

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSRS
September 08, 2010

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)

Randy Takian
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, 2010

Date of reporting period: June 30, 2010

Item 1 - Report to Shareholders

INVESTMENT MANAGEMENT

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

Morgan Stanley

Investment Management Inc.

Investment Adviser

Semi-Annual Report

June 30, 2010

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2010, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund) had total returns of 3.85%, based on net asset value, and 1.59% 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 5.37%. On June 30, 2010, the closing price of the Fund's shares on the New York Stock Exchange was \$9.94, representing a 12.0% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The first quarter of 2010 was overall a good period for fixed income assets, which were supported by a positive macroeconomic backdrop of benign economic data and unchanged monetary policy in the G-3. In addition, important policy decisions influenced global markets including the passage of U.S. health care reform, and sovereign risk related issues, especially around Greece and peripheral Europe.
- Against this backdrop, emerging market (EM) debt strongly outperformed core markets in the first quarter. Many investors expect this trend to continue given the more pronounced recovery and robust fundamentals in emerging economies. Flows into EM bonds reached record levels, bolstered by the outperformance of EM economies, and by a search for higher-yielding assets.
- However, financial markets remained choppy throughout the second quarter, as markets focused on the unfolding crisis in peripheral Europe and weaker-than-expected economic data, particularly in the U.S. Worries over a double dip recession, banking sector struggles in the developed world, and tighter monetary policies in certain EM countries overshadowed the positive impact on asset prices of strong fundamentals in the U.S. and most of the EM world.
- In emerging markets, central banks steeped up the movement toward the normalization of monetary policy. China's central bank announced a more flexible exchange rate policy. Chile's central bank surprised observers with a larger-than-expected 50 basis point increase in that country's key policy rate.
- EM hard currency debt, as measured by the J.P. Morgan Emerging Markets Bond Global Index, returned 5.37% for the first half of the year. As of June 30, 2010, external debt yields stood at 6.48%, with a spread of 358 basis points above U.S. Treasuries.
- During the first half of the year, the Fund benefited from local sovereign yield curve positioning in Brazil and Mexico. Yield curve posture in the external debt of Peru and Kazakhstan as well as an overweight to the Ukraine also aided returns. Conversely, an overweight to the external debt of Venezuela and an underweight to Uruguay and the Philippines detracted from relative returns. Additionally, local currency exposure to the Polish zloty, which was obtained through the use of currency forwards, contributed to underperformance given its depreciations versus the US dollar.

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont d)

Management Strategies

- Since the beginning of the European sovereign crisis, emerging markets have proven resilient to a series of external and country-specific shocks. However, we expect volatility to remain elevated. Contagion has not materialized but sentiment is being hurt. On the positive side, we believe policy announcements by the European Union and the European Central Bank are likely to remove downside risk in the short term, and that macroeconomic fundamentals in the EM world remain robust and are not under the same scrutiny as the developed world. Looking ahead, we believe developments in Europe will likely continue to drive markets and further asset price co-movements cannot be ruled-out. However, contagion risks through more fundamental channels (global capital and trade flows) remain less apparent at this point.
- Our valuation models suggest that EM debt is near fair value. We expect that some lower-beta credits will remain constrained by stretched valuations. However, our models indicate that lower credit quality countries experiencing strong macroeconomic fundamentals warrant an overweighted position. We also continue to see opportunities in select local currency markets.

Sincerely,

Randy Takian

President and Principal Executive Officer

July 2010

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010 (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, 2009, 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-year period, and was equal to its peer group average for the 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 Fund's management fee was higher than its peer group average, the total expense ratio was lower than its peer group average. After discussion, the Board concluded that (i) the Fund's performance was acceptable, (ii) the Fund's management fee, although higher than its peer group average, was acceptable given the quality and nature of services provided, and (iii) the Fund's total expense ratio was competitive with its 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, 2010 (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 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, 2010 (unaudited)

