

MORGAN STANLEY DEAN WITTER EMERGING MARKETS DEBT FUND INC  
Form N-CSRS  
September 08, 2006

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)

1221 Avenue of the Americas 5th Floor New York, NY  
(Address of principal executive offices)

10020  
(Zip code)

Ronald E. Robison  
1221 Avenue of the Americas, 5th Floor New York, New York 10020  
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-221-6726

Date of fiscal year end: 12/31

Date of reporting period: 6/30/06

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:

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**2006 Semi-Annual Report**

June 30, 2006

**Morgan Stanley**

**Emerging Markets Debt Fund, Inc.**

**Morgan Stanley**

**Investment Management Inc.**

**Investment Adviser**

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**Morgan Stanley Emerging Markets Debt Fund, Inc.**

Overview (unaudited)

**Letter to Stockholders**

**Performance**

For the six months ended June 30, 2006, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund ) had total returns, based on net asset and market value per share of -0.75%, net of fees, and -12.76%, respectively, compared to -0.69% for the J.P. Morgan Emerging Markets Bond Global Index (the Index ). On June 30, 2006, the closing price of the Fund's shares on the New York Stock Exchange was \$9.13, representing a 11.4% discount to the Fund's net asset value per share.

**Factors Affecting Performance**

The first half of 2006 was challenging for emerging markets debt (EMD), for reasons more external in nature than internal to the emerging markets. Fundamentals remained strong across the emerging markets as solid growth, low inflation and increased self insurance (supported by higher foreign exchange reserves, higher credit ratings and lower levels of external debt) helped to bolster the credit outlook for most emerging countries. Much of the volatility in EMD was driven by concern over the direction of U.S. interest rates, a concern which impacted most bond markets negatively during the six month period. Following strong performance in January and February, EMD subsequently turned negative and ended the six month period with a slightly negative return.

The Fund's exposure to local currency denominated debt in lieu of U.S. dollar denominated assets in Brazil, Mexico and Turkey detracted from relative performance as currencies in many emerging markets experienced a significant correction during May and June. Investors in both emerging markets fixed income and equity markets rushed out of local currency denominated assets and toward the safety of the U.S. dollar, and most emerging market currencies declined between 5% and 15% versus the U.S. dollar as a result. Uncertainty about U.S. inflation, interest rates and fear of policy overkill appeared to dampen investor risk tolerance. In addition, the end of quantitative easing in Japan and the acceleration of rising interest rates there precipitated unwinds of yen-funded carry trades. These shocks had a powerful effect in high-beta/risky assets such as emerging markets debt and equities, not because emerging economies are on the brink of collapse as in the 1990s, but because the funding side of most risk-seeking trades was unwound.

Political volatility in Peru, Hungary, Mexico, Thailand and Brazil also helped to push EMD prices into negative territory during the busy electoral period this spring. Offsetting these negatives however, was the fact that most energy exporting countries enjoyed another six months of firm oil prices and a number of countries (Brazil, Colombia, Mexico, Russia and Venezuela) successfully completed balance sheet improvements, debt exchanges or buy-backs during the period. Also of note was Brazil's upgrade to BB by S&P. This upgrade had the effect of raising the average credit rating of the Index to Ba1/BB+, or just one notch below investment grade.

These favorable developments supported the overall performance of the Index, though they were not enough to bring it into positive territory. The Index's slightly negative performance was impressive against a backdrop of sharply higher U.S. interest rates. In fact, spreads on the Index narrowed by 19 basis points during the period.

#### **Management Strategies**

The vulnerability of emerging markets to global developments prompted our adaptation of a defensive stance early in the year a stance characterized by underweights in some of the historically volatile credits and overweights in shorter duration or local currency denominated assets.

