

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-CSRS  
July 09, 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 811-22011

Morgan Stanley Emerging Markets Domestic 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: 201-830-8894

Date of fiscal year end: October 31, 2012

Date of reporting period: April 30, 2012

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Item 1 - Report to Shareholders

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Morgan Stanley Emerging Markets Domestic 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

Stefanie V. Chang Yu

*Vice President*

Francis J. Smith

*Treasurer and Principal  
Financial Officer*

Mary Ann Picciotto

*Chief Compliance Officer*

Mary E. Mullin

*Secretary*

**Officers**

Michael E. Nugent

*Chairman of the Board and Director*

Arthur Lev

*President and Principal Executive Officer*

**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](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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INVESTMENT MANAGEMENT

Morgan Stanley

Emerging Markets Domestic

Debt Fund, Inc. (EDD)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Semi-Annual  
Report**

April 30, 2012

CEEDDSAN  
IU12-01223P-Y04/12

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

## Performance

For the six months ended April 30, 2012, the Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") had total returns of 6.29%, based on net asset value, and 8.94% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Government Bond Index Emerging Markets Global Diversified Index (the "Index")\*, which returned 4.05%. On April 30, 2012, the closing price of the Fund's shares on the New York Stock Exchange was \$16.65, representing a 6.2% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

## Factors Affecting Performance

- In the last two months of 2011, global financial markets became increasingly pessimistic about the likelihood of a comprehensive solution to Europe's debt crisis and the related rising downside risks to global growth. The status of developing countries as a source of robust growth faced considerable headwinds in the fourth quarter of 2011, as the cooling trend continued in China's economy, boosting the likelihood of additional stimulus measures to support economic growth. Emerging market currencies, notably euro-related currencies, fell against the U.S. dollar due to concerns about the impact of Europe's troubles on the rest of the world.
- Global risk assets strengthened in January and February of 2012 due to signs of a global recovery before slightly weakening in March and April, as U.S. economic optimism could not overcome fears about global growth, led again by softer-than-expected economic data out of China and the U.S. Emerging market currencies broadly strengthened against the U.S. dollar as optimism about euro area progress and the effect of the European Central Bank's (ECB) long-term refinancing operations (LTRO) in the first two months of 2012 lifted risk sentiment. Commodity prices, in particular crude oil, rose, leading to concerns that price increases might threaten to derail a vulnerable global recovery.
- Emerging markets debt-dedicated funds selected by fund flows tracker EPFR Global saw inflows of \$14.98 billion for the six-month period. Investors displayed a clear preference for hard currency funds, with \$12.0 billion in flows, followed by local currency funds, with \$2.8 billion, while blended funds attracted just \$166 million.
- Relative to the Index, the portfolio benefited from overweight exposure to Argentina, Colombia, Mexico, South Africa, and Venezuela, as well as underweight exposure to Poland and Turkey. High beta sovereign Argentina rallied early in the period as risk appetite grew; however, Argentina has more recently underperformed as investors were unnerved by the country's controversial decision to nationalize oil company YPF, thereby seizing a controlling stake from Spain's Repsol. Colombia benefited early in the period from economic resilience and easing security fears. Mexico continued to benefit from its economic link with an improving U.S. market, as Mexico sends the vast majority of its products to its northern neighbor, while South Africa benefited from resilient growth figures but a recession in its key trading partner, Europe, poses a risk. Venezuela outperformed due to rising oil prices and speculation that President Hugo Chavez's health problems (he underwent surgery to remove a new tumor) will prevent him from running in October's presidential elections. With concerns about Turkey's large external imbalances and vulnerability to external shocks, market participants worried that a possible slowdown in the euro-zone could create additional problems, while Poland underperformed due to signs of weakening external demand, renewed focus on euro area downside risks, and perceived vulnerability to shocks from Europe.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont'd)

- Conversely, overweight exposure relative to the Index to Brazil and Indonesia as well as underweight exposure relative to the Index to Hungary and Russia detracted from relative returns. Brazil underperformed late in the period due to worries that the central bank would take measures to manage the Brazilian currency's value in the market, likely limiting currency appreciation. Indonesian government bond prices underperformed due to concerns that government plans to raise subsidized fuel prices, in the face of high oil prices, could lead to higher inflation. Hungary benefited late in the period from optimism that an International Monetary Fund (IMF)/European Union (EU) deal would be secured after the EU said it was satisfied with assurances from Hungarian authorities over the independence of the central bank, while Russia was supported by elevated oil prices and diminished downside political risks after presidential elections passed.

