

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSRS
September 10, 2012

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: 201-830-8802

Date of fiscal year end: December 31, 2012

Date of reporting period: June 30, 2012

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

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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IU12-01777P-Y06/12

INVESTMENT MANAGEMENT

Morgan Stanley

Emerging Markets Debt

Fund, Inc.

NYSE: MSD

Morgan Stanley

Investment Management Inc.

Adviser

**Semi-Annual
Report**

June 30, 2012

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012

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Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview

Letter to Stockholders (unaudited)

Performance

For the six months ended June 30, 2012, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had total returns of 7.48%, based on net asset value, and 9.00% 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 7.45%. On June 30, 2012, the closing price of the Fund's shares on the New York Stock Exchange was \$11.07, representing a 8.5% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- Global risk assets strengthened in January and February, due to signs of a global recovery. Then, in March, global risk assets slightly weakened, as U.S. economic optimism could not overcome fears about global growth, led by softer-than-expected economic data out of China. Emerging market currencies broadly strengthened against the U.S. dollar in the first quarter of 2012, as optimism about euro area progress and stronger U.S. economic data lifted risk sentiment. Crude oil prices rose, leading to concerns that high oil prices may threaten to derail a vulnerable global recovery.
- However, euro area optimism was short-lived and risk sentiment weakened in the first months of the second quarter due to Greek political and debt-sustainability concerns, signs of distress out of the euro area periphery, stagnant U.S. jobs growth, and softer Chinese economic data. The benchmark 10-year U.S. Treasury note registered record low yields at the end of May amid heightened global growth fears. However, global risk assets recovered partially in June as risk sentiment modestly improved. Emerging market currencies broadly weakened against the U.S. dollar in the second quarter, as global growth concerns moved investors to sell local emerging market currencies and buy dollars. After making modest gains in the first quarter, the euro fell versus the U.S. dollar due to fears about Europe's growth prospects and European policymakers' ability to address the region's debt crisis.
- Over the course of the six-month period, the spread on the Index tightened 52 basis points to 374 basis points above U.S. Treasuries. The Index (which tracks the performance of U.S.-dollar denominated debt instruments issued by emerging markets) generated a total return of 7.45%.
- The Fund benefited from overweight exposure to Brazil, Kazakhstan, Mexico, and Russia. Brazil was bolstered by supportive commodity prices, while Kazakhstan gained during the period from high oil prices, in particular, despite falling oil prices in recent months. Mexico benefited from strong economic activity numbers and its economic link to the U.S. market, Mexico's main trading partner, despite political uncertainty from the July 1 presidential vote and downside risks from economic moderation out of the U.S. Russia's economy proved to be relatively resilient to the global slowdown due to strong domestic demand, and rising oil prices early in the year were also supportive. In addition, exposure to Chilean and Mexican local markets, as well as Mexican and Russian corporates, contributed to relative performance.

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview

Letter to Stockholders (unaudited) (cont'd)

- Conversely, underweight exposure to Hungary, the Philippines, Poland, and Turkey detracted from relative returns. Hungary outperformed due to hopes for a European Union/International Monetary Fund deal; however, implementation risks remain high. The Philippines benefited from rising expectations for the country to attain investment-grade status, while Poland's economy demonstrated relative resilience to a deteriorating external environment and appeared better positioned than its neighbors to weather the crisis. Turkey was aided by an improvement in external balances due to falling oil prices in the second quarter and an upgrade of its sovereign debt rating to one notch below investment-grade by Moody's. Security selection in Argentina also detracted from relative performance.

Management Strategies

- We expect the global economy to exhibit varying degrees of economic recovery for the remainder of 2012, as developed market growth will likely remain well below potential, while emerging economies should grow at a healthier pace. We anticipate that emerging markets will from time to time come under pressure until there is some resolution to fiscal issues in Europe and growth in the U.S. regains its footing.
- We expect developed market central banks to provide liquidity to the global markets as needed, supporting commodity prices, capital inflows into emerging countries, and broadly bolstering demand for higher-yielding assets. The impact of liquidity-providing operations could, in our opinion, somewhat offset the negative impact of heightened risk aversion and sub-par growth in the developed world.
- We remain positive on emerging markets debt prospects, as we believe it has been external factors that have undermined otherwise healthy fundamentals. We expect emerging economies to show resilient, albeit lower, growth for the remainder of 2012, aided by robust domestic policies and supportive terms of trade and capital inflows. Subsiding inflationary pressures due in part to softening commodity prices and slowing global growth are likely to support accommodative monetary policies in the months ahead. We believe that emerging market central banks will continue to adopt policies aimed at limiting local currency appreciation this year, but will not be able to reverse the longer-term appreciation trend in their currencies.

Sincerely,

Arthur Lev
President and Principal Executive Officer July 2012

*The J.P. Morgan Emerging Markets Bond Global ("EMBG") Index tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds and local market instruments for over 30 emerging market countries. It is not possible to invest directly in an index.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012

Investment Advisory Agreement Approval (unaudited)

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, 2011, 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 one- and five-year periods but below its peer group average for the three-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 was higher but close to its peer group average and total expense ratio was 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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012

Investment Advisory Agreement Approval (unaudited) (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, 2012 (unaudited)**

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

| | Face Amount (000) | Value (000) |
|---|-------------------------|----------------|
| FIXED INCOME SECURITIES (87.8%) | | |
| Argentina (1.3%) | | |
| Sovereign (1.3%) | | |
| Argentina Boden Bonds, 7.00%, 10/3/15 | \$ 5,409 | \$ 4,109 |
| Brazil (10.7%) | | |
| Corporate Bonds (2.5%) | | |
| Banco Safra Cayman Islands Ltd., 6.75%, 1/27/21 | 690 | 744 |
| 6.75%, 1/27/21 (a) | 1,360 | 1,465 |
| Centrais Eletricas Brasileiras SA, 5.75%, 10/27/21 (a)(b) | 2,180 | 2,394 |
| Odebrecht Finance Ltd., 6.00%, 4/5/23 (a)(b) | 2,870 | 3,037 |
| | | 7,640 |
| Sovereign (8.2%) | | |
| Banco Nacional de Desenvolvimento, Economico e Social, 5.50%, 7/12/20 (a)(b) | 1,960 | 2,237 |
| 6.37%, 6/16/18 (a) | 276 | 325 |
| Brazilian Government International Bond, 4.88%, 1/22/21 (b) | 1,080 | 1,254 |
| 5.88%, 1/15/19 | 7,535 | 9,132 |
| 7.13%, 1/20/37 | 3,290 | 4,762 |
| 8.88%, 10/14/19 | 5,504 | 7,830 |
| | | 25,540 |
| | | 33,180 |
| Colombia (3.6%) | | |
| Sovereign (3.6%) | | |
| Colombia Government International Bond, 4.38%, 7/12/21 | 2,760 | 3,113 |
| 6.13%, 1/18/41 (b) | 2,080 | 2,715 |
| 7.38%, 3/18/19 | 390 | 512 |
| 11.75%, 2/25/20 | 3,015 | 4,839 |

