund, Inc.

Financial Statements

Statement of Operations	Six Months Ended June 30, 2008 (unaudited) (000)
Investment Income	
Interest from Securities of Unaffiliated Issuers	\$ 8,148
Dividends from Security of Affiliated Issuer	54
Total Investment Income	8,202
Expenses	
Investment Advisory Fees (Note B)	1,204
Administration Fees (Note C)	96
Professional Fees	69
Stockholder Reporting Expenses	19
Custodian Fees (Note D)	10
Stockholder Servicing Agent Fees	3
Directors Fees and Expenses	3
Other Expenses	26
Expenses Before Interest Expense	1,430
Interest Expense on Reverse Repurchase Agreements	137
Total Expenses	1,567
Waiver of Administration Fees (Note C)	(55)
Rebate from Morgan Stanley Affiliated Cash Sweep (Note G)	(2)
Expense Offset (Note D)	(1)
Net Expenses	1,509
Net Investment Income (Loss)	6,693
Net Realized Gain (Loss) on:	
Investments	(125)
Foreign Currency Transactions	1,620
Futures Contracts	(1,507)
Swap Agreements	103
Net Realized Gain (Loss)	91
Change in Unrealized Appreciation (Depreciation) on:	
Investments	(10,512)
Foreign Currency Translations	(20)
Futures Contracts	463
Swaps Agreements	31
Change in Unrealized Appreciation (Depreciation)	(10,038)
Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)	(9,947)
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (3,254)

Morgan Stanley Emerging Markets Debt Fund, Inc.

Financial Statements

Statements of Changes in Net Assets	Six Months Ended June 30, 2008 (unaudited) (000)	Year Ended December 31, 2007 (000)
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Income (Loss)	\$ 6,693	\$ 15,187
Net Realized Gain (Loss)	91	12,122
Change in Unrealized Appreciation (Depreciation)	(10,038)	(11,364)
Net Increase (Decrease) in Net Assets Resulting from Operations	(3,254)	15,945
Distributions from and/or in Excess of:		
Net Investment Income	(6,657)	(14,541)
Capital Share Transactions:		
Repurchase of Shares (342,971 and 230,595 shares, respectively)	(3,425)	(2,257)
Total Increase (Decrease)	(13,336)	(853)
Net Assets:		
Beginning of Period	245,831	246,684
End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$(1,646) and \$(1,682), respectively)	\$232,495	\$245,831

The accompanying notes are an integral part of the financial statements

11

Morgan Stanley Emerging Markets Debt Fund, Inc.

Financial Statements

Statement of Cash Flows

Six Months Ended
June 30, 2008
(unaudited)
(000)

Cash Flows From Operating Activities:

Proceeds from Sales and Maturities of Long-Term Investments	\$ 80,917
Purchases of Long-Term Investments	(76,796)
Net (Increase) Decrease in Short-Term Investments	(570)
Net Increase (Decrease) in Foreign Currency Holdings	(307)
Net Increase (Decrease) in Cash Overdrafts	(41)
Net Realized Gain (Loss) for Foreign Currency Transactions	1,620
Net Realized Gain (Loss) on Futures Contracts	(1,507)
Net Realized Gain (Loss) on Swap Agreements	103
Net Investment Income	6,693

Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:

Net (Increase) Decrease in Receivables Related to Operations	851
Net Increase (Decrease) in Payables Related to Operations	(42)
Accretion/Amortization of Discounts and Premiums	151
Net Cash Provided (Used) by Operating Activities	11,072

Cash Flows from Financing Activities:

Cash Received for Reverse Repurchase Agreements	48,030
Cash Paid for Reverse Repurchase Agreements	(47,910)
Payment on Fund Shares Repurchased	(3,425)
Cash Distributions Paid	(7,618)
Net Cash Provided (Used) for Financing Activities	(10,923)
Net Increase (Decrease) in Cash	149

Cash at Beginning of Period

Cash at End of Period \$ 149

Supplemental Disclosure of Cash Flow Information:

Interest Paid on Reverse Repurchase Agreements during the Period \$ 188

Morgan Stanley Emerging Markets Debt Fund, Inc.

Financial Highlights

Selected Per Share Data and Ratios

	Six Months Ended June 30, 2008 (unaudited)		Year Ended December 31,			
	2007	2006	2005	2004	2003	
Net Asset Value, Beginning of Period	\$ 11.27	\$ 11.19	\$10.80	\$10.39	\$10.24	\$8.45
Net Investment Income	0.31	0.69	0.67	0.91	0.83	0.77
Net Realized and Unrealized Gain (Loss) on Investments	(0.46)	0.03	0.49	0.44	0.19	1.77
Total from Investment Operations	(0.15)	0.72	1.16	1.35	1.02	2.54
Distributions from and/or in Excess of:						
Net Investment Income	(0.31)	(0.66)	(0.77)	(0.94)	(0.87)	(0.75)
Anti-Dilutive Effect of Share Repurchase Program	0.02	0.02				
Net Asset Value, End of Period	\$ 10.83	\$ 11.27	\$11.19	\$10.80	\$10.39	\$10.24
Per Share Market Value, End of Period	\$ 9.30	\$ 9.70	\$10.84	\$10.88	\$9.61	\$9.76
TOTAL INVESTMENT RETURN:						
Market Value	(0.93)%*	(4.52)%	7.38%	23.98%	7.95%	40.21%
Net Asset Value (1)	(0.71)%*	7.46%	11.66%	13.83%	11.24%	31.44%
RATIOS, SUPPLEMENTAL DATA:						
Net Assets, End of Period (Thousands)	\$232,495	\$245,831	\$246,684	\$238,091	\$229,044	\$225,784
Ratio of Expenses to Average Net Assets(2)	1.25%+**	1.29%+	1.34%	1.36%	1.22%	1.25%
Ratio of Expenses Excluding Interest Expense to Average Net Assets	1.14%+**	1.10%+	1.16%	1.16%	1.16%	1.20%
Ratio of Net Investment Income to Average Net Assets(2)	5.56%+**	6.11%+	6.12%	8.58%	8.18%	8.04%
Portfolio Turnover Rate	34%*	56%	44%	50%	118%	187%
(2) Supplemental Information on the Ratios to Average Net Assets:						
Ratios Before Expenses Waived by Administrator:						
Ratio of Expenses to Average Net Assets	1.30%+**	1.34%+	1.38%	1.41%	1.23%	N/A
Ratio of Net Investment Income to Average Net Assets	5.51%+**	6.06%+	6.08%	8.53%	8.17%	N/A

(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 amounts are based on average shares outstanding.

* Not Annualized

** Annualized

+ Reflects rebate of certain Fund expenses in connection with the investments in Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class during the period. As a result of such rebate, the expenses as a percentage of its net assets were effected by less than 0.005%.

The accompanying notes are an integral part of the financial statements

13

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (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.

A. 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.