

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC  
Form N-Q  
November 26, 2008

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

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

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)

RANDY TAKIAN

522 FIFTH AVENUE NEW YORK, NY, 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: 9/30/08

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**Item 1. Schedule of Investments.**

The Fund's schedule of investment as of the close of the reporting period prepared pursuant to Rule 12-12 Regulation S-X is as follows:

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## Third Quarter Report

September 30, 2008 (unaudited)

## Portfolio of Investments

(Showing percentage of Total Value of Investments)

## Morgan Stanley Emerging Markets Debt Fund, Inc.

|  | Face Amount<br>(000) | Value<br>(000) |
|--|----------------------|----------------|
| <b>Debt Instruments (95.3%)</b>  |                      |                |
| <b>Argentina (0.4%)</b>  |                      |                |
| <b>Sovereign (0.4%)</b>  |                      |                |
| Republic of Argentina,<br>8.28%, 12/31/33                                  | \$ 1,706             | \$ 979         |
| <b>Brazil (17.1%)</b>  |                      |                |
| <b>Corporate (1.0%)</b>  |                      |                |
| Banco ABN Amro Real S.A.,<br>16.20%, 2/22/10                               | BRL 4,240            | 2,195          |
| <b>Sovereign (16.1%)</b>   |                      |                |
| Banco Nacional de Desenvolvimento Economico e Social,<br>6.37%, 6/16/18(a) | \$ 5,000             | 4,425          |
| Brazil Notas do Tesouro Nacional, Series F,<br>10.00%, 1/1/14              | BRL 5,613            | 2,473          |
| Federative Republic of Brazil,<br>6.00%, 1/17/17                           | \$ 6,850             | 6,628          |
| 8.00%, 1/15/18   | 6,403                | 6,883          |
| 8.88%, 10/14/19 - 4/15/24  | 4,688                | 5,530          |
| 10.50%, 7/14/14  | 1,740                | 2,197          |
| 11.00%, 8/17/40  | 5,250                | 6,595          |
|  |                      | 34,731         |
|  |                      | 36,926         |
| <b>Bulgaria (0.6%)</b>   |                      |                |
| <b>Sovereign (0.6%)</b>  |                      |                |
| Republic of Bulgaria,<br>8.25%, 1/15/15(a)                                 | 1,149                | 1,270          |
| <b>Chile (1.5%)</b>  |                      |                |
| <b>Corporate (1.5%)</b>  |                      |                |
| Empresa Nacional de Petroleo,<br>6.75%, 11/15/12(a)                        | 3,090                | 3,174          |
| <b>Colombia (1.8%)</b>   |                      |                |
| <b>Sovereign (1.8%)</b>  |                      |                |
| Republic of Colombia,<br>7.38%, 1/27/17                                    | 960                  | 1,008          |
| 11.75%, 2/25/20  | 2,025                | 2,810          |
|  |                      | 3,818          |