| | | |
|--|--------------------------|--------------------|
| | | 11,179 |
| Croatia (0.4%) | | |
| Sovereign (0.4%) | | |
| Croatia Government International Bond, | | |
| 6.63%, 7/14/20 (a) | 1,340 | 1,339 |
| | Face Amount (000) | Value (000) |
| Ecuador (0.7%) | | |
| Sovereign (0.7%) | | |
| Ecuador Government International Bond, | | |
| 9.38%, 12/15/15 | \$ 2,235 | \$ 2,263 |
| Ghana (0.2%) | | |
| Sovereign (0.2%) | | |
| Republic of Ghana, | | |
| 8.50%, 10/4/17 (a)(b) | 536 | 596 |
| Hungary (0.5%) | | |
| Sovereign (0.5%) | | |
| Hungary Government International Bond, | | |
| 6.38%, 3/29/21 | 1,050 | 1,028 |
| 7.63%, 3/29/41 | 490 | 481 |
| | | 1,509 |
| India (0.2%) | | |
| Corporate Bond (0.2%) | | |
| Reliance Holdings USA, Inc., | | |
| 6.25%, 10/19/40 (a) | 810 | 762 |
| Indonesia (5.1%) | | |
| Sovereign (5.1%) | | |
| Indonesia Government International Bond, | | |
| 6.88%, 1/17/18 | 320 | 380 |
| 7.75%, 1/17/38 | 630 | 871 |
| 7.75%, 1/17/38 (a) | 1,353 | 1,871 |
| 11.63%, 3/4/19 | 430 | 636 |
| 11.63%, 3/4/19 (a)(b) | 2,169 | 3,210 |
| Majapahit Holding BV, | | |
| 7.75%, 1/20/20 | 7,590 | 9,089 |
| | | 16,057 |
| Ivory Coast (0.4%) | | |
| Sovereign (0.4%) | | |
| Ivory Coast Government International Bond, | | |
| 3.75%, 12/31/32 (c)(d) | 1,620 | 1,215 |
| Kazakhstan (4.1%) | | |
| Sovereign (4.1%) | | |
| | 230 | 241 |

Development Bank of
Kazakhstan JSC,
5.50%, 12/20/15
5.50%, 12/20/15 (a)

1,250

1,308

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

| | Face Amount (000) | Value (000) |
|--|----------------------------------|------------------------|
| Intergas Finance BV, 6.38%, 5/14/17 | \$ 700 | \$ 763 |
| KazMunayGas National Co., 6.38%, 4/9/21 | 1,510 | 1,668 |
| 6.38%, 4/9/21 (a) | 2,430 | 2,685 |
| 9.13%, 7/2/18 | 1,930 | 2,396 |
| 9.13%, 7/2/18 (a) | 3,080 | 3,823 |
| | | 12,884 |
| Lithuania (1.2%) | | |
| Sovereign (1.2%) | | |
| Lithuania Government International Bond, 6.13%, 3/9/21 (a) | 520 | 574 |
| 6.63%, 2/1/22 (a) | 670 | 770 |
| 6.75%, 1/15/15 (a) | 160 | 174 |
| 7.38%, 2/11/20 | 1,790 | 2,121 |
| | | 3,639 |
| Malaysia (0.8%) | | |
| Sovereign (0.8%) | | |
| Malaysia Government Bond, 3.21%, 5/31/13 | MYR 8,110 | 2,560 |
| Mexico (12.9%) | | |
| Corporate Bonds (0.6%) | | |
| Cemex SAB de CV, 9.00%, 1/11/18 | \$ 280 | 252 |
| 9.00%, 1/11/18 (a) | 1,900 | 1,705 |
| | | 1,957 |
| Sovereign (12.3%) | | |
| Mexican Bonos, 8.00%, 6/11/20 | MXN 40,247 | 3,578 |
| Mexico Government International Bond, 3.63%, 3/15/22 | \$ 2,800 | 2,979 |
| 5.63%, 1/15/17 | 419 | 490 |
| 5.95%, 3/19/19 | 3,782 | 4,629 |
| 6.05%, 1/11/40 | 1,760 | 2,279 |
| 6.75%, 9/27/34 | 4,674 | 6,404 |
| | 4,316 | 5,157 |

| | | |
|---|----------------------------------|------------------------|
| Pemex Project Funding Master Trust, 6.63%, 6/15/35 - 6/15/38 | | |
| 8.63%, 12/1/23 | 1,990 | 2,587 |
| | | |
| | Face Amount (000) | Value (000) |
| Petroleos Mexicanos, | | |
| 4.88%, 1/24/22 (a) | \$ 1,800 | \$ 1,949 |
| 5.50%, 1/21/21 (b) | 5,430 | 6,163 |
| 8.00%, 5/3/19 | 1,750 | 2,231 |
| | | 38,446 |
| | | 40,403 |
| Panama (2.2%) | | |
| Sovereign (2.2%) | | |
| Panama Government International Bond, | | |
| 5.20%, 1/30/20 | 1,810 | 2,122 |
| 7.13%, 1/29/26 | 1,140 | 1,545 |
| 8.88%, 9/30/27 | 483 | 752 |
| 9.38%, 4/1/29 | 1,569 | 2,573 |
| | | 6,992 |
| Peru (4.1%) | | |
| Corporate Bond (0.7%) | | |
| Ajecorp BV, | | |
| 6.50%, 5/14/22 (a)(b) | 2,170 | 2,241 |
| Sovereign (3.4%) | | |
| Peruvian Government International Bond, | | |
| 7.35%, 7/21/25 | 2,410 | 3,398 |
| 8.20%, 8/12/26 (Units) (e) | PEN 4,290 | 2,060 |
| 8.75%, 11/21/33 | \$ 3,080 | 5,067 |
| | | 10,525 |
| | | 12,766 |
| Philippines (4.6%) | | |
| Sovereign (4.6%) | | |
| Philippine Government International Bond, | | |
| 4.00%, 1/15/21 | 6,756 | 7,288 |
| 8.38%, 6/17/19 | 1,491 | 2,017 |
| 9.50%, 2/2/30 | 3,072 | 4,992 |
| | | 14,297 |
| Poland (0.3%) | | |
| Sovereign (0.3%) | | |
| Poland Government International Bond, | | |
| 5.00%, 3/23/22 | 770 | 844 |