### **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. The risk of recession in the developed world remains in focus as worries about the euro area debt crisis resurfaced, with strict austerity efforts threatening to push some economies deeper into recession. In addition, the unresolved fiscal troubles in the U.S. and in Europe, and the apparent lack of political consensus to resolve them, are likely to result in bouts of high volatility and risk aversion in the future, while dampening global risk appetite and depressing growth for the remainder of 2012.
- 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 somewhat offset the negative impact of heightened risk aversion and sub-par growth in the developed world. We expect emerging market 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 and domestic demand-driven growth will likely continue to support accommodative monetary policies from most emerging market central banks 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.
- We remain firmly positive on emerging markets debt prospects. In general, sovereign debt risk premiums are high relative to the fundamental macroeconomic strength of many emerging economies. In addition, we believe there are pockets of undervaluation in certain Asian and commodity currencies.

Sincerely,

Arthur Lev  
President and Principal Executive Officer May 2012

\* J.P. Morgan Government Bond Index Emerging Markets Global Diversified Index tracks local currency government bonds issued by emerging markets. It is not possible to invest directly in an index.





Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012 (unaudited)

Portfolio of Investments

*(Showing Percentage of Total Value of Investments)*

	<b>Face Amount (000)</b>	<b>Value (000)</b>
<b>FIXED INCOME SECURITIES (99.8%)</b>		
<b>Argentina (3.7%)</b>		
<b>Sovereign (3.7%)</b>		
Argentina Boden Bonds, 7.00%, 10/3/15	\$ 66,500	\$ 60,166
<b>Brazil (17.0%)</b>		
<b>Sovereign (17.0%)</b>		
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/14	BRL 522,172	278,891
<b>Chile (0.6%)</b>		
<b>Sovereign (0.6%)</b>		
Chile Government International Bond, 5.50%, 8/5/20	CLP 4,665,000	10,076
<b>Colombia (4.0%)</b>		
<b>Sovereign (4.0%)</b>		
Colombia Government International Bond, 7.75%, 4/14/21	COP 29,000,000	20,283
12.00%, 10/22/15	11,000,000	7,830
Republic of Colombia, 9.85%, 6/28/27	46,000,000	38,186
		66,299
<b>Hungary (6.5%)</b>		
<b>Sovereign (6.5%)</b>		
Hungary Government Bond, 6.75%, 2/24/17	HUF 14,588,920	64,344
7.50%, 11/12/20	9,480,000	42,498
		106,842
<b>Indonesia (7.3%)</b>		
<b>Sovereign (7.3%)</b>		
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17 (a)(b)	IDR 360,000,000	47,595
	154,683,530	20,450

Credit Suisse, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17			
Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked Notes, 11.00%, 12/15/20 (a)(b)	60,000,000		8,765
	<b>Face Amount (000)</b>		<b>Value (000)</b>
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 8.25%, 7/17/21	IDR 135,000,000		\$ 17,139
10.00%, 7/19/17 (b)	192,525,000		25,453
			119,402
<b>Malaysia (3.1%)</b>			
<b>Sovereign (3.1%)</b>			
Malaysia Government Bond, 3.84%, 8/12/15	MYR 110,000		37,057
5.09%, 4/30/14	42,152		14,468
			51,525
<b>Mexico (15.0%)</b>			
<b>Sovereign (15.0%)</b>			
Mexican Bonos, 8.00%, 6/11/20	MXN 2,104,027		183,580
Petroleos Mexicanos (Units), 7.65%, 11/24/21 (a)(c)	791,300		62,248
			245,828
<b>Peru (1.9%)</b>			
<b>Sovereign (1.9%)</b>			
Peru Government Bond, 7.84%, 8/12/20	PEN 37,745		16,908
Peruvian Government International Bond (Units), 7.84%, 8/12/20 (c)	30,000		13,438
			30,346
<b>Philippines (1.0%)</b>			
<b>Sovereign (1.0%)</b>			
Philippine Government International Bond, 4.95%, 1/15/21	PHP 648,000		15,857
<b>Poland (8.4%)</b>			
<b>Sovereign (8.4%)</b>			
Poland Government Bond, 5.25%, 10/25/17	PLN 120,000		38,633
5.50%, 10/25/19	307,287		99,275