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
FIXED INCOME SECURITIES (93.1%)		
Argentina (3.0%)		
Sovereign (3.0%)		
Republic of Argentina,		
0.39%, 8/3/12 (a)	\$ 25,353	\$ 8,517
8.28%, 12/31/33 (b)	1,924	1,325
		9,842
Brazil (12.1%)		
Sovereign (12.1%)		
Banco Nacional de Desenvolvimento Economic e Social,		
5.50%, 7/12/20 (c)	1,960	1,975
6.37%, 6/16/18 (c)	1,380	1,475
Brazil Notas do Tesouro Nacional, Series F,		
10.00%, 1/1/17	BRL 15,685	7,419
Federative Republic of Brazil,		
5.88%, 1/15/19 (b)(d)	\$ 5,860	6,461
7.13%, 1/20/37 (b)	590	699
8.00%, 1/15/18	1,629	1,898
8.88%, 10/14/19 - 04/15/24	6,564	8,663
11.00%, 8/17/40 (d)	7,860	10,564
		39,154
Bulgaria (0.3%)		
Sovereign (0.3%)		
Republic of Bulgaria,		
8.25%, 1/15/15 (c)	985	1,115
Colombia (3.5%)		
Sovereign (3.5%)		
Republic of Colombia,		
7.38%, 3/18/19	5,900	6,933
11.75%, 2/25/20	3,015	4,492
		11,425
Croatia (0.4%)		
Sovereign (0.4%)		
Republic of Croatia,		
6.75%, 11/5/19 (c)	1,160	1,216
Dominican Republic (0.4%)		
Sovereign (0.4%)		
Dominican Republic,		
7.50%, 5/6/21 (c)	590	611
9.04%, 1/23/18	470	524

		1,135
Ecuador (0.6%)		
Sovereign (0.6%)		
Republic of Ecuador, 9.38%, 12/15/15	2,235	2,056
Georgia (0.3%)		
Sovereign (0.3%)		
Republic of Georgia, 7.50%, 4/15/13	820	838
Ghana (0.8%)		
Sovereign (0.8%)		
Republic of Ghana, 8.50%, 10/4/17 (c)	2,466	2,604
Indonesia (8.3%)		
Corporate Bonds (0.4%)		
Pindo Deli Finance Mauritius Ltd., Zero Coupon, 4/28/27 (a)(c)(e)	7,471	150
Tranche A, Zero Coupon 4/28/15 (a)(c)(e)	421	102
Tranche B, Zero Coupon 4/28/18 (a)(c)(e)	1,852	236
Tjiwi Kimia Finance Mauritius Ltd, 4/28/27 (a)(c)(e)	3,620	72
Tjiwi Kimia Finance Mauritius Ltd., Tranche A, Zero Coupon 4/28/15 (a)(e)	1,404	327
Tranche B, Zero Coupon 4/28/18 (a)(c)(e)	1,621	320
		1,207

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010 (unaudited)

Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Indonesia (cont d)		
Sovereign (7.8%)		
Republic of Indonesia,		
6.88%, 1/17/18	\$ 3,380	\$ 3,845
6.88%, 1/17/18 (c)	2,644	3,007
7.75%, 1/17/38	5,289	6,294
7.75%, 1/17/38 (c)	1,353	1,610
11.63%, 3/4/19 (d)	5,300	7,645
11.63%, 3/4/19 (c)	2,169	3,129
		25,530
		26,737
Ivory Coast (0.4%)		
Sovereign (0.4%)		
Ivory Coast,		
2.50%, 12/31/32 (f)	1,943	1,117
Kazakhstan (3.7%)		
Sovereign (3.7%)		
Intergas Finance BV,		
6.38%, 5/14/17	700	704
KazMunaiGaz Finance Sub BV,		
7.00%, 5/5/20 (c)	1,851	1,867
9.13%, 07/2/18 (c)	8,130	9,376
		11,947
Lithuania (0.4%)		
Sovereign (0.4%)		
Republic of Lithuania,		
6.75%, 1/15/15 (c)	1,200	1,264
Mexico (11.9%)		
Sovereign (2.7%)		
Pemex Project Funding Master Trust,		
6.63%, 06/15/35 - 06/15/38 (b)	4,316	4,446
8.63%, 12/1/23	1,990	2,289
Petroleos Mexicanos,		
8.00%, 5/3/19	1,750	2,091
		8,826
Sovereign (9.2%)		
Mexican Bonos,		
8.50%, 5/31/29	MXN 77,439	6,614
United Mexican States,		
5.63%, 1/15/17 (d)	\$ 5,419	5,975