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

| | Face Amount (000) | Value (000) |
|--|-------------------------|----------------|
| Russia (13.5%) | | |
| Corporate Bonds (0.7%) | | |
| Vimpel Communications Via VIP Finance Ireland Ltd. OJSC, 7.75%, 2/2/21 (a) | \$ 1,390 | \$ 1,346 |
| VimpelCom Holdings BV, 7.50%, 3/1/22 (a)(b) | 820 | 772 |
| | | 2,118 |
| Sovereign (12.8%) | | |
| Russian Agricultural Bank OJSC Via RSHB Capital SA, 6.30%, 5/15/17 (a) | 2,104 | 2,230 |
| 7.18%, 5/16/13 (a) | 2,030 | 2,115 |
| Russian Foreign Bond - Eurobond, 5.00%, 4/29/20 | 7,100 | 7,739 |
| 5.63%, 4/4/42 (a) | 11,200 | 12,010 |
| 7.50%, 3/31/30 | 1,393 | 1,676 |
| 7.50%, 3/31/30 (a) | 954 | 1,148 |
| 12.75%, 6/24/28 | 4,225 | 7,605 |
| Vnesheconombank Via VEB Finance PLC, 6.90%, 7/9/20 | 4,900 | 5,320 |
| | | 39,843 |
| | | 41,961 |
| South Africa (2.1%) | | |
| Sovereign (2.1%) | | |
| Eskom Holdings SOC Ltd., 5.75%, 1/26/21 (a)(b) | 3,556 | 3,907 |
| 5.75%, 1/26/21 | 2,370 | 2,604 |
| | | 6,511 |
| Sri Lanka (0.3%) | | |
| Sovereign (0.3%) | | |
| Sri Lanka Government International Bond, 6.25%, 10/4/20 | 100 | 103 |
| 6.25%, 10/4/20 (a) | 650 | 670 |
| | | 773 |
| Turkey (5.7%) | | |

Sovereign (5.7%)

| | | |
|--|-------|-------|
| Export Credit Bank of Turkey, 5.88%, 4/24/19 (a)(b) | 2,850 | 2,939 |
|--|-------|-------|

| | Face Amount (000) | Value (000) |
|--|-------------------------|----------------|
| Turkey Government International Bond, 5.63%, 3/30/21 | \$ 4,650 | \$ 5,097 |
| 6.88%, 3/17/36 | 2,904 | 3,420 |
| 7.50%, 7/14/17 - 11/7/19 | 2,866 | 3,411 |
| 11.88%, 1/15/30 | 1,771 | 3,141 |
| | | 18,008 |

Ukraine (1.6%)**Sovereign (1.6%)**

| | | |
|--|-------|-------|
| Ukraine Government International Bond, 6.58%, 11/21/16 | 649 | 584 |
| 6.75%, 11/14/17 | 3,230 | 2,886 |
| 7.75%, 9/23/20 (a)(b) | 1,700 | 1,549 |
| | | 5,019 |

Uruguay (0.7%)**Sovereign (0.7%)**

| | | |
|--|-------|-------|
| Uruguay Government International Bond, 8.00%, 11/18/22 | 1,589 | 2,244 |
|--|-------|-------|

Venezuela (10.6%)**Sovereign (10.6%)**

| | | |
|---|--------|--------|
| Petroleos de Venezuela SA, 8.50%, 11/2/17 | 25,980 | 21,173 |
| Venezuela Government International Bond, 6.00%, 12/9/20 | 1,340 | 908 |
| 7.65%, 4/21/25 | 2,850 | 1,981 |
| 9.00%, 5/7/23 | 600 | 465 |
| 9.25%, 9/15/27 (b) | 10,530 | 8,582 |
| | | 33,109 |

TOTAL FIXED INCOME

| | | |
|------------------------------------|--|---------|
| SECURITIES (Cost \$246,733) | | 274,219 |
|------------------------------------|--|---------|

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

| | No. of Warrants | Value (000) |
|---|----------------------------------|------------------------|
| WARRANTS (0.2%) | | |
| Nigeria (0.1%) | | |
| Central Bank of Nigeria, expires 11/15/20 (f)(g) | 2,250 | \$ 405 |
| Venezuela (0.1%) | | |
| Venezuela Government International Bond, Oil-Linked Payment Obligation, expires 4/15/20 (f)(g) | 5,450 | 161 |
| TOTAL WARRANTS (Cost \$) | | 566 |
| | Shares | |
| SHORT-TERM INVESTMENTS (12.0%) | | |
| Securities held as Collateral on Loaned Securities (8.0%) | | |
| Investment Company (7.8%) | | |
| Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) | 24,148,019 | 24,148 |
| | Face Amount (000) | |
| Repurchase Agreements (0.2%) | | |
| Barclays Capital, Inc., (0.15%, dated 6/29/12, due 7/2/12; proceeds \$290; fully collateralized by a U.S. Government Obligation; U.S. Treasury Bond 3.13% due 2/15/42; valued at \$296) | \$ 290 | 290 |
| Merrill Lynch & Co., Inc., (0.18%, dated 6/29/12, due 7/2/12; proceeds \$377; fully collateralized by a U.S. Government Agency; Federal Home Loan Mortgage Corporation 3.75% due 3/27/19; valued at \$385) | 377 | 377 |
| | | 667 |
| | | 24,815 |

**TOTAL SECURITIES HELD AS
COLLATERAL ON LOANED
SECURITIES** (Cost \$24,815)

| | Shares | Value (000) |
|--|---|----------------|
| Investment Company (3.2%) | | |
| Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$9,921) | 9,921,320 Face Amount (000) | \$ 9,921 |
| Sovereign (0.8%) | | |
| Argentina Boden Bonds, 0.79%, 8/3/12 (f) (Cost \$2,621) | \$ 21,230 | 2,621 |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$37,357) | | 37,357 |
| TOTAL INVESTMENTS (100.0%) (Cost \$284,090) Including \$24,511 of Securities Loaned (h) | | 312,142 |
| LIABILITIES IN EXCESS OF OTHER ASSETS | | (25,674) |
| NET ASSETS | | \$ 286,468 |

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

(b) All or a portion of this security was on loan at June 30, 2012.