137,908

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



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012 (unaudited)

Portfolio of Investments (cont'd)

*(Showing Percentage of Total Value of Investments)*

	<b>Face Amount (000)</b>	<b>Value (000)</b>
<b>Russia (3.0%)</b>		
<b>Sovereign (3.0%)</b>		
Russian Foreign		
Bond Eurobond, 7.85%, 3/10/18 (a)	RUB 1,095,000	\$ 39,054
7.85%, 3/10/18	290,000	10,343
		49,397
<b>South Africa (9.4%)</b>		
<b>Sovereign (9.4%)</b>		
South Africa Government Bond,		
7.25%, 1/15/20	ZAR 1,070,411	135,434
8.00%, 12/21/18	140,000	18,688
		154,122
<b>Thailand (4.0%)</b>		
<b>Sovereign (4.0%)</b>		
Thailand Government Bond,		
4.25%, 3/13/13	THB 1,597,940	52,444
5.25%, 7/13/13	395,100	13,152
		65,596
<b>Turkey (10.4%)</b>		
<b>Sovereign (10.4%)</b>		
Turkey Government Bond,		
10.50%, 1/15/20	TRY 278,825	170,827
<b>Venezuela (4.5%)</b>		
<b>Sovereign (4.5%)</b>		
Petroleos de Venezuela SA,		
8.50%, 11/2/17	\$ 79,500	71,709
Venezuela Government		
International Bond,		
9.25%, 9/15/27	1,349	1,201
		72,910
<b>TOTAL FIXED INCOME</b>		
<b>SECURITIES</b>		
(Cost \$1,631,428)		1,635,992

Shares	Value (000)
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**SHORT-TERM INVESTMENT (0.2%)****Investment Company (0.2%)**

Morgan Stanley Institutional

Liquidity Funds Money Market

Portfolio Institutional Class

(See Note F) (Cost \$3,534)

3,533,847

\$ 3,534

**TOTAL INVESTMENTS****(100.0%)**

(Cost \$1,634,962) (d)

1,639,526

**LIABILITIES IN EXCESS OF****OTHER ASSETS**

(353,612)

**NET ASSETS**

\$ 1,285,914

(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 April 30, 2012.

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

(d) Securities are available for collateral in connection with open foreign currency exchange contracts.

**Foreign Currency Exchange Contracts Information:**

The Fund had the following foreign currency exchange contracts open at period end:

Counterparty	Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase Bank	USD	82,345	5/16/12	RUB	2,436,847	\$ 82,764 \$ 419
JPMorgan Chase Bank	USD	78,338	5/29/12	MYR	240,530	79,334 996
JPMorgan Chase Bank	USD	26,733	5/29/12	THB	828,000	26,879 146
		\$187,416				\$188,977 \$1,561

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012 (unaudited)

Portfolio of Investments (cont'd)

BRL Brazilian Real  
 CLP Chilean Peso  
 COP Colombian Peso  
 HUF Hungarian Forint  
 IDR Indonesian Rupiah  
 MXN Mexican New Peso  
 MYR Malaysian Ringgit  
 PEN Peruvian Nuevo Sol  
 PHP Philippine Peso  
 PLN Polish Zloty  
 RUB Russian Ruble  
 THB Thai Baht  
 TRY Turkish Lira  
 USD United States Dollar  
 ZAR South African Rand

**Fair Value Measurement Information:**

The following is a summary of the inputs used to value the Fund's investments as of April 30, 2012. (See Note A-5 to the financial statements for further information regarding fair value measurement.)