Within this more defensive stance, we favored countries such as Indonesia, the Philippines and Argentina where we believed that valuations had not yet reflected the ongoing improvements in macro conditions. Both Argentine and Philippine assets added to relative performance. Unfortunately, Indonesian assets underperformed the market during the period as investors shunned riskier less liquid assets. The Fund's defensive interest rate posture also aided relative performance as the short end of the U.S. Treasury yield curve shifted upward with each increase in the Federal funds target rate.

Sincerely,

Ronald E. Robison

President and Principal Executive Officer

July 2006

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**Investment Advisory  
Agreement Approval**

June 30, 2006 (unaudited)

**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 November 30, 2005, 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 reviewed the advisory and administrative fee (together, the management fee) rate paid by the Fund under the Management

Agreement. The Board noted that the management fee rate was comparable to the management fee rates charged by the Adviser to other proprietary funds it manages with investment strategies comparable to those of the Fund taking into account the scope of the services provided.

#### **Fees and Expenses Relative to Comparable Funds Managed by Other Advisers**

The Board reviewed 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 includes breakpoints. The Board also reviewed the level of the Fund's management fee and noted that the fee, as a percentage of the Fund's net assets, would decrease as net assets increase because the management fee includes breakpoints. The Board concluded that the Fund's management fee would reflect economies of scale as assets increase.

#### **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.**

**Investment Advisory  
Agreement Approval (cont d)**

June 30, 2006 (unaudited)

**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 concluded that the sales commissions were competitive with those of other broker-dealers and the float 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 noted that the Adviser s operations remain profitable, although increased expenses in recent years have reduced the Adviser s profitability. 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 stockholders to approve renewal of the Management Agreement for another year.

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2006 (unaudited)

## Portfolio of Investments

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
<b>DEBT INSTRUMENTS (98.4%)</b>		
<b>Argentina (2.7%)</b>		
<b>Sovereign (2.7%)</b>		
Republic of Argentina		
5.83%, 12/31/33	\$ 10,810	\$ 4,075
8.28%, 12/31/33	(d)407	362
Republic of Argentina (Linked Variable Rate)		
86.70%, 4/10/49	(a)3,770	1,527
		5,964
<b>Brazil (11.2%)</b>		
<b>Corporate (0.8%)</b>		
Banco ABN Amro Real S.A.		
Zero Coupon, 12/13/07	BRL 3,650	1,694
<b>Sovereign (10.4%)</b>		
Citigroup, Inc.		
6.00%, 5/18/09	\$ 2,000	1,915
Federative Republic of Brazil		
8.00%, 1/15/18	3,144	3,325
8.875%, 10/14/19	6,713	7,495
8.875%, 4/15/24	975	1,083
10.50%, 7/14/14	1,740	2,099
14.50%, 10/15/09	6,040	7,529
		23,446
		25,140
<b>Bulgaria (1.6%)</b>		
<b>Sovereign (1.6%)</b>		
Republic of Bulgaria		
8.25%, 1/15/15	1,699	1,923
Republic of Bulgaria (Registered)		
8.25%, 1/15/15	1,490	1,687
		3,610
<b>Chile (1.9%)</b>		
<b>Corporate (1.9%)</b>		
Empresa Nacional de Petroleo		
6.75%, 11/15/12	(c)4,170	4,311
<b>Colombia (2.6%)</b>		
<b>Sovereign (2.6%)</b>		
Republic of Colombia		
8.125%, 5/21/24	1,420	1,445
8.25%, 12/22/14	1,040	1,097
9.75%, 4/9/11	1,264	1,372
11.75%, 2/25/20	1,465	1,934
		5,848
<b>Ecuador (1.3%)</b>		
<b>Sovereign (1.3%)</b>		
Republic of Ecuador		
9.00%, 8/15/30	\$ (e)2,500	\$ 2,431
9.375%, 12/15/15	470	468
		2,899
<b>India (0.0%)</b>		
<b>Corporate (0.0%)</b>		