(c) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2012. Maturity date disclosed is the ultimate maturity date.

(d) Issuer is in default.

(e) Consists of one or more classes of securities traded together as a unit.

(f) 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, 2012.

(g) Security has been deemed illiquid at June 30, 2012.

(h) Securities are available for collateral in connection with futures contracts.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Portfolio of Investments (cont'd)

*(Showing Percentage of Total Value of Investments)***Futures Contracts:**

The Fund had the following futures contracts open at period end:

| | Number of Contracts | Value (000) | Expiration Date | Unrealized Appreciation (Depreciation) (000) |
|---------------------------------|------------------------------------|------------------------|----------------------------|---|
| Short: | | | | |
| U.S. Treasury 10 yr. Note | 54 | \$ (7,202) | Sep-12 | \$ (33) |

MXN Mexican New Peso

MYR Malaysian Ringgit

PEN Peruvian Nuevo Sol

Portfolio Composition*

| Classification | Percentage of Total Investments |
|-----------------------|--|
| Sovereign | 90.2% |
| Corporate Bonds | 5.2 |
| Other** | 4.6 |
| Total Investments | 100.0%*** |

* Percentages indicated are based upon total investments (excluding Securities held as Collateral on Loaned Securities) as of June 30, 2012.

** Industries and/or investment types representing less than 5% of total investments.

*** Does not include open short futures contracts with an underlying face amount of approximately \$7,202,000 and total unrealized depreciation of approximately \$33,000.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012**

Financial Statements

| | June 30, 2012 (unaudited) (000) |
|--|--|
| Statement of Assets and Liabilities | |
| Assets: | |
| Investments in Securities of Unaffiliated Issuers, at Value(1) (Cost \$250,021) | \$ 278,073 |
| Investment in Security of Affiliated Issuer, at Value (Cost \$34,069) | 34,069 |
| Total Investments in Securities, at Value (Cost \$284,090) | 312,142 |
| Foreign Currency, at Value (Cost \$167) | 163 |
| Cash | 1 |
| Interest Receivable | 4,831 |
| Receivable for Lehman Brothers Closed Reverse Repurchase Transactions | 303 |
| Receivable for Variation Margin | 89 |
| Receivable from Affiliate | 1 |
| Other Assets | 23 |
| Total Assets | 317,553 |
| Liabilities: | |
| Collateral on Securities Loaned, at Value | 24,816 |
| Dividends Declared | 3,314 |
| Payable for Investments Purchased | 2,621 |
| Payable for Advisory Fees | 232 |
| Payable for Professional Fees | 51 |
| Payable for Administration Fees | 8 |
| Payable for Custodian Fees | 2 |
| Payable for Stockholder Servicing Agent Fees | @ |
| Other Liabilities | 41 |
| Total Liabilities | 31,085 |
| Net Assets | |
| Applicable to 23,669,536 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized) | \$ 286,468 |
| Net Asset Value Per Share | \$ 12.10 |
| Net Assets Consist of: | |
| Common Stock | \$ 237 |
| Paid-in-Capital | 265,034 |
| Undistributed Net Investment Income | 338 |
| Accumulated Net Realized Loss | (7,157) |
| Unrealized Appreciation (Depreciation) on: | |
| Investments | 28,052 |
| Futures Contracts | (33) |
| Foreign Currency Translations | (3) |

| | |
|-------------------------------|------------|
| Net Assets | \$ 286,468 |
| (1) Including: | |
| Securities on Loan, at Value: | \$ 24,511 |

@ 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, 2012**

Financial Statements (cont'd)

| | Six Months Ended June 30, 2012 (unaudited) (000) |
|--|---|
| Statement of Operations | |
| Investment Income: | |
| Interest from Securities of Unaffiliated Issuers (Net of \$3 Foreign Taxes Withheld) | \$ 8,463 |
| Dividends from Securities of Unaffiliated Issuers | 50 |
| Dividends from Security of Affiliated Issuer | 16 |
| Income from Securities Loaned Net | 25 |
| Total Investment Income | 8,554 |
| Expenses: | |
| Advisory Fees (Note B) | 1,412 |
| Administration Fees (Note C) | 113 |
| Professional Fees | 62 |
| Stockholder Reporting Expenses | 32 |
| Custodian Fees (Note D) | 12 |
| Directors' Fees and Expenses | 4 |
| Stockholder Servicing Agent Fees | 3 |
| Other Expenses | 26 |
| Total Expenses | 1,664 |
| Waiver of Administration Fees (Note C) | (67) |
| Rebate from Morgan Stanley Affiliate (Note F) | (15) |
| Net Expenses | 1,582 |
| Net Investment Income | 6,972 |
| Realized Gain: | |
| Investments Sold | 109 |
| Foreign Currency Exchange Contracts | 61 |
| Foreign Currency Transactions | 5 |
| Futures Contracts | 246 |
| Net Realized Gain | 421 |
| Change in Unrealized Appreciation (Depreciation): | |
| Investments | 12,462 |
| Foreign Currency Exchange Contracts | 2 |
| Foreign Currency Translations | 12 |
| Futures Contracts | (33) |
| Net Change in Unrealized Appreciation (Depreciation) | 12,443 |
| Net Realized Gain and Change in Unrealized Appreciation (Depreciation) | 12,864 |
| Net Increase in Net Assets Resulting from Operations | \$ 19,836 |

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012**

Financial Statements (cont'd)

| | Six Months Ended June 30, 2012 (unaudited) (000) | Year Ended December 31, 2011 (000) |
|--|---|---|
| Statements of Changes in Net Assets | | |
| Increase (Decrease) in Net Assets: | | |
| Operations: | | |
| Net Investment Income | \$ 6,972 | \$ 14,415 |
| Net Realized Gain (Loss) | 421 | (2,223) |
| Net Change in Unrealized Appreciation (Depreciation) | 12,443 | 7,217 |
| Net Increase in Net Assets Resulting from Operations | 19,836 | 19,409 |
| Distributions from and/or in Excess of: | | |
| Net Investment Income | (6,627) | (14,675) |
| Net Realized Gain | | (872) |
| Total Distributions | (6,627) | (15,547) |
| Total Increase | 13,209 | 3,862 |
| Net Assets: | | |
| Beginning of Period | 273,259 | 269,397 |
| End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$338 and \$(7)) | \$ 286,468 | \$ 273,259 |