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|                                       |     |        |        |
|---------------------------------------|-----|--------|--------|
| <b>Ecuador (2.1%)</b>                 |     |        |        |
| <b>Sovereign (2.1%)</b>               |     |        |        |
| Republic of Ecuador,                  |     |        |        |
| 9.38%, 12/15/15                       |     | 3,113  | 2,622  |
| 10.00%, 8/15/30                       |     | 2,500  | 1,819  |
|                                       |     |        | 4,441  |
| <b>Ghana (0.8%)</b>                   |     |        |        |
| <b>Sovereign (0.8%)</b>               |     |        |        |
| Republic of Ghana,                    |     |        |        |
| 8.50%, 10/4/17(a)                     |     | 1,916  | 1,820  |
| <b>Indonesia (6.6%)</b>               |     |        |        |
| <b>Corporate (1.5%)</b>               |     |        |        |
| Pindo Deli Finance Mauritius,         |     |        |        |
| Tranche A, 4.83%, 4/28/15(a)(b)       |     | 484    | 351    |
| Tranche B, 4.83%, 4/28/18(a)(b)       |     | 1,707  | 606    |
| Tranche C, Zero Coupon, 4/28/25(b)    |     | 6,884  | 516    |
| Tjiwi Kimia Finance Mauritius Ltd.,   |     |        |        |
| Tranche A, 4.83%, 4/28/15(a)(b)       |     | 1,596  | 1,125  |
| Tranche B, 4.83%, 4/28/18(a)(b)       |     | 1,477  | 495    |
| Tranche C, Zero Coupon, 4/28/27(a)(b) |     | 3,352  | 235    |
|                                       |     |        | 3,328  |
| <b>Sovereign (5.1%)</b>               |     |        |        |
| Republic of Indonesia,                |     |        |        |
| 6.88%, 1/17/18(a)                     |     | 2,452  | 2,243  |
| 7.75%, 1/17/38(a)                     |     | 9,561  | 8,655  |
|                                       |     |        | 10,898 |
|                                       |     |        | 14,226 |
| <b>Ivory Coast (0.3%)</b>             |     |        |        |
| <b>Sovereign (0.3%)</b>               |     |        |        |
| Ivory Coast,                          |     |        |        |
| Zero Coupon, 3/31/18(c)               |     | 2,045  | 705    |
| <b>Kazakhstan (2.5%)</b>              |     |        |        |
| <b>Sovereign (2.5%)</b>               |     |        |        |
| Intergas Finance BV,                  |     |        |        |
| 6.38%, 5/14/17                        |     | 610    | 460    |
| KazMunaiGaz Finance Sub BV,           |     |        |        |
| 9.13%, 7/2/18(a)                      |     | 5,720  | 4,891  |
|                                       |     |        | 5,351  |
| <b>Mexico (15.6%)</b>                 |     |        |        |
| <b>Corporate (2.0%)</b>               |     |        |        |
| Pemex Project Funding Master Trust,   |     |        |        |
| 9.13%, 10/13/10                       |     | 4,040  | 4,333  |
| <b>Sovereign (13.6%)</b>              |     |        |        |
| Mexican Bonos,                        |     |        |        |
| 8.00%, 12/17/15                       | MXN | 23,609 | 2,111  |
| 10.00%, 12/5/24                       |     | 49,800 | 5,180  |
| Pemex Project Funding Master Trust,   |     |        |        |
| 4.12%, 6/15/10(a)(b)                  | \$  | 4,250  | 4,192  |
| 5.75%, 3/1/18(a)                      |     | 1,840  | 1,750  |
| 6.63%, 6/15/35                        |     | 5,000  | 4,604  |
| 8.63%, 12/1/23                        |     | 1,740  | 1,962  |
| United Mexican States,                |     |        |        |
| 5.63%, 1/15/17                        |     | 5,278  | 5,167  |
| 6.75%, 9/27/34                        |     | 1,479  | 1,490  |
| 7.50%, 1/14/12                        |     | 1      | 1      |
| 8.38%, 1/14/11                        |     | 2,665  | 2,872  |
|                                       |     |        | 29,329 |
|                                       |     |        | 33,662 |



**Third Quarter Report**

September 30, 2008 (unaudited)

**Portfolio of Investments (cont d)**

(Showing percentage of Total Value of Investments)

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

|   | Face Amount<br>(000) | Value<br>(000) |
|---|----------------------|----------------|
| <b>Nigeria (1.3%)</b>   |                      |                |
| <b>Sovereign (1.3%)</b>   |                      |                |
| UBS AG, Federal Republic of Nigeria, Credit Linked Unsecured Notes,<br>Zero Coupon, 4/9/09              | NGN 351,300          | 2,817          |
| <b>Panama (3.0%)</b>  |                      |                |
| <b>Sovereign (3.0%)</b>   |                      |                |
| Republic of Panama,<br>7.13%, 1/29/26   | \$ 1,910             | \$ 1,967       |
| 7.25%, 3/15/15  | 1,148                | 1,197          |
| 9.38%, 4/1/29   | 2,663                | 3,315          |
|   |                      | 6,479          |
| <b>Peru (5.1%)</b>  |                      |                |
| <b>Sovereign (5.1%)</b>   |                      |                |
| Republic of Peru,<br>6.55%, 3/14/37   | 2,613                | 2,410          |
| 8.38%, 5/3/16   | 1,150                | 1,231          |
| 8.75%, 11/21/33   | 3,846                | 4,596          |
| 9.88%, 2/6/15   | 2,342                | 2,682          |
|   |                      | 10,919         |
| <b>Philippines (5.5%)</b>   |                      |                |
| <b>Sovereign (5.5%)</b>   |                      |                |
| Republic of Philippines,<br>8.88%, 3/17/15  | 7,308                | 8,185          |
| 9.00%, 2/15/13  | 2,240                | 2,475          |
| 9.50%, 2/2/30   | 909                  | 1,130          |
|   |                      | 11,790         |
| <b>Qatar (0.9%)</b>   |                      |                |
| <b>Sovereign (0.9%)</b>   |                      |                |
| State of Qatar (Registered),<br>9.75%, 6/15/30  | 1,260                | 1,969          |
| <b>Russia (14.1%)</b>   |                      |                |
| <b>Corporate (1.3%)</b>   |                      |                |
| TNK-BP Finance S.A.,<br>7.88%, 3/13/18(a)   | 3,800                | 2,679          |
| <b>Sovereign (12.8%)</b>  |                      |                |
| Citigroup, Inc., OJSC Russian Agricultural Bank, Credit Linked Unsecured Notes,<br>Zero Coupon, 2/24/10 | 2,414                | 2,026          |