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5.95%, 3/19/19 (d)	6,282	7,004
6.05%, 1/11/40	1,760	1,866
6.75%, 9/27/34 (d)	7,014	8,119
		29,578
		38,404
Panama (2.2%)		
Sovereign (2.2%)		
Republic of Panama,		
5.20%, 1/30/20 (b)	2,710	2,832
7.13%, 1/29/26 (b)	1,140	1,337
8.88%, 9/30/27	483	646
9.38%, 4/1/29	1,569	2,181
		6,996
Peru (4.8%)		
Sovereign (4.8%)		
Republic of Peru,		
7.13%, 3/30/19	1,890	2,244
7.35%, 7/21/25	3,410	4,101
8.75%, 11/21/33 (b)	6,720	9,139
		15,484
Philippines (3.8%)		
Sovereign (3.8%)		
Republic of Philippines,		
8.38%, 6/17/19	1,491	1,855
8.88%, 3/17/15	2,677	3,306
9.00%, 2/15/13	2,420	2,837
9.50%, 2/2/30	3,072	4,170
		12,168
Russia (11.4%)		
Sovereign (11.4%)		
RSHB Capital S.A. for OJSC Russian Agricultural Bank,		
6.30%, 5/15/17 (c)	2,104	2,099
7.18%, 5/16/13 (c)	2,030	2,149
Russian Federation, 7.50%, 03/31/30 (c)(d)(f)	22,610	25,635
Russian Federation (Registered), 12.75%, 6/24/28	4,225	7,108
		36,991

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

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010 (unaudited)

Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Senegal (0.2%)		
Sovereign (0.2%)		
Republic of Senegal, 8.75%, 12/22/14	\$ 540	\$ 529
South Africa (4.2%)		
Sovereign (4.2%)		
Republic of South Africa, 5.50%, 3/9/20	540	561
7.25%, 1/15/20	ZAR 112,000	13,132
		13,693
Trinidad and Tobago (0.2%)		
Sovereign (0.2%)		
National Gas Co. of Trinidad & Tobago Ltd., 6.05%, 1/15/36 (c)	\$ 861	791
Turkey (9.5%)		
Sovereign (9.5%)		
Republic of Turkey, 6.75%, 5/30/40	2,000	2,015
6.88%, 3/17/36	1,174	1,218
7.50%, 07/14/17 - 11/7/19	7,226	8,313
10.50%, 1/15/20	TRY 16,008	10,666
11.50%, 1/23/12	\$ 340	385
11.88%, 1/15/30	3,371	5,478
16.00%, 3/7/12	TRY 3,637	2,555
		30,630
Ukraine (3.0%)		
Sovereign (3.0%)		
Ukraine Government, 6.58%, 11/21/16	\$ 4,349	4,072
6.75%, 11/14/17	4,580	4,260
7.65%, 6/11/13	1,196	1,211
		9,543
Uruguay (0.2%)		
Sovereign (0.2%)		
Republic of Uruguay, 8.00%, 11/18/22	589	713
Venezuela (7.5%)		
Sovereign (7.5%)		
Republic of Venezuela, 5.75%, 2/26/16	1,066	672

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6.00%, 12/9/20	1,340	710
7.00%, 3/31/38	1,761	955
7.65%, 4/21/25	2,850	1,546
9.00%, 5/7/23	1,806	1,129
9.25%, 09/15/27 - 05/7/28 (d)	18,290	11,870
10.75%, 9/19/13 (d)	8,330	7,289
		24,171
TOTAL FIXED INCOME SECURITIES (Cost \$285,745)		300,563

	No. of Warrants	
WARRANTS (0.1%)		
Nigeria (0.1%)		
Central Bank of Nigeria, expires 11/15/20 (a)(e)	2,250	259
Venezuela (0.0%)		
Republic of Venezuela, Oil-Linked Payment Obligation, expires 04/15/20 (a)(e)	6,450	139
TOTAL WARRANTS (Cost \$)		398

	Shares	
SHORT-TERM INVESTMENTS (6.8%)		
Securities held as Collateral on Loaned Securities (1.6%)		
Investment Company (1.3%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (g)	4,386,510	4,387

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010 (unaudited)

Portfolio of Investments (cont d)*(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
Repurchase Agreement (0.3%)		
Bank of America Securities, LLC, (0.05%, dated 06/30/10, due 07/01/10; proceeds \$937,296; fully collateralized by a U.S. Government Agency security at the date of this Portfolio of Investments as follows: Government National Mortgage Association; 5.00% due 05/20/40; valued at \$956,040)	\$ 937	\$ 937
TOTAL SECURITIES HELD AS COLLATERAL ON LOANED SECURITIES (Cost \$5,324)		5,324
	Shares	
Investment Company (5.2%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (g) (Cost \$16,914)	16,913,542	16,914
		22,238
TOTAL INVESTMENTS (100.0%) (Cost \$307,983)		
Including \$5,211 of Securities Loaned		323,199
LIABILITIES IN EXCESS OF OTHER ASSETS		(55,994)
NET ASSETS		\$ 267,205

(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, 2010.