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012**

Financial Highlights

Selected Per Share Data and Ratios

| | Six Months Ended June 30, 2012 (unaudited) | Year Ended December 31, | | | | |
|---|---|--------------------------------|-------------|-------------|-------------|-------------|
| | | 2011 | 2010 | 2009 | 2008 | 2007 |
| Net Asset Value, Beginning of Period | \$ 11.54 | \$ 11.38 | \$ 11.19 | \$ 8.79 | \$ 11.27 | \$ 11.19 |
| Net Investment Income† | 0.29 | 0.61 | 0.74 | 0.76 | 0.65 | 0.69 |
| Net Realized and Unrealized Gain (Loss) | 0.55 | 0.21 | 0.42 | 2.27 | (2.32) | 0.03 |
| Total from Investment Operations | 0.84 | 0.82 | 1.16 | 3.03 | (1.67) | 0.72 |
| Distributions from and/or in excess of: | | | | | | |
| Net Investment Income | (0.28) | (0.62) | (0.66) | (0.64) | (0.86) | (0.66) |
| Net Realized Gain | | (0.04) | (0.31) | | | |
| Total Distribution | (0.28) | (0.66) | (0.97) | | | |
| Anti-Dilutive Effect of Share Repurchase Program | | | | 0.01 | 0.05 | 0.02 |
| Net Asset Value, | \$ 12.10 | \$ 11.54 | \$ 11.38 | \$ 11.19 | \$ 8.79 | \$ 11.27 |

| End of Period | Per Share | Market Value, End of Period | | | | | | | | | | |
|--|-------------|-----------------------------|----|---------|----|---------|----|---------|----|----------|----|---------|
| | \$ | 11.07 | \$ | 10.41 | \$ | 10.48 | \$ | 10.08 | \$ | 7.07 | \$ | 9.70 |
| TOTAL INVESTMENT RETURN: | | | | | | | | | | | | |
| Market Value | | 9.00%# | | 5.73% | | 13.58% | | 52.55% | | (18.74)% | | (4.52)% |
| Net Asset Value(1) | | 7.48%# | | 7.93% | | 11.00% | | 36.18% | | (12.95)% | | 7.46% |
| RATIOS, SUPPLEMENTAL DATA: | | | | | | | | | | | | |
| Net Assets, End of Period | (Thousands) | \$ 268 | \$ | 273,259 | \$ | 269,397 | \$ | 234,449 | \$ | 185,706 | \$ | 245,831 |
| Ratio of Expenses to Average Net Assets(2) | | 1.12%+* | | 1.14%+ | | 1.19%+ | | 1.21%+ | | 1.23%+ | | 1.29%+ |
| Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses | | N/A | | 1.14%+ | | 1.13%+ | | 1.13%+ | | 1.15%+ | | 1.10%+ |
| Ratio of Net Investment Income to Average Net Assets(2) | | 4.90%+* | | 5.28%+ | | 6.35%+ | | 7.54%+ | | 6.19%+ | | 6.11%+ |
| | | 0.01%* | | 0.00%§ | | 0.00%§ | | 0.00%§ | | 0.00%§ | | 0.00%§ |

| | | | | | | |
|--|------|-----|------|-----|-----|-----|
| Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets Portfolio Turnover Rate | 19%# | 46% | 105% | 83% | 64% | 56% |
|--|------|-----|------|-----|-----|-----|

(2) Supplemental Information on the Ratios to Average Net Assets:

Ratios Before Expenses Waived by Administrator:

| | | | | | | |
|--|--------|-------|--------|--------|--------|--------|
| Ratio of Expenses to Average Net Assets | 1.18%* | 1.19% | 1.23%+ | 1.26%+ | 1.28%+ | 1.34%+ |
| Ratio of Net Investment Income to Average Net Assets | 4.84%* | 5.23% | 6.31%+ | 7.49%+ | 6.14%+ | 6.06%+ |

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

† Per share amount is based on average shares outstanding.

+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets."

§ Amount is less than 0.005%.

Not annualized.

* Annualized.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012 (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 "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 countries, of entities organized to restructure outstanding debt of such issuers and debt securities of corporate issuers in or organized under the laws of emerging countries. To the extent that the Fund invests in derivative instruments that the adviser, Morgan Stanley Investment Management Inc. (the "Adviser"), believes have economic characteristics similar to debt securities of government and government-related issuers located in emerging market countries and of entities organized to restructure outstanding debt of such issuers, such investments will be counted for purposes of the Fund's policy in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risks of such derivative instruments as described herein.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). Such policies are consistently followed by the Fund in the preparation of its financial statements. GAAP 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, 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 last reported 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 Fund's Board of Directors (the "Directors") determines such valuation does not reflect the securities' fair value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and adhoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012 (unaudited)

Notes to Financial Statements (cont'd)

liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

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.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification(TM) ("ASC") 820, "Fair Value Measurements and Disclosures" ("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 Fund's investments. The inputs are summarized in the three broad levels listed below.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Notes to Financial Statements (cont'd)

The following is a summary of the inputs used to value the Fund's investments as of June 30, 2012.

| 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 | \$ | \$ 14,718 | \$ | \$ 14,718 |
| Sovereign | | 259,501 | | 259,501 |
| Total Fixed Income Securities | | 274,219 | | 274,219 |
| Warrants | | 566 | | 566 |
| Short-Term Investments | | | | |
| Investment Company | 34,069 | | | 34,069 |
| Repurchase Agreements | | 667 | | 667 |
| Sovereign | | 2,621 | | 2,621 |
| Total Short-Term Investments | 34,069 | 3,288 | | 37,357 |
| Total Assets | 34,069 | 278,073 | | 312,142 |
| Liabilities: | | | | |
| Futures Contracts | (33) | | | (33) |
| Total | \$ 34,036 | \$ 278,073 | \$ | \$ 312,109 |

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, 2012, the Fund did not have any significant investments transfer between investment levels.

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

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances. However, pursuant to U.S. Federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are treated as ordinary income for U.S. Federal income tax purposes.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from foreign currency exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2012 (unaudited)

Notes to Financial Statements (cont'd)

component of unrealized appreciation (depreciation) on the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) for the period is reflected in the Statement of Operations.