Surashtra Cement & Chemical Ltd.			
19.00%, (expired maturity)	INR	(d)(h)30,000	@
<b>Indonesia (4.2%)</b>			
<b>Corporate (4.2%)</b>			
Pindo Deli Finance Mauritius			
Tranche A, 6.00%, 4/28/15	\$	(b)(c)1,521	1,148
Tranche B, 6.00%, 4/28/18		(b)3,413	1,895
Tranche C, 6.13%, 4/28/27		(b)(c)6,884	1,411
Tijiwi Kimia Finance Mauritius Ltd.			
Tranche A, 2.12%, 4/28/15		(b)1,396	1,068
Tranche A, 6.00%, 4/28/15		(b)(c)2,161	1,653
Tranche B, 6.00%, 4/28/18		(b)(c)2,714	1,588
Tranche C, 6.13%, 4/28/27		(c)3,352	687
			9,450
<b>Ivory Coast (0.2%)</b>			
<b>Sovereign (0.2%)</b>			
Republic of Ivory Coast			
2.50%, 3/29/18		(a)2,045	532
<b>Malaysia (1.8%)</b>			
<b>Sovereign (1.8%)</b>			
Government of Malaysia			
7.50%, 7/15/11		420	448
8.75%, 6/1/09		3,290	3,540
			3,988
<b>Mexico (20.6%)</b>			
<b>Corporate (8.0%)</b>			
Pemex Project Funding Master Trust			
6.63%, 6/15/10		(c)4,250	4,350
8.625%, 12/1/23		1,740	1,908
9.125%, 10/13/10		4,040	4,434
9.50%, 9/15/27		(c)4,860	5,844
10.00%, 9/15/27		1,060	1,273
			17,809
<b>Sovereign (12.6%)</b>			
Mexican Bonos			
8.00%, 12/17/15	MXN	54,910	4,515
10.00%, 12/5/24		144,342	13,333

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

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2006 (unaudited)

## Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
<b>Mexico (cont d)</b>		
<b>Sovereign (cont d)</b>		
United Mexican States		
8.125%, 12/30/19	\$ 2,174	\$ 2,462
8.375%, 1/14/11	6,100	6,664
11.50%, 5/15/26	828	1,224
		28,198
		46,007
<b>Nigeria (2.4%)</b>		
<b>Sovereign (2.4%)</b>		
Central Bank of Nigeria Par Bond		
6.25%, 11/15/20	(b)(e)2,750	2,743
Central Bank of Nigeria Credit-Linked Mortgage Bond		
15.00%, 1/30/09	2,378	2,578
		5,321
<b>Panama (2.3%)</b>		
<b>Sovereign (2.3%)</b>		
Republic of Panama		
7.125%, 1/29/26	1,910	1,853
9.375%, 4/1/29	1,890	2,240
9.625%, 2/8/11	906	1,010
		5,103
<b>Peru (2.9%)</b>		
<b>Sovereign (2.9%)</b>		
Republic of Peru		
8.375%, 5/3/16	1,150	1,248
8.75%, 11/21/33	3,130	3,498
9.875%, 2/6/15	1,385	1,627
		6,373
<b>Philippines (12.2%)</b>		
<b>Sovereign (12.2%)</b>		
Republic of Philippines		
8.875%, 3/17/15	10,980	11,941
9.00%, 2/15/13	2,240	2,422
9.50%, 2/2/30	8,925	10,241
10.625%, 3/16/25	2,080	2,579
		27,183
<b>Qatar (0.8%)</b>		
<b>Sovereign (0.8%)</b>		
State of Qatar (Registered)		
9.75%, 6/15/30	1,260	1,758
<b>Russia (15.3%)</b>		
<b>Corporate (3.1%)</b>		
Gaz Capital for Gazprom		
8.625%, 4/28/34	3,670	4,211
RSHB Capital SA for OJSC Russian Agricultural Bank		
7.175%, 5/16/13	\$ (b)(c)2,800	\$ 2,782
		6,993
<b>Sovereign (12.2%)</b>		
Aries Vermoogensverwaltungs GmbH		
9.60%, 10/25/14	4,250	5,291

