

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

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-07694

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

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

10036
(Zip code)

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

Registrant's telephone number, including area code: 1-800-231-2608

Date of fiscal year end: 12/31

Date of reporting period: 6/30/08

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Fund's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

2008 Semi-Annual Report

June 30, 2008

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

Morgan Stanley

Investment Management Inc.

Investment Adviser

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

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

Factors Affecting Performance

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

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

Management Strategies

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

Sincerely,

Ronald E. Robison
President and Principal Executive Officer

July 2008

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory

Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser under the Advisory Agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the Adviser and the Advisory and Administration Agreements together are referred to as the Management Agreement.) The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper Inc. (Lipper).

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the advisory and administrative services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance Relative to Comparable Funds Managed by Other Advisers

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

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

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

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

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

Breakpoints and Economies of Scale

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it does not include breakpoints. The Board considered that the Fund is a closed-end fund and, therefore, that the Fund's assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory

Agreement Approval (cont d)

Fall-Out Benefits

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

Soft Dollar Benefits

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

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

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

Historical Relationship Between the Fund and the Adviser

The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that it is beneficial for the Fund to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments

(Showing percentage of Total Value of Investments)

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

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10.00%, 8/15/30		(c)2,500	2,444 4,563
Egypt (0.8%)			
Sovereign (0.8%)			
Arab Republic of Egypt, 8.75%, 7/18/12	EGP	10,510	\$ 1,911
Ghana (0.8%)			
Sovereign (0.8%)			
Republic of Ghana, 8.50%, 10/4/17	\$	1,916	1,978
Indonesia (5.2%)			
Corporate (1.4%)			
Pindo Deli Finance Mauritius, Tranche A, 4.93%, 4/28/15		(b)(d)484	370
Tranche B, 4.93%, 4/28/18		(b)(d)1,707	640
Tranche C, Zero Coupon, 4/28/25		(d)6,884	447
Tijiwi Kimia Finance Mauritius Ltd., Tranche A, 4.93%, 4/28/15		(d)1,596	1,221
Tranche B, 4.93%, 4/28/18		(b)(d)1,477	539
Tranche C, Zero Coupon, 4/28/27			