

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSR
March 08, 2010

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

FORM N-CSR

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

Investment Company Act file number 811-07694

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

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

10036
(Zip code)

Randy Takian
522 Fifth Avenue New York, New York 10036
(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 12/31/09

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

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

ITEM 1. REPORTS TO STOCKHOLDERS.

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

INVESTMENT MANAGEMENT

Morgan Stanley

Emerging Markets Debt

Fund, Inc. (MSD)

Morgan Stanley

Investment Management Inc.

Investment Adviser

Annual Report

December 31, 2009

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the year ended December 31, 2009, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the Fund) had total returns of 36.18%, based on net asset value, and 52.55% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Emerging Markets Bond Global Index (the Index), which returned 28.18%. On December 31, 2009, the closing price of the Fund 's shares on the New York Stock Exchange was \$10.08, representing a 9.9% discount to the Fund 's net asset value per share. Past performance is no guarantee of future results. Please keep in mind that high double-digit returns are highly unusual and cannot be sustained.

Factors Affecting Performance

- The first months of 2009 were characterized by unprecedented government intervention in the financial markets, with policy moves ranging from bank nationalizations to fiscal and monetary activism. Widespread easing of monetary policy announced by numerous governments around the world complemented this fiscal support, while monetary authorities that had limited scope for further rate cuts moved to quantitative easing. In addition, leaders from the G-20 pledged to support a package of measures which provided funding of more than \$1 trillion to contain the global downturn.
- The second quarter of 2009 was characterized by signs of a rebound in economic activity (green shoots) and increased risk appetite in the financial markets. Financial conditions improved and markets started to normalize. Emerging markets debt (EMD) staged a strong rally, benefiting from expectations that downside risks for the global economy had diminished. EMD fund flows turned positive after losing \$3.8 billion since the beginning of the year.
- This market normalization was driven by the massive injection of liquidity on the part of world 's central banks, the sharp easing of monetary policy, and the recent stabilization of supply side variables such as industrial production. However, negative news at the global level, particularly from the demand side (retail sales, auto sales, exports, etc), still indicated that the real economy remained stressed and the recovery would likely be slow and fragile.

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- In the third and the last quarters of 2009, asset performance was supported by fundamentals. In this period, economic recovery was underway and financial risks diminished. However, trades in riskier assets that were popular during the rally months were crowded by investors and valuations were not that compelling. This was a period of consolidation, not only from an economic point of view (as economic recovery in systemically important countries consolidated) but also from an asset performance point of view, with returns moving toward more normal levels (that is, single digits or low double digits).

- EMD hard currency debt, as measured by the JP Morgan EMBI Global, returned 28.18% for the year ended December 31, 2009. External debt yields stood at 6.71%, with a spread of 294 basis points above U.S Treasuries as of December 31, 2009.

Morgan Stanley Emerging Markets Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont d)

- Security selection in Ivory Coast and Russia aided to relative returns. Overweight positions in Kazakhstan and Venezuela also contributed. Conversely, security selection in Indonesia, an overweight exposure to Turkey and exposure to the Mexican peso detracted from relative returns.

Management Strategies

- Markets seem to keep building positions based on an optimistic growth outlook for EM for 2010. In addition, the environment is broadly constructive for EM currencies, which are supported by their higher carry and continued portfolio inflows. However, there should be a strong distinction between pricing assets for a more stable environment (our base case) and pricing assets for a strong growth environment. On average, our valuation models point to many EM credits being near fair value at current levels. We expect that some lower beta credits will be constrained by valuations and the strength in the EM corporate market to dissipate over the next few months. As such, we maintained overweights in select relatively lower credit quality countries experiencing positive rates of change. In addition, we see opportunities in select local currency markets where real rates are high and the currency undervalued.

Sincerely,

Randy Takian
President and Principal Executive Officer

January 2010

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2009

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
DEBT INSTRUMENTS (98.5%)		
Argentina (3.5%)		
Sovereign (3.5%)		
Republic of Argentina,		
1.68%, 8/3/12 (a)	\$ 8,305	\$ 7,628
8.28%, 12/31/33	1,787	1,344
		8,972
Brazil (14.1%)		
Sovereign (14.1%)		
Banco Nacional de Desenvolvimento Economico e Social,		
6.37%, 6/16/18 (b)	4,000	4,305
Federative Republic of Brazil,		
5.88%, 1/15/19 (c)	5,340	5,714
7.13%, 1/20/37	550	634
8.00%, 1/15/18	1,401	1,605
8.88%, 10/14/19 - 4/15/24	6,188	8,023
10.00%, 1/1/17	BRL 10,095	4,992
10.50%, 7/14/14	\$ 1,740	2,227
11.00%, 8/17/40 (c)	6,880	9,202
		36,702
Bulgaria (0.4%)		
Sovereign (0.4%)		
Republic of Bulgaria,		
8.25%, 1/15/15 (b)	898	1,053
Chile (0.5%)		
Sovereign (0.5%)		
Empresa Nacional de Petroleo,		
6.75%, 11/15/12 (b)	1,140	1,237
Colombia (3.8%)		
Sovereign (3.8%)		
Republic of Colombia,		
7.38%, 3/18/19	5,090	5,790
11.75%, 2/25/20	2,795	4,046
		9,836
Croatia (0.4%)		