Russian Federation			
5.00%, 3/31/30		(c)(e)3,384	3,608
Russian Federation (Registered)			
5.00%, 3/31/30			
8.25%, 3/31/10		3,098	3,226
11.00%, 7/24/18		5,901	8,151
12.75%, 6/24/28		4,080	6,926
			27,202
			34,195
<b>South Africa (0.7%)</b>			
<b>Sovereign (0.7%)</b>			
Republic of South Africa			
13.50%, 9/15/15	ZAR	9,075	1,649
<b>Trinidad (1.0%)</b>			
<b>Corporate (1.0%)</b>			
National Gas of Trinidad & Tobago, Ltd.			
6.05%, 1/15/36	\$	(c)2,369	2,188
<b>Tunisia (0.4%)</b>			
<b>Sovereign (0.3%)</b>			
Banque Centrale de Tunisie			
7.375%, 4/25/12		750	784
<b>Turkey (5.7%)</b>			
<b>Sovereign (5.7%)</b>			
Citigroup Global Markets Holdings, Inc.			
(Turkish Lira Index Linked)			
Zero Coupon, 6/28/07		6,120	4,987
J.P. Morgan Chase & Co.			
Zero Coupon, 6/27/07		2,519	1,699
Republic of Turkey			
11.00%, 1/14/13		2,470	2,828
11.50%, 1/23/12		2,700	3,098
			12,612

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

## Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2006 (unaudited)

## Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
<b>Venezuela (6.6%)</b>		
<b>Sovereign (6.6%)</b>		
Republic of Venezuela		
8.50%, 10/8/14	\$ 1,510	\$ 1,601
9.375%, 1/13/34	2,732	3,210
10.75%, 9/19/13	8,330	9,958
		14,769
<b>TOTAL DEBT INSTRUMENTS (Cost \$221,583)</b>		219,684

	No. of Warrants	
<b>WARRANTS (0.9%)</b>		
<b>Argentina (0.5%)</b>		
Republic of Argentina, expiring 12/15/35	(g)1,182,042	104
Republic of Argentina, expiring 12/15/35	(d)(g)37,715,134	971
		1,075
<b>Mexico (0.1%)</b>		
United Mexican States, expiring 9/1/06	(g)2,000	139
<b>Nigeria (0.2%)</b>		
Central Bank of Nigeria, expiring 11/15/20	3,000	450
<b>Venezuela (0.1%)</b>		
Republic of Venezuela Oil-Linked Payment Obligation, expiring 4/15/20	11	403
<b>TOTAL WARRANTS (Cost \$589)</b>		2,067

	No. of Contracts	
<b>Put Options Purchased (0.0%)</b>		
Federative Republic of Brazil 9/06 @ \$2.287 (Cost \$75)	(g)2,252,060	45

	Face Amount (000)	
<b>SHORT-TERM INVESTMENT (0.7%)</b>		
<b>United States (0.7%)</b>		
<b>Repurchase Agreement (0.7%)</b>		
J.P. Morgan Securities, Inc., 5.10%, dated 6/30/06, due 7/3/06, repurchase price \$1,527 (Cost \$1,526)	\$ (f)1,526	1,526
<b>TOTAL INVESTMENTS (100.0%)</b>		223,322
(Cost \$223,773)		223,322
<b>OTHER ASSETS IN EXCESS OF LIABILITIES</b>		3,892
<b>NET ASSETS</b>	\$	227,214

(a) Security is in default.

(b) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in designated base rates. The rates shown are those in effect on June 30, 2006.