(b) All or a portion of security on loan at June 30, 2010.

(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, 2010.

(e) Security has been deemed illiquid at June 30, 2010.

(f) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2010. Maturity date disclosed is the ultimate maturity date.

(g) See Note F to the financial statements regarding investment in Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class.

Foreign Currency Exchange Contracts Information:

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

Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Net Unrealized Appreciation (Depreciation) (000)
EUR	22,416 \$	7/30/10	USD	27,632 \$	217
USD	6,958	7/20/10	IDR	63,180,900	(9)
USD	2,342	7/26/10	RUB	72,510	(27)
USD	12,158	7/30/10	PLN	41,010	(92)
	\$ 48,873			\$ 48,962	\$ 89

-
- BRL Brazilian Real
 - EUR Euro
 - IDR Indonesian Rupiah
 - MXN Mexican New Peso
 - PLN Polish Zloty
 - RUB Russian Ruble
 - TRY Turkish Lira
 - USD United States Dollar
 - ZAR South African Rand

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:				
U.S. Treasury 10 yr. Note	282	\$ 34,558	Sep-10	\$ (637)

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010 (unaudited)

Portfolio of Investments (cont d)

Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's net assets as of June 30, 2010. (See Note A-7 to the financial statements for further information regarding fair value measurement.)

Investment Type	Level 1 Quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Fixed Income Securities				
Corporate Bonds	\$	\$ 1,207	\$	\$ 1,207
Sovereign		299,356		299,356
Total Fixed Income Securities		300,563		300,563
Warrants		398		398
Foreign Currency Exchange Contracts		217		217
Short-Term Investments				
Repurchase Agreement		937		937
Investment Company	21,301			21,301
Total Short-Term Investments	21,301	937		22,238
Total Assets	21,301	302,115		323,416
Liabilities:				
Foreign Currency Exchange Contracts		128		128
Futures Contracts	637			637
Reverse Repurchase Agreements		54,761		54,761
Total Liabilities	637	54,889		55,526
Total	\$ 20,664	\$ 247,226	\$	\$ 267,890

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 June 30, 2010, the Fund did not have any significant investments transfer between valuation levels.

Portfolio Composition*

Percentage of

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Classification	Total Investments
Sovereign	94.2%
Other**	0.5
Short-Term Investments	5.3
Total Investments	100.0%

* Percentages indicated are based upon total investments (excluding Securities held as collateral on Loaned Securities) as of June 30, 2010

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

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

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010

Financial Statements

Statement of Assets and Liabilities

	June 30, 2010 (unaudited) (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value(1) (Cost \$286,682)	\$ 301,898
Investment in Security of Affiliated Issuer, at Value (Cost \$21,301)	21,301
Total Investments in Securities, at Value (Cost \$307,983)	323,199
Foreign Currency, at Value (Cost \$782)	775
Cash	53
Interest Receivable	6,694
Due from Broker	387
Unrealized Appreciation on Foreign Currency Exchange Contracts	217
Receivable for Lehman Brothers Closed Reverse Repurchase Transactions	217
Receivable from Affiliate	@
Other Assets	29
Total Assets	331,571
Liabilities:	
Collateral on Securities Loaned, at Value	5,324
Reverse Repurchase Agreements	54,814
Dividends Declared	3,787
Payable for Investment Advisory Fees	219
Unrealized Depreciation on Foreign Currency Exchange Contracts	128
Payable for Professional Fees	51
Payable for Custodian Fees	19
Payable for Administration Fees	7
Payable for Transfer Agent Fees	3
Payable for Directors Fees and Expenses	2
Other Liabilities	12
Total Liabilities	64,366
Net Assets	
Applicable to 23,669,536 Issued and Outstanding \$.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 267,205
Net Asset Value Per Share	\$ 11.29
Net Assets Consist of:	
Common Stock	\$ 237
Paid-in-Capital	259,891
Undistributed Net Investment Income	742
Accumulated Net Realized Loss	(7,832)
Unrealized Appreciation (Depreciation) on:	
Investments	14,740
Foreign Currency Exchange Contracts and Translations	64
Futures Contracts	(637)
Net Assets	\$ 267,205
(1) Including:	

Securities on Loan, at Value:

5,211

@ Amount is less than \$500.