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

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

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

Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

Futures: A futures contract is a standardized agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the value of the contract (the variation margin). A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Notes to Financial Statements (cont'd)

discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

Foreign Currency Exchange Contracts: In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency exchange contract ("currency contracts") is a negotiated agreement between two parties to exchange specified amounts of two or more currencies at a specified future time at a specified rate. The rate specified by the currency contract can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such currency contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract. A currency contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or (loss). The Fund records realized gains (losses) when the currency contract is closed equal to the difference between the value of the currency contract at the time it was opened and the value at the time it was closed.

FASB ASC 815, "Derivatives and Hedging: Overall" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of June 30, 2012.

| Primary Risk Exposure | Statement of Assets and Liabilities | Futures Contracts (000)(a) |
|------------------------------|--|---|
| Liabilities: | | |
| Interest Rate Risk | Payables | \$ (33) |

(a) This amount represents the cumulative appreciation (depreciation) of futures contracts as reported in the Portfolio of Investments. The Statement of Assets and Liabilities only reflects the current day's net variation margin.

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the six months ended June 30, 2012 in accordance with ASC 815.

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Notes to Financial Statements (cont'd)

| Primary Risk Exposure | Realized Gain (Loss) | Value (000) |
|---|--|----------------|
| | Derivative Type | |
| Currency Risk | Foreign Currency Exchange Contracts | \$ 61 |
| Interest Rate Risk | Futures Contracts | 246 |
| Total | | \$ 307 |
| Change in Unrealized Appreciation (Depreciation) | | |
| Primary Risk Exposure | Derivative | Value (000) |
| | Type | |
| Currency Risk | Foreign Currency Exchange Contracts | \$ 2 |
| Interest Rate Risk | Futures Contracts | (33) |
| Total | | \$ (31) |

For the six months ended June 30, 2012, the average monthly principal amount of foreign currency exchange contracts was approximately \$1,451,000 and the average monthly original value of futures contracts was approximately \$6,145,000.

5. Security Lending: The Fund lends securities to qualified financial institutions, such as broker-dealers, to earn additional income. Any increase or decrease in the fair value of the securities loaned that might occur and any interest earned or dividends declared on those securities during the term of the loan would remain in the Fund. The Fund would receive cash or securities as collateral in an amount equal to or exceeding 100% of the current fair value of the loaned securities. The collateral is marked-to-market daily, by the securities lending agent, to ensure that a minimum of 100% collateral coverage is maintained.

Based on pre-established guidelines, the securities lending agent invests any cash collateral that is received in an affiliated money market portfolio and repurchase agreements. Securities lending income is generated from the earnings on the invested collateral and borrowing fees, less any rebates owed to the borrowers and compensation to the lending agent, and is recorded as "Income from Securities Loaned Net" in the Fund's Statement of Operations. Risks in securities lending transactions are that a borrower may not provide additional collateral when required or return the securities when due, and that the value of the short-term investments will be less than the amount of cash collateral plus any rebate that is required to be returned to the borrower.

The value of loaned securities and related collateral outstanding at June 30, 2012 were approximately \$24,511,000 and \$24,816,000, respectively. The Fund received cash collateral of approximately \$24,816,000, of which, approximately \$24,815,000 was subsequently invested in Repurchase Agreements and Morgan Stanley Institutional Liquidity Funds as reported in the Portfolio of Investments. At June 30, 2012, there was uninvested cash collateral of approximately \$1,000, which is not reflected in the Portfolio of Investments. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

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

7. Other: Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis except where collection is in doubt and is recorded net of foreign withholding tax. Dividend income and distributions are recorded on the ex-dividend date (except certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

B. Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, calculated weekly and payable monthly, at an annual rate of 1.00% of the Fund's average weekly net assets.

C. Administration Fees: The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund's average weekly net assets. The Adviser has agreed to limit the administration fee through a waiver so that it will be no greater than the previous administration fee (prior to November 1, 2004) of 0.02435% of the Fund's average weekly net assets plus \$24,000 per annum. This waiver is voluntary and may be terminated at any time. For the six months ended June 30, 2012, approximately \$67,000 of administration fees were waived pursuant to this arrangement. Under a Sub-Administration Agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

D. Custodian Fees: State Street (the "Custodian") and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

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

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

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

FASB ASC 740-10 "Income Taxes - Overall" sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended December 31, 2011, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal 2011 and 2010 was as follows:

| 2011 Distributions | | 2010 Distributions | |
|--------------------------------------|---|--------------------------------------|---|
| Paid From: | | Paid From: | |
| Ordinary Income (000) | Long-term Capital Gain (000) | Ordinary Income (000) | Long-term Capital Gain (000) |
| \$ 14,675 | \$ 872 | \$ 15,611 | \$ 7,294 |

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Notes to Financial Statements (cont'd)

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

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

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions, nondeductible expenses, paydown adjustments and basis adjustments for securities sold, resulted in the following reclassifications among the components of net assets at December 31, 2011:

| Undistributed (Distributions in Excess of) Net Investment Income (000) | Accumulated Net Realized Gain (Loss) (000) | Paid-in Capital (000) |
|---|---|--------------------------------------|
| \$ 150 | \$ (135) | \$ (15) |

At December 31, 2011, the components of distributable earnings for the Fund on a tax basis were as follows:

| Undistributed Ordinary Income (000) | Undistributed Long-term Capital Gain (000) |
|--|---|
| \$ 37 | \$ |

At June 30, 2012, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately \$29,748,000 and the aggregate gross unrealized depreciation is approximately \$1,696,000 resulting in net unrealized appreciation of approximately \$28,052,000.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Modernization Act") was signed into law. The Modernization Act modernizes several tax provisions related to Regulated Investment Companies ("RICs") and their shareholders. One key change made by the Modernization Act is that capital losses will generally retain their character as short-term or long-term and may be carried forward indefinitely to offset future gains. These losses are utilized before other capital loss carryforwards that expire. Generally, the Modernization Act is effective for taxable years beginning after December 22, 2010.

At December 31, 2011, the Fund had available for Federal income tax purposes capital loss carryforwards which will expire on the indicated dates:

| Amount (000) | Expiration |
|-------------------------|-------------------|
| \$ 1,018 | December 31, 2015 |
| 1,759 | December 31, 2016 |

To the extent that capital loss carryforwards are used to offset any future capital gains realized during the carryover period as provided by U.S. Federal income tax regulations, no capital gains tax liability will be incurred by the Fund for gains realized and not distributed. To the extent that capital gains are offset, such gains will not be distributed to the stockholders. During the year ended December 31, 2011, the Fund utilized capital loss carryforwards for U.S. Federal income tax purposes of approximately \$882,000.