- (c) 144A Security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (d) Security was valued at fair value At June 30, 2006, the Fund held fair-valued securities, valued at \$1,333,000 representing 0.6% of net assets.
- (e) Step Bond coupon rate increases in increments to maturity. Rate disclosed is as of June 30, 2006. Maturity date disclosed is ultimate maturity.
- (f) Represents the Fund's undivided interest in a joint repurchase agreement which has a total value of \$795,972,000. The repurchase agreement was fully collateralized by U.S. government agency securities at the date of this Portfolio of Investments as follows: Federal Home Loan Mortgage Corp., 2.38% to 6.75%, due 7/15/06 to 3/15/31; Federal National Mortgage Association, 2.38% to 7.13%, due 7/15/06 to 1/15/30; Tennessee Valley Authority, 7.13%, due 5/1/30, which had a total value of \$811,894,892. The investment in the repurchase agreement is through participation in a joint account with affiliated parties pursuant to exemptive relief received by the Fund from the SEC.
- (g) Non-income producing.
- (h) Security is deemed to be illiquid At June 30, 2006.
- @ Face Amount/Value is less than \$500.
- BRL Brazilian Real
- INR Indian Rupee
- MXN Mexican Peso
- ZAR South African Rand

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**Futures Contracts:**

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

	Number of Contracts	Value (000)	Expiration Date	Net Unrealized Appreciation (Depreciation) (000)
<b>Short:</b>				
2 Year U.S. Treasury Note	364	\$73,812	Sept-06	\$232

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

**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**Portfolio of Investments (cont d)**

*(Showing Percentage of Total Value of Investments)*

June 30, 2006 (unaudited)

**Graphic Presentation of Portfolio Holdings**

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

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\* Industries which do not appear in the above graph, as well as those which represent less than 5% of total investments, if applicable, are included in the category labeled "Other".

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

## Morgan Stanley Emerging Markets Debt Fund, Inc.

## Financial Statements

## Statement of Assets and Liabilities

	June 30, 2006 (unaudited) (000)
<b>Assets:</b>	
Investments, at Value (Cost \$223,773)	\$ 223,322
Cash	7,617
Receivable for Investments Sold	7,721
Interest Receivable	4,664
Due from Broker	2,144
Other Assets	14
<b>Total Assets</b>	<b>245,482</b>
<b>Liabilities:</b>	
Payable For:	
Foreign Currency Overdraft	7,232
Investments Purchased	6,645
Dividends Declared	4,079
Investment Advisory Fees	190
Directors Fees and Expenses	16
Custodian Fees	12
Administration Fees	7
Other Liabilities	87
<b>Total Liabilities</b>	<b>18,268</b>
<b>Net Assets</b>	
Applicable to 22,046,681, Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 227,214
<b>Net Asset Value Per Share</b>	<b>\$ 10.31</b>
<b>Net Assets Consist of:</b>	
Common Stock	\$ 220
Paid-in Capital	279,066
Undistributed (Distributions in Excess of) Net Investment Income	(619)
Accumulated Net Realized Gain (Loss)	(51,237)
Unrealized Appreciation (Depreciation) on Investments, Foreign Currency Translations, and Futures Contracts	(216)
<b>Net Assets</b>	<b>\$ 227,214</b>

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

## Morgan Stanley Emerging Markets Debt Fund, Inc.

## Financial Statements

## Statement of Operations

	Six Months Ended June 30, 2006 (unaudited) (000)
<b>Investment Income</b>	
Interest (Net of \$23 of Foreign Taxes Withheld)	\$ 10,224
<b>Expenses</b>	
Investment Advisory Fees (Note B)	1,186
Interest Expense on Reverse Repurchase Agreements	253
Administration Fees (Note C)	95
Professional Fees	50
Stockholder Reporting Expenses	9
Custodian Fees (Note D)	26
Stockholder Servicing Agent Fees	11
Directors Fees and Expenses	2
Other Expenses	35
<b>Total Expenses</b>	1,667
Waiver of Administration Fees (Note C)	(54)
Expense Offset (Note D)	@
<b>Net Expenses</b>	1,613
<b>Net Investment Income (Loss)</b>	8,611
<b>Net Realized Gain (Loss) on:</b>	
Investments	6,254
Foreign Currency Transactions	18
Futures	837
<b>Net Realized Gain (Loss)</b>	7,109
<b>Change in Unrealized Appreciation (Depreciation) on:</b>	
Investments	(18,423)
Foreign Currency Translations	(2)
Futures	316
<b>Change in Unrealized Appreciation (Depreciation)</b>	(18,109)
<b>Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)</b>	(11,000)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	\$ (2,389)

@ Amount is less than \$500.