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

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010

Financial Statements (cont d)

Statement of Operations

	Six Months Ended June 30, 2010 (unaudited) (000)
Investment Income:	
Interest from Securities of Unaffiliated Issuers (Net of \$4 Foreign Taxes Withheld)	\$ 11,674
Dividends from Security of Affiliated Issuer	4
Total Investment Income	11,678
Expenses:	
Investment Advisory Fees (Note B)	1,315
Administration Fees (Note D)	105
Professional Fees	49
Custodian Fees (Note F)	28
Stockholder Reporting Expenses	11
Stockholder Servicing Agent Fees	6
Directors Fees and Expenses	3
Recouped Merger Expenses	(20)
Other Expenses	5
Expenses Before Non Operating Expenses	1,502
Bank Overdraft Expense	@
Interest Expense on Reverse Repurchase Agreements	113
Total Expenses	1,615
Waiver of Administration Fees (Note C)	(61)
Rebate from Morgan Stanley Affiliate (Note F)	(3)
Net Expenses	1,551
Net Investment Income	10,127
Realized Gain (Loss):	
Investments Sold	2,282
Foreign Currency Exchange Contracts	(1,400)
Foreign Currency Transactions	486
Futures Contracts	(1,286)
Net Realized Gain	82
Change in Unrealized Appreciation (Depreciation):	
Investments	1,048
Foreign Currency Exchange Contracts	29
Foreign Currency Translations	(38)
Futures Contracts	(1,346)
Net Change in Unrealized Appreciation (Depreciation)	(307)
Total Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	(225)
Net Increase in Net Assets Resulting from Operations	\$ 9,902

 @ Amount is less than \$500.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010

Financial Statements (cont d)

Statements of Changes in Net Assets

	Six Months Ended June 30, 2010 (unaudited) (000)	Year Ended December 31, 2009 (000)
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	\$ 10,127	\$ 16,028
Net Realized Gain (Loss)	82	(2,432)
Net Change in Unrealized Appreciation/Depreciation	(307)	49,809
Net Increase in Net Assets Resulting from Operations	9,902	63,405
Distributions from and/or in Excess of:		
Net Investment Income	(7,574)	(13,364)
Capital Share Transactions:		
Repurchase of Shares (0 and 173,000 shares)		(1,298)
Issued due to Tax-Free Reorganization (2,726,220 and 0 shares)	30,428	
Net Increase (Decrease) in Net Assets Resulting from Capital Share Transactions	30,428	(1,298)
Total Increase	32,756	48,743
Net Assets:		
Beginning of Period	234,449	185,706
End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$742 and \$(1,811))	\$ 267,205	\$ 234,449

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

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010

Financial Statements (cont d)

Statement of Cash Flows

	Six Months Ended June 30, 2010 (unaudited) (000)
Cash Flows From Operating Activities:	
Proceeds from Sales and Maturities of Long-Term Investments	\$ 114,930
Purchase of Long-Term Investments	(158,764)
Net (Increase) Decrease in Short-Term Investments	(12,261)
Net (Increase) Decrease in Foreign Currency Holdings	(105)
Net Realized Gain (Loss) for Foreign Currency Transactions	(914)
Net Realized Gain (Loss) on Futures Contracts	(1,286)
Net Investment Income	10,127
Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:	
Net (Increase) Decrease in Receivables Related to Operations	(1,430)
Net (Increase) Decrease in Payables Related to Operations	89
Accretion/Amortization of Discounts and Premiums	231
Net Cash Provided (Used) by Operating Activities	(49,383)
Cash Flows From Financing Activities:	
Cash Received for Reverse Repurchase Agreements	54,761
Cash Paid for Reverse Repurchase Agreements	(25,903)
Issued due to Tax-Free Reorganization	29,875
Cash Distribution Paid	(9,297)
Net Cash Provided (Used) for Financing Activities	49,436
Net Increase (Decrease) in Cash	53
Cash at Beginning of Period	
Cash at End of Period	\$ 53
Supplemental Disclosure of Cash Flow Information:	
Interest Paid on Reverse Repurchase Agreements during the Period	\$ 72

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2010

Financial Highlights

Selected Per Share Data and Ratios

	Six Months Ended June 30, 2010 (unaudited)	2009	2008	Year Ended December 31,		2006	2005
				2007			
Net Asset Value, Beginning of Period	\$ 11.19	\$ 8.79	\$ 11.27	\$ 11.19	\$ 10.80	\$ 10.39	
Net Investment Income	0.44	0.76	0.65	0.69	0.67	0.91	
Net Realized and Unrealized Gain (Loss) on Investments	(0.02)	2.27	(2.32)	0.03	0.49		