<b>Investment Type</b>	<b>Level 1 Unadjusted quoted prices (000)</b>	<b>Level 2 Other significant observable inputs (000)</b>	<b>Level 3 Significant unobservable inputs (000)</b>	<b>Total (000)</b>
<b>Assets:</b>				

**Fixed Income Securities**

Sovereign	\$	\$ 1,635,992	\$	\$ 1,635,992
<b>Short-Term Investment</b>				
Investment Company		3,534		3,534
<b>Foreign Currency Exchange Contracts</b>				
		1,561		1,561
<b>Total Assets</b>	<b>\$</b>	<b>3,534</b>	<b>\$</b>	<b>1,637,553</b>
			<b>\$</b>	<b>1,641,087</b>

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 April 30, 2012, the Fund did not have any significant investments transfer between investment levels.

**Portfolio Composition**

<b>Classification</b>	<b>Percentage of Total Investments</b>
Sovereign	99.8%
Other*	0.2
<b>Total Investments</b>	<b>100.0%**</b>

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

\*\* Does not include open foreign currency exchange contracts with total unrealized appreciation of approximately \$1,561,000.

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



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

Financial Statements

	<b>April 30, 2012</b> <b>(unaudited)</b> <b>(000)</b>
Statement of Assets and Liabilities	
<b>Assets:</b>	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$1,631,428)	\$ 1,635,992
Investment in Security of Affiliated Issuer, at Value (Cost \$3,534)	3,534
Total Investments in Securities, at Value (Cost \$1,634,962)	1,639,526
Foreign Currency, at Value (Cost \$1,416)	1,433
Interest Receivable	40,796
Receivable for Lehman Brothers Closed Reverse Repurchase Transactions	4,389
Unrealized Appreciation on Foreign Currency Exchange Contracts	1,561
Receivable from Affiliate	1
Other Assets	88
<b>Total Assets</b>	<b>1,687,794</b>
<b>Liabilities:</b>	
Payable for Line of Credit	400,097
Payable for Advisory Fees	1,367
Payable for Custodian Fees	145
Payable for Administration Fees	109
Payable for Professional Fees	60
Payable for Stockholder Servicing Agent Fees	@
Other Liabilities	102
<b>Total Liabilities</b>	<b>401,880</b>
<b>Net Assets</b>	
Applicable to 72,431,536 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 1,285,914
<b>Net Asset Value Per Share</b>	<b>\$ 17.75</b>
<b>Net Assets Consist of:</b>	
Common Stock	\$ 724
Paid-in-Capital	1,303,493
Undistributed Net Investment Income	21,111
Accumulated Net Realized Loss	(45,888)
Unrealized Appreciation (Depreciation) on:	
Investments	4,564
Foreign Currency Exchange Contracts	1,561
Foreign Currency Translations	349
<b>Net Assets</b>	<b>\$ 1,285,914</b>

@ Amount is less than \$500.

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

Financial Statements (cont'd)

	<b>Six Months Ended April 30, 2012 (unaudited) (000)</b>
Statement of Operations	
<b>Investment Income:</b>	
Interest from Securities of Unaffiliated Issuers	\$ 61,503
Dividends from Security of Affiliated Issuer	12
<b>Total Investment Income</b>	<b>61,515</b>
<b>Expenses:</b>	
Advisory Fees (Note B)	8,162
Administration Fees (Note C)	653
Administrative Fees on Line of Credit	450
Custodian Fees (Note D)	402
Stockholder Reporting Expenses	80
Professional Fees	58
Directors' Fees and Expenses	19
Commitment Fee (Note G)	7
Stockholder Servicing Agent Fees	3
Other Expenses	33
<b>Expenses Before Non Operating Expenses</b>	<b>9,867</b>
Interest Expense on Line of Credit (Note G)	3,504
<b>Total Expenses</b>	<b>13,371</b>
Rebate from Morgan Stanley Affiliate (Note F)	(13)
<b>Net Expenses</b>	<b>13,358</b>
<b>Net Investment Income</b>	<b>48,157</b>
<b>Realized Gain (Loss):</b>	
Investments Sold	(6,207)
Foreign Currency Exchange Contracts	6,568
Foreign Currency Transactions	(1,775)
<b>Net Realized Loss</b>	<b>(1,414)</b>
<b>Change in Unrealized Appreciation (Depreciation):</b>	
Investments	26,937
Foreign Currency Exchange Contracts	(1,955)
Foreign Currency Translations	2,030
<b>Net Change in Unrealized Appreciation (Depreciation)</b>	<b>27,012</b>
<b>Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)</b>	<b>25,598</b>
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>\$ 73,755</b>