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|  |                        |            |
|--|------------------------|------------|
| RSHB Capital S.A. for OJSC Russian Agricultural Bank,<br>6.30%, 5/15/17(a)                             | 2,004                  | 1,436      |
| 7.18%, 5/16/13(a)  | 3,070                  | 2,610      |
| Russian Federation (Registered),<br>7.50%, 3/31/30(d)  | 10,098                 | 10,224     |
| 12.75%, 6/24/28  | 4,000                  | 6,430      |
| Russian Federation,<br>7.50%, 3/31/30(a)(d)  | 867                    | 877        |
| Russian Ministry of Finance,<br>3.00%, 5/14/11   | 4,230                  | 4,071      |
|  |                        | 27,674     |
|  |                        | 30,353     |
| <b>South Korea (0.5%)</b>  |                        |            |
| <b>Sovereign (0.5%)</b>  |                        |            |
| Korea Development Bank,<br>5.30%, 1/17/13  | 1,000                  | 994        |
| <b>Trinidad (0.9%)</b>   |                        |            |
| <b>Corporate (0.9%)</b>  |                        |            |
| National Gas Co. of Trinidad & Tobago Ltd.,<br>6.05%, 1/15/36(a)                                       | 2,369                  | 2,067      |
| <b>Turkey (7.8%)</b>   |                        |            |
| <b>Sovereign (7.8%)</b>  |                        |            |
| Republic of Turkey,<br>6.75%, 4/3/18   | 6,005                  | 5,645      |
| 11.00%, 1/14/13  | 7,145                  | 8,235      |
| 11.50%, 1/23/12  | 320                    | 365        |
| 11.88%, 1/15/30  | 1,737                  | 2,503      |
|  |                        | 16,748     |
| <b>Venezuela (6.9%)</b>  |                        |            |
| <b>Sovereign (6.9%)</b>  |                        |            |
| Republic of Venezuela,<br>9.25%, 9/15/27   | 9,581                  | 7,171      |
| 10.75%, 9/19/13  | 8,330                  | 7,685      |
|  |                        | 14,856     |
| <b>Total Debt Instruments (Cost \$222,198)</b>   |                        | 205,364    |
|  | <b>No. of Warrants</b> |            |
| <b>Warrants (0.3%)</b>   |                        |            |
| <b>Nigeria (0.3%)</b>  |                        |            |
| Central Bank of Nigeria, expires 11/15/20  | 3,000                  | 654        |
|  | <b>Shares</b>          |            |
| <b>Short-Term Investments (4.4%)</b>   |                        |            |
| <b>United States (4.4%)</b>  |                        |            |
| <b>Investment Company (4.4%)</b>   |                        |            |
| Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class<br>(Cost \$9,518)(e) | 9,518,094              | 9,518      |
| <b>Total Investments (100.0%) (Cost \$231,716) +</b>   |                        | 215,536    |
| <b>Liabilities in Excess of Other Assets</b>   |                        | (2,521)    |
| <b>Net Assets</b>  |                        | \$ 213,015 |
|  | <b>No. of Warrants</b> |            |
| <b>Short Positions (0.6%)</b>  |                        |            |
| <b>Warrants (0.6%)</b>   |                        |            |
| <b>Venezuela (0.6%)</b>  |                        |            |
| Republic of Venezuela, Oil-Linked Payment Obligation, expires 4/15/20 (b)                              | 38,250                 | 1,364      |
| <b>Total Short Positions (Proceeds \$ )</b>  |                        | 1,364      |





**Third Quarter Report**

September 30, 2008 (unaudited)

**Portfolio of Investments (cont d)**

(Showing percentage of Total Value of Investments)