Capital losses and specified ordinary losses, including currency losses, incurred after October 31 but within the taxable year are deemed to arise on the first day of the Fund's next taxable year. For the year ended December 31, 2011, the Fund deferred to

Morgan Stanley Emerging Markets Debt Fund, Inc.**June 30, 2012 (unaudited)**

Notes to Financial Statements (cont'd)

January 1, 2012 for U.S. Federal income tax purposes the following losses:

| Post-October Currency and Specified Ordinary Losses (000) | Post-October Capital Losses (000) |
|--|--|
| \$ | \$ 2,480 |

F. Security Transactions and Transactions with Affiliates: For the six months ended June 30, 2012, purchases and sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments, were approximately \$67,615,000 and \$50,985,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2012.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser, both directly, and as a portion of the securities held as collateral on loaned securities. Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Fund due to its investment in the Liquidity Funds. For the six months ended June 30, 2012, advisory fees paid were reduced by approximately \$15,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of the Liquidity Funds during the six months ended June 30, 2012 is as follows:

| Value December 31, 2011 (000) | Purchases at Cost (000) | Sales (000) | Dividend Income (000) | Value June 30, 2012 (000) |
|--|--|------------------------|--------------------------------------|--|
| \$ 38,728 | \$ 58,088 | \$ 62,747 | \$ 16 | \$ 34,069 |

G. Other: On October 8, 2007, the Fund commenced a share repurchase program for purposes of enhancing stockholder value and reducing the discount at which the Fund's shares trade from their net asset value per share ("NAV"). During the six months ended June 30, 2012, the Fund did not repurchase any of its shares. Since the inception of the program, the Fund has repurchased 1,103,366 of its shares at an average discount of 15.74% from NAV. The Directors regularly monitor the Fund's share repurchase program as part of their review and consideration of the Fund's premium/discount history. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Directors.

H. Results of Annual Meeting of Stockholders: On July 24, 2012, an annual meeting of the Fund's stockholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Directors by all stockholders:

| | For | Withheld |
|------------------|------------|-----------------|
| Michael Bozic | 20,452,291 | 1,321,063 |
| Michael F. Klein | 20,474,954 | 1,298,400 |
| W. Allen Reed | 20,476,934 | 1,296,420 |

I. Accounting Pronouncement: In December 2011, FASB issued Accounting Standards Update ("ASU") 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities. The pronouncement improves disclosures for recognized financial and derivative instruments that are either offset on the balance sheet in accordance with the offsetting guidance in ASC 210-20-45 or ASC 815-10-45 or are subject to an enforceable master netting agreements or similar. The Fund will be required to disclose information about rights to offset and related arrangements (such as collateral agreements) in order to enable financial statement users to understand the effect of those rights and arrangements on its financial position as well as disclose the following (1) gross amounts; (2) amounts offset in the statement of financial position; (3) any other amounts that

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Notes to Financial Statements (cont'd)

can be offset in the event of bankruptcy, insolvency or default of any of the parties (including cash and noncash financial collateral); and (4) the Fund's net exposure. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and must be applied retrospectively. At this time, the Fund's management is evaluating the implications of ASU 2011-11 and its impact, if any, on the financial statements.

For More Information About Portfolio Holdings

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

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

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

Proxy Voting Policy and Procedures and Proxy Voting Record

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

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Portfolio Management

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

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

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Investment Policy

The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of an underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and risk of loss. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

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

Foreign Currency Exchange Contracts. In connection with its investments in foreign securities, the Fund also may enter into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency exchange contract ("currency contract") is a negotiated agreement between two parties to exchange specified amounts of two or more currencies at a specified future time at a specified rate. The rate specified by the currency contract can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract.

Futures. A futures contract is a standardized, exchange-traded agreement to buy or sell a specific quantity of an underlying asset, reference rate or index at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on

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Investment Policy (cont'd)

the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a wellconceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures contracts can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

Options. If a Fund buys an option, it buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed-upon price typically in exchange for a premium paid by the Fund. If the Fund sells an option, it sells to another person the right to buy from or sell to the Fund a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed-upon price typically in exchange for a premium received by the Fund. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well-conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.

Structured Investments. The Fund also may invest a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency, commodity or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency, commodity or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including issuer risk, counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to issuer or counterparty risk because the Fund is relying on the creditworthiness of such issuer or counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

Swaps. An over-the-counter ("OTC") swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indexes, reference rates, currencies or other instruments. A small percentage of swap contracts are cleared through a central clearinghouse. Most swap agreements provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the other). The Fund's obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each party. Most swap agreements are not entered into or traded on exchanges and often there is no central clearing or guaranty function for swaps. These OTC swaps are often subject to credit risk or the risk of default or non-performance by the counterparty. Swaps could result in losses if interest rate or foreign currency exchange rates or credit quality changes are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected.

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Dividend Reinvestment and Cash Purchase Plan

Pursuant to the Dividend Reinvestment Plan (the Plan), each stockholder will be deemed to have elected, unless Computershare Trust Company, N.A. (the Plan Agent) is otherwise instructed by the stockholder in writing, to have all distributions automatically reinvested in Fund shares. Participants in the Plan have the option of making additional voluntary cash payments to the Plan Agent, quarterly, in any amount from \$100 to \$3000, for investment in Fund shares.

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

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

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

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

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

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U.S. Privacy Policy

An Important Notice Concerning Our U.S. Privacy Policy

This privacy notice describes the U.S. privacy policy of Morgan Stanley Distribution, Inc., and the Morgan Stanley family of mutual funds ("us", "our", "we").

We are required by federal law to provide you with notice of our U.S. privacy policy ("Policy"). This Policy applies to both our current and former clients unless we state otherwise and is intended for individual clients who purchase products or receive services from us for personal, family or household purposes. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us. This Policy is, however, applicable to individuals who select us to be a custodian of securities or assets in individual retirement accounts, 401(k) accounts, or accounts subject to the Uniform Gifts to Minors Act.

This notice sets out our business practices to protect your privacy; how we collect and share personal information about you; and how you can limit our sharing or certain uses by others of this information. We may amend this Policy at any time, and will inform you of any changes to our Policy as required by law.