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





Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

Financial Statements (cont'd)

	<b>Six Months Ended April 30, 2012 (unaudited) (000)</b>	<b>Year Ended October 31, 2011 (000)</b>
Statements of Changes in Net Assets		
<b>Increase (Decrease) in Net Assets:</b>		
Operations:		
Net Investment Income	\$ 48,157	\$ 110,074
Net Realized Gain (Loss)	(1,414)	29,356
Net Change in Unrealized Appreciation (Depreciation)	27,012	(142,563)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>73,755</b>	<b>(3,133)</b>
Distributions from and/or in Excess of:		
Net Investment Income	(43,459)	(86,918)
<b>Total Increase (Decrease)</b>	<b>30,296</b>	<b>(90,051)</b>
<b>Net Assets:</b>		
Beginning of Period	1,255,618	1,345,669
<b>End of Period (Including Undistributed Net Investment Income of \$21,111 and \$16,413)</b>	<b>\$ 1,285,914</b>	<b>\$ 1,255,618</b>

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

Financial Statements (cont'd)

	<b>Six Months Ended April 30, 2012 (unaudited) (000)</b>
Statement of Cash Flows	
<b>Cash Flows From Operating Activities:</b>	
Proceeds from Sales and Maturities of Long-Term Investments	\$ 464,538
Purchase of Long-Term Investments	(524,878)
Net (Increase) Decrease in Short-Term Investments	288
Net (Increase) Decrease in Foreign Currency Holdings	4,277
Net Realized Gain (Loss) for Foreign Currency Transactions	4,793
Net Investment Income	48,157
<b>Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:</b>	
Net (Increase) Decrease in Receivables Related to Operations	(271)
Net (Increase) Decrease in Payables Related to Operations	152
Accretion/Amortization of Discounts and Premiums	(1,597)
Net Cash Provided (Used) by Operating Activities	(4,541)
<b>Cash Flows From Financing Activities:</b>	
Cash Received for Line of Credit	48,000
Cash Distribution Paid	(43,459)
Net Cash Provided (Used) for Financing Activities	4,541
Net Increase (Decrease) in Cash	
<b>Cash at Beginning of Period</b>	
<b>Cash at End of Period</b>	\$
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Interest Paid on Line of Credit during the Period	\$ 3,432

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

April 30, 2012

Financial Highlights

*Selected Per Share Data and Ratios*

	Six Months Ended April 30, 2012 (unaudited)	2011	Year Ended October 31,		2008	Period from April 24, 2007^ to October 31, 2007
			2010	2009		
Net Asset Value, Beginning of Period	17.34	\$ 18.58	\$ 16.17	\$ 12.61	\$ 20.47	\$ 19.10
Net Investment Income†	0.66	1.52	1.46	1.37	2.12	0.90
Net Realized and Unrealized Gain (Loss)	0.35	(1.56)	2.15	3.40	(7.49)	1.07
Total from Investment Operations	1.01	(0.04)	3.61	4.77	(5.37)	1.97
Distributions from and/or in excess of:						
Net Investment Income (0.60)		(1.20)	(1.20)	(0.50)	(2.40)	(0.60)
Net Realized Gain					(0.09)	
Return of Capital				(0.75)		
Total Distributions	(0.60)	(1.20)	(1.20)	(1.25)	(2.49)	(0.60)
Anti-Dilutive Effect of Share Repurchase				0.04	0.00‡	

Program

<b>Net Asset Value, End of Period</b>	17.75	\$	17.34	\$	18.58	\$	16.17	\$	12.61	\$	20.47
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<b>Share Market Value, End of Period</b>	16.65	\$	15.87	\$	17.29	\$	13.75	\$	9.70	\$	18.93
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**TOTAL INVESTMENT RETURN:**