## Statements of Changes in Net Assets

	Six Months Ended June 30, 2006 (unaudited) (000)	Year Ended December 31, 2005 (000)
<b>Increase (Decrease) in Net Assets</b>		

Operations:

Net Investment Income	\$	8,611	\$	20,156
Net Realized Gain (Loss)		7,109		5,014
Change in Unrealized Appreciation (Depreciation)		(18,109)		4,691
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>		<b>(2,389)</b>		<b>29,861</b>
Distributions from and/or in Excess of:				
Net Investment Income		(8,488)		(20,814)
<b>Total Increase (Decrease)</b>		<b>(10,877)</b>		<b>9,047</b>
Net Assets:				
Beginning of Period		238,091		229,044
<b>End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$(619) and \$(742), respectively)</b>	\$	227,214	\$	238,091

The accompanying notes are an integral part of the financial statements

## Morgan Stanley Emerging Markets Debt Fund, Inc.

## Financial Statements

## Statement of Cash Flows

	Six Months Ended June 30, 2006 (unaudited) (000)
<b>Cash Flows From Operating Activities:</b>	
Proceeds from Sales and Maturities of Long-Term Investments	\$ 92,301
Purchases of Long-Term Investments	(66,594)
Net (Increase) Decrease in Short-Term Investments	3,959
Net (Increase) Decrease in Foreign Currency Holdings	7,330
Net Realized Gain (Loss) for Foreign Currency Translations	18
Net Realized Gain (Loss) on Futures Contracts	837
Net Investment Income	8,611
<b>Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:</b>	
Net (Increase) Decrease in Receivables Related to Operations	716
Net Increase (Decrease) in Payables Related to Operations	(48)
Accretion/Amortization of Discounts and Premiums	(1,285)
Net Cash Provided (Used) by Operating Activities	45,845
<b>Cash Flows from Financing Activities:</b>	
Cash Received for Reverse Repurchase Agreements	48,256
Cash Paid for Reverse Repurchase Agreements	(73,608)
Cash Distributions Paid	(12,877)
Net Cash Provided (Used) for Financing Activities	(38,229)
Net Increase (Decrease) in Cash	7,616
<b>Cash at Beginning of Period</b>	<b>1</b>
<b>Cash at End of Period</b>	<b>\$ 7,617</b>

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

## Morgan Stanley Emerging Markets Debt Fund, Inc.

## Financial Highlights

## Selected Per Share Data and Ratios

	Six Months Ended June 30, 2006 (unaudited)		Year Ended December 31,				
		2005	2004	2003	2002	2001	
<b>Net Asset Value, Beginning of Period</b>	\$	10.80	\$ 10.39	\$ 10.24	\$ 8.45	\$ 8.25	\$ 8.22
Net Investment Income		0.39	0.91	0.83	0.77	0.67	0.80
Net Realized and Unrealized Gain (Loss) on Investments		(0.49)	0.44	0.19	1.77	0.19	0.08
Total from Investment Operations		(0.10)	1.35	1.02	2.54	0.86	0.88
Distributions from and/or in Excess of:							
Net Investment Income		(0.39)	(0.94)	(0.87)	(0.75)	(0.66)	(0.85)
<b>Net Asset Value, End of Period</b>	\$	10.31	\$ 10.80	\$ 10.39	\$ 10.24	\$ 8.45	\$ 8.25
<b>Per Share Market Value, End of Period</b>	\$	9.13	\$ 10.88	\$ 9.61	\$		