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Sovereign (0.4%) Republic of Croatia, 6.75%, 11/5/19 (b)	1,060	1,144
Dominican Republic (0.2%) Sovereign (0.2%) Dominican Republic, 9.04%, 1/23/18	448	488
Ecuador (0.6%) Sovereign (0.6%) Republic of Ecuador, 9.38%, 12/15/15	1,715	1,621
Georgia (0.3%) Sovereign (0.3%) Republic of Georgia, 7.50%, 4/15/13	720	738
Ghana (0.8%) Sovereign (0.8%) Republic of Ghana, 8.50%, 10/4/17 (b)	1,916	1,969
Indonesia (8.5%) Corporate (0.4%) Pindo Deli Finance Mauritius, Tranche A, Zero Coupon, 4/28/15 (a)(b)(d)(e)	397	95
Tranche B, Zero Coupon, 4/28/18 (a)(b)(d)(e)	1,707	213
Tranche C, Zero Coupon, 4/28/25 (a)(b)(d)(e)	6,884	121
Tjiwi Kimia Finance Mauritius Ltd., Tranche A, Zero Coupon, 4/28/15 (a)(d)(e)	1,317	303
Tranche B, Zero Coupon, 4/28/18 (a)(b)(d)(e)	1,477	258
Tranche C, Zero Coupon, 4/28/27 (a)(b)(d)(e)	3,352	59
		1,049
Sovereign (8.1%) Republic of Indonesia, 6.88%, 1/17/18	3,280	3,624
6.88%, 1/17/18 (b)	2,452	2,710
7.75%, 1/17/38	2,339	2,655
7.75%, 1/17/38 (b)	1,130	1,282
11.63%, 3/4/19	5,300	7,632
11.63%, 3/4/19 (b)	2,169	3,124
		21,027
		22,076

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2009

Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Ivory Coast (0.4%) Sovereign (0.4%)		
Ivory Coast, Zero Coupon, 3/31/18 (e)	\$ 2,045	\$ 1,125
Kazakhstan (3.5%) Sovereign (3.5%)		
Intergas Finance BV, 6.38%, 5/14/17	610	576
KazMunaiGaz Finance Sub BV, 9.13%, 7/2/18	2,000	2,240
9.13%, 7/2/18 (b)	5,720	6,378
		9,194
Lithuania (0.4%) Sovereign (0.4%)		
Republic of Lithuania, 6.75%, 1/15/15 (b)	1,100	1,125
Mexico (12.6%) Sovereign (12.6%)		
Mexican Bonos, 8.50%, 11/18/38	MXN 69,250	5,160
10.00%, 12/5/24	25,810	2,266
Pemex Project Funding Master Trust, 1.55%, 6/15/10 (a)(b)	\$ 2,150	2,155
8.63%, 12/1/23	1,740	2,049
United Mexican States, 5.63%, 1/15/17 (c)	5,418	5,675
5.95%, 3/19/19	7,180	7,629
6.05%, 1/11/40	1,670	1,614
6.75%, 9/27/34 (c)	5,669	6,009
		32,557
Pakistan (0.4%) Sovereign (0.4%)		
Republic of Pakistan, 6.88%, 6/1/17	530	432
7.13%, 3/31/16	500	434
7.13%, 3/31/16 (b)	197	166
		1,032

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Panama (2.3%)		
Sovereign (2.3%)		
Republic of Panama,		
5.20%, 1/30/20	2,100	2,116
7.13%, 1/29/26	1,140	1,291
8.88%, 9/30/27	430	561
9.38%, 4/1/29	1,523	2,033
		6,001
Peru (5.2%)		
Sovereign (5.2%)		
Republic of Peru,		
7.13%, 3/30/19	1,360	1,571
7.35%, 7/21/25	3,360	3,864
8.75%, 11/21/33	6,130	7,999
		13,434
Philippines (4.5%)		
Sovereign (4.5%)		
Republic of Philippines,		
8.38%, 6/17/19	1,041	1,267
8.88%, 3/17/15	2,608	3,175
9.00%, 2/15/13	2,240	2,610
9.50%, 2/2/30	3,409	4,543
		11,595
Qatar (0.7%)		
Sovereign (0.7%)		
State of Qatar (Registered),		
9.75%, 6/15/30	1,260	1,783
Russia (12.5%)		
Sovereign (12.5%)		
RSHB Capital S.A. for OJSC Russian Agricultural Bank,		
6.30%, 5/15/17 (b)	2,004	2,028
7.18%, 5/16/13 (b)	1,920	2,045
Russian Federation,		
7.50%, 3/31/30 (b)(f)	831	941
Russian Federation (Registered),		
7.50%, 3/31/30 (c)(f)	18,042	20,546
12.75%, 6/24/28	4,000	6,820
		32,380
South Africa (0.2%)		
Sovereign (0.2%)		
Republic of South Africa,		
6.88%, 5/27/19	470	530

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

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Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2009

Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
South Korea (1.6%)		
Sovereign (1.6%)		
Export-Import Bank of Korea, 5.88%, 1/14/15	\$ 1,760	\$ 1,893
Korea Development Bank, 8.00%, 1/23/14	1,320	1,522
Republic of Korea, 5.75%, 4/16/14	650	712
		4,127
Sri Lanka (0.4%)		
Sovereign (0.4%)		
Republic of Sri Lanka, 7.40%, 1/22/15 (b)	730	761
8.25%, 10/24/12	350	368
		1,129
Trinidad (0.8%)		
Sovereign (0.8%)		
National Gas Co. of Trinidad & Tobago Ltd., 6.05%, 1/15/36 (b)	2,369	2,154
Turkey (10.1%)		
Sovereign (10.1%)		
Republic of Turkey, Zero Coupon, 5/11/11	TRY 8,040	4,815
6.75%, 4/3/18	\$ 2,845	3,101
6.88%, 3/17/36	1,174	1,200
7.50%, 7/14/17 - 11/7/19	3,856	4,379
8.00%, 2/14/34	867	