Market Value	8.94%#	(1.34)%	35.60%	57.23%	(39.43)%	(2.46)%#
Net Asset Value(1)	6.29%#	0.32%	23.83%	42.32%	(27.22)%	10.77%#

**RATIOS, SUPPLEMENTAL DATA:**

<b>Net Assets, End of Period (Thousands)</b>	\$ 1,255,618	\$ 1,345,669	\$ 1,171,520	\$ 923,962	\$ 1,501,063
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Ratio of Expenses to Average Net Assets	2.14%*+	2.07%+	2.28%+	2.20%+	2.80%+	3.24%*+
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Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	1.58%*+	1.55%+	1.62%+	1.58%+	1.59%+	2.21%*+
Ratio of Net Investment Income to	7.71%*+	8.36%+	8.61%+	9.60%+	11.90%+	8.88%*+

Average Net Assets Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%*§	0.00%§	0.00%§	0.00%§	0.00%§	0.01%*
Portfolio Turnover Rate	29%#	100%	42%	74%	130%	58%#

^ Commencement of Operations.

(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.

‡ Amount is less than \$0.005 per share.

# Not annualized.

\* Annualized.

+ 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%.

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



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## Notes to Financial Statements

The Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") was incorporated in Maryland on January 25, 2007 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 seek a high level of current income, with a secondary investment objective of long-term capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its managed assets in emerging markets domestic debt. To the extent the Fund invests in derivative instruments that the Adviser believes have economic characteristics similar to such securities, such investments will be counted for purposes of the Fund's policy described in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risk 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 current 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 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.

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 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





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Notes to Financial Statements (cont'd)

close of the NYSE, as determined in good faith under procedures established by the Directors.

**2. 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.

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 component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations 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 securities 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 issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

**3. Structured Investments:** The Fund invested 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

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with respect to the underlying investment. Certain

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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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 time, may be unable to find qualified buyers for these securities.

**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, are 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 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 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:

**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. 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



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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. 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.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("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 April 30, 2012.

Primary Risk Exposure	Statement of Assets and Liabilities	Foreign Currency Exchange Contracts (000)
<b>Assets:</b>		
Currency Risk	Receivables	\$ 1,561

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 April 30, 2012 in accordance with ASC 815.

Primary Risk Exposure	Realized Gain (Loss) Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	\$ 6,568
<b>Change in Unrealized Appreciation (Depreciation)</b>		
Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	\$ (1,955)

For the six months ended April 30, 2012, the average monthly principal amount of foreign currency exchange contracts was approximately \$168,727,000.

**5. Fair Value Measurement:** FASB 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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

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.

In May 2011, FASB issued Accounting Standards Update ("ASU") 2011-04. The amendments in this update are the results of the work of FASB and the International Accounting Standards Board to develop common requirements for measuring fair value and for disclosing information about fair value measurements, which are effective during interim and annual periods beginning after December 15, 2011. Consequently, these amendments improve the comparability of fair value measurements presented and disclosed in the financial statements prepared in accordance with GAAP and International Financial Reporting Standards. At this time, the Fund's management is evaluating the implications of ASU 2011-04.

**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. Dividend income and distributions are recorded on the ex-dividend date (except for certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

**B. Advisory Fees:** Morgan Stanley Investment Management Inc. (the "Adviser"), a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, computed weekly and payable monthly at an annual rate of 1.00% of the Fund's average weekly managed 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 managed assets.



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

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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. Dividend income and 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. Taxes may also be based on transactions in foreign currency and are accrued based on the value of investments denominated in such currency.