We Respect Your Privacy

We appreciate that you have provided us with your personal financial information and understand your concerns about your information. We strive to safeguard the information our clients entrust to us. Protecting the confidentiality and security of client information is an important part of how we conduct our business.

This notice describes what personal information we collect about you, how we collect it, when we may share it with others, and how certain others may use it. It discusses the steps you may take to limit our sharing of certain information about you with our affiliated companies, including, but not limited to our affiliated banking businesses, brokerage firms and credit service affiliates. It also discloses how you may limit our affiliates' use of shared information for marketing purposes.

Throughout this Policy, we refer to the nonpublic information that personally identifies you as "personal information." We also use the term "affiliated company" in this notice. An affiliated company is a company in our family of companies and includes companies with the Morgan Stanley name. These affiliated companies are financial institutions such as broker-dealers, banks, investment advisers and credit card issuers. We refer to any company that is not an affiliated company as a nonaffiliated third party. For purposes of Section 5 of this notice, and your ability to limit certain uses of personal information by our affiliates, this notice applies to the use of personal information by our affiliated companies.

1. What Personal Information Do We Collect From You?

We may collect the following types of information about you: (i) information provided by you, including information from applications and other forms we receive from you, (ii) information about your transactions with us or our

affiliates, (iii) information

Morgan Stanley Emerging Markets Debt Fund, Inc.

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U.S. Privacy Policy (cont'd)

about your transactions with nonaffiliated third parties, (iv) information from consumer reporting agencies, (v) information obtained from our websites, and (vi) information obtained from other sources. For example:

- We collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through applications and other forms you submit to us.
- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.
- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.
- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.

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

We may disclose personal information we collect about you in each of the categories listed above to affiliated and nonaffiliated third parties.

a. Information We Disclose to Affiliated Companies. We may disclose personal information that we collect about you to our affiliated companies to manage your account(s) effectively, to service and process your transactions, and to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

b. Information We Disclose to Third Parties. We may disclose personal information that we collect about you to nonaffiliated third parties to provide marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We may also disclose all of the information we collect to other nonaffiliated third parties for our everyday business purposes, such as to process transactions, maintain account(s), respond to court orders and legal investigations, report to credit bureaus, offer our own products and services, protect against fraud, for institutional risk control, to perform services on our behalf, and as otherwise required or permitted by law.

When we share personal information about you with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be permitted or required by law.

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

We maintain physical, electronic and procedural security measures that comply with applicable law and regulations to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information by

Morgan Stanley Emerging Markets Debt Fund, Inc.

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employees. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to appropriate security standards with respect to such information.

4. How Can You Limit Our Sharing Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?

By following the opt-out procedures in Section 6 below, you may limit the extent to which we share with our affiliated companies, personal information that was collected to determine your eligibility for products and services such as your credit reports and other information that you have provided to us or that we may obtain from third parties ("eligibility information"). Eligibility information does not include your identification information or personal information pertaining to our transactions or experiences with you. Please note that, even if you direct us not to share eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with our affiliated companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account.

5. How Can You Limit the Use of Certain Personal Information About You by Our Affiliated Companies for Marketing?

By following the opt-out instructions in Section 6 below, you may limit our affiliated companies from marketing their products or services to you based on personal information we disclose to them. This information may include, for example, your income and account history with us. Please note that, even if you choose to limit our affiliated companies from using personal information about you that we may share with them for marketing their products and services to you, our affiliated companies may use your personal information that they obtain from us to market to you in circumstances permitted by law, such as if the affiliated party has its own relationship with you.

6. How Can You Send Us an Opt-Out Instruction?

If you wish to limit our sharing of eligibility information about you with our affiliated companies, or our affiliated companies' use of personal information for marketing purposes, as described in this notice, you may do so by:

- Calling us at (800) 548-7786
Monday - Friday between 8a.m. and 5p.m. (EST)

- Writing to us at the following address:

Morgan Stanley Services Company Inc.
c/o Privacy Coordinator
201 Plaza Two, 3rd Floor
Jersey City, New Jersey 07311

If you choose to write to us, your request should include: your name, address, telephone number and account number(s) to which the opt-out applies and whether you are opting out with respect to sharing of eligibility

information (Section 4 above), or information used for marketing (Section 5 above), or both. Written opt-out requests should not be sent with any other correspondence. In order to

Morgan Stanley Emerging Markets Debt Fund, Inc.

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U.S. Privacy Policy (cont'd)

process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account.

Please understand that if you limit our sharing or our affiliated companies' use of personal information, you and any joint account holder(s) may not receive information about our affiliated companies' products and services, including products or services that could help you manage your financial resources and achieve your investment objectives.

If you have more than one account or relationship with us, please specify the accounts to which you would like us to apply your privacy choices. If you have accounts or relationships with our affiliates, you may receive multiple privacy policies from them, and will need to separately notify those companies of your privacy choices for those accounts or relationships.

7. What if an affiliated company becomes a nonaffiliated third party?

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies, your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

SPECIAL NOTICE TO RESIDENTS OF VERMONT

The following section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with nonaffiliated third parties, or eligibility information with affiliated companies, other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or eligibility information with affiliated companies, unless you provide us with your written consent to share such information.

SPECIAL NOTICE TO RESIDENTS OF CALIFORNIA

The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.

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Item 2. Code of Ethics.

Not applicable for semiannual reports.

Item 3. Audit Committee Financial Expert.

Not applicable for semiannual reports.

Item 4. Principal Accountant Fees and Services

Not applicable for semiannual reports.

Item 5. Audit Committee of Listed Registrants.

Not applicable for semiannual reports.

Item 6.

(a) Refer to Item 1.

(b) Not applicable.

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

Not applicable for semiannual reports.

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

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

Item 9. Closed-End Fund Repurchases

REGISTRANT PURCHASE OF EQUITY SECURITIES

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-----------------------|--|---|--|--|
| mo-da-year mo-da-year | | | N/A | N/A |
| mo-da-year mo-da-year | | | N/A | N/A |
| mo-da-year mo-da-year | | | N/A | N/A |
| mo-da-year mo-da-year | | | N/A | N/A |
| mo-da-year mo-da-year | | | N/A | N/A |
| mo-da-year mo-da-year | | | N/A | N/A |
| Total | | | N/A | N/A |

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

Not applicable.

Item 11. Controls and Procedures

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

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

Item 12. Exhibits

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

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

SIGNATURES

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
August 15, 2012

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
August 15, 2012

/s/ Francis Smith
Francis Smith
Principal Financial Officer
August 15, 2012