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

- (a) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (b) 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 September 30, 2008.
- (c) Issuer is in default.
- (d) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of September 30, 2008.
- (e) The Fund invests in the Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class (the Liquidity Fund), an open-end management investment company managed by the Adviser. Investment 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 Liquidity Fund. For the period ended September 30, 2008, advisory fees paid were reduced by approximately \$3,000 relating to the Fund's investment in the Liquidity Fund. For the same period, income distributions earned by the Fund are recorded as dividends from affiliates and totaled approximately \$77,000. For the period ended September 30, 2008, the approximate cost of purchases and sales in the Liquidity Fund were \$102,594,000 and \$99,036,000, respectively.
- + At September 30, 2008, the U.S. Federal income tax cost basis of investments was approximately \$231,716,000 and, accordingly, net unrealized depreciation for U.S. Federal income tax purposes was \$16,180,000 of which \$4,137,000 related to appreciated securities and \$20,317,000 related to depreciated securities.

BRL Brazilian Real  
 MXN Mexican Peso  
 NGN Nigerian Naira

**Futures Contracts:**

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

|                          | Number<br>of<br>Contracts | Value<br>(000) | Expiration<br>Date | Net Unrealized<br>Appreciation<br>(Depreciation)<br>(000) |
|--------------------------|---------------------------|----------------|--------------------|---|
| <b>Short:</b>            |                           |                |                    |   |
| U.S. Treasury 2 yr. Note | 33                        | \$ 7,044       | Dec-08             | \$ (42)   |
| U.S. Treasury 5 yr. Note | 538                       | 60,382         | Dec-08             | (294)   |
|                          |                           |                |                    | \$ (336)  |



**Third Quarter Report**

September 30, 2008 (unaudited)

**Portfolio of Investments**

(Showing percentage of Total Value of Investments)

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

**Interest Rate Swap Contracts**

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

| Swap Counterparty | Floating Rate Index | Pay/Receive Floating Rate | Fixed Rate | Termination Date | Notional Amount (000) | Unrealized Appreciation (000) |
|-------------------|---------------------|---------------------------|------------|------------------|-----------------------|-------------------------------|
| JPMorgan Chase    | 3 Month LIBOR       | Pay                       | 4.39%      | 12/11/12         | \$ 44,509             | \$ 1,295                      |
|                   |                     |                           |            |                  |                       | \$ 1,295                      |

LIBOR London Inter Bank Offer Rate

**Notes to Portfolio of Investments (unaudited)**

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), effective January 1, 2008. In accordance with SFAS 157, fair value is defined as the price 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. SFAS 157 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing 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 pricing 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 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)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of September 30, 2008 in valuing the Fund's investments carried at value:

| Valuation Inputs                              | Investments in<br>Securities<br>(000) | Other Financial<br>Instruments*<br>(000) |
|---|---------------------------------------|--|
| Level 1 - Quoted Prices                       | \$ 9,518                              | \$ (336)                                 |
| Level 2 - Other Significant Observable Inputs | 204,654                               | 1,295                                    |
| Level 3 - Significant Unobservable Inputs     |                                       |  |
| Total   | \$ 214,172                            | \$ 959                                   |

\*Other financial instruments include futures, forwards, reverse repurchase agreements and swap contracts.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

|  | Investments in<br>Securities<br>(000) | Other Financial<br>Instruments<br>(000) |
|--|---------------------------------------|---|
| <b>Balance as of 12/31/07</b>                    | \$ 422                                | \$                                      |
| Accrued discounts/premiums                       | 2                                     |   |
| Realized gain (loss)                             | (138)                                 |   |
| Change in unrealized appreciation (depreciation) | (63)                                  |   |
| Net purchases (sales)                            | (223)                                 |   |
| Net transfers in and/or out of Level 3           |                                       |   |
| <b>Balance as of 9/30/08</b>                     | \$                                    | \$                                      |

The amount of total realized gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at 9/30/08

**Security Valuation** Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and asked prices obtained from reputable brokers. Equity

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securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, if it approximates market value.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Board of Directors (the Directors), although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

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.

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**Item 2. Controls and Procedures.**

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-Q 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 Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

**Item 3. Exhibits.**

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**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.

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

By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: November 18, 2008

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.

By: /s/ Randy Takian  
Name: Randy Takian  
Title: Principal Executive Officer  
Date: November 18, 2008

By: /s/ James Garrett  
Name: James Garrett  
Title: Principal Financial Officer  
Date: November 18, 2008

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