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 October 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 Paid From:		2010 Distributions Paid From:	
Ordinary Income (000)	Long-Term Capital Gain (000)	Ordinary Income (000)	Long-Term Capital Gain (000)
\$ 86,918	\$	\$ 86,918	\$

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, the timing of the deductibility of certain expenses and the recognition of premium amortization.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions and premium amortization adjustments for certain securities sold, resulted in the following reclassifications among the components of net assets at October 31, 2011:

<b>Undistributed (Distributions in Excess of) Net Investment Income (Loss) (000)</b>	<b>Accumulated Net Realized Gain (Loss) (000)</b>	<b>Paid-in Capital (000)</b>
\$ 3,914	\$ (3,914)	\$

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Notes to Financial Statements (cont'd)

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

<b>Undistributed Ordinary Income (000)</b>	<b>Undistributed Long-Term Capital Gain (000)</b>
\$ 21,394	\$

At April 30, 2012, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation was approximately \$79,075,000 and the aggregate gross unrealized depreciation was approximately \$74,511,000 resulting in net unrealized appreciation of approximately \$4,564,000.

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 October 31, 2011, the Fund had a capital loss carryforward for U.S. Federal income tax purposes of approximately \$35,593,000 to offset against future capital gains of which \$2,022,000 will expire on October 31, 2016, and \$33,571,000 will expire on October 31, 2017. To the extent that capital loss carryforwards are used to offset any future capital gains realized during the carryforward 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 October 31, 2011, the Fund had utilized capital loss carryforwards for U.S. Federal income tax purposes of approximately \$28,206,000.

**F. Security Transactions and Transactions with Affiliates:** For the six months ended April 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 \$547,464,000 and \$463,835,000, respectively. There were no purchases and sales of long-term U.S. Government securities for the six months ended April 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. Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of advisory and administration fees paid by the Fund due to its investments in the Liquidity Funds. For the six months ended April 30, 2012, advisory fees paid were reduced by approximately \$13,000 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 April 30, 2012 is as follows:

<b>Value October 31, 2011 (000)</b>	<b>Purchases at Cost (000)</b>	<b>Sales (000)</b>	<b>Dividend Income (000)</b>	<b>Value April 30, 2012 (000)</b>
\$ 3,822	\$ 177,510	\$ 177,798	\$ 12	\$ 3,534

The Fund has an unfunded Deferred Compensation Plan (the "Compensation Plan"), which allows each independent Director to defer payment of all, or a portion, of the fees he or she receives for serving on the Board of Directors. Each eligible Director generally may elect to have the deferred amounts credited with a return equal to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an offsetting

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

increase/decrease in the deferred compensation obligation and do not affect the net asset value of the Fund.

**G. Credit Facility:** The Fund will use the proceeds from the use of leverage to purchase additional securities consistent with the Fund's investment objectives, policies and strategies. The Fund has engaged JPMorgan Securities Inc. to arrange a syndicate of lenders to provide a revolving line of credit facility ("facility") in the amount of \$400,000,000. The term of the facility is 364 days and the loans under the facility will bear interest at the rate of LIBOR for the applicable interest period plus a spread. The loans will be secured by a fully perfected first priority lien on all of the assets of the Fund capable of being pledged. The facility also has a commitment fee of 0.20% of the daily unused portion of the facility. The facility was set to expire in April 2012. It was extended for 30 days and then renewed for another 364 days until May 2013. The average borrowings and interest rate for the six months ended April 30, 2012 were approximately \$392,615,000 and 1.77%, respectively, during a period of 182 days. During the same period, the Fund incurred approximately \$3,504,000 in interest expense associated with the outstanding loans.

**H. Other:** On January 10, 2008, 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. During the six months ended April 30, 2012, the Fund did not repurchase any of its shares. Since the inception of the program, the Fund has repurchased 886,200 of its shares at an average discount of 23.87% from net asset value per share. 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.

#### **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](http://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](http://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](mailto: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](http://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 Domestic 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](http://www.morganstanley.com/im). This information is also available on the SEC's web site at [www.sec.gov](http://www.sec.gov).





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### Portfolio Management

The Fund is managed by members of 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 at its inception. Mr. Kaune has been associated with the Adviser in an investment management capacity since 2002 and began managing the Fund at its inception.

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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 well-conceived 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 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.

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 Domestic 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





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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



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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

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information (Section 4 above), or information

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

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U.S. Privacy Policy (cont'd)

**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.



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 reports filed by closed-end funds.

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Item 9. Closed-End Fund Repurchases

**REGISTRANT PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
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
<b>Total</b>			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.

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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.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
June 19, 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  
June 19, 2012

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
June 19, 2012

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