

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Form N-CSR
January 09, 2008

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

FORM N-CSR

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

Investment Company Act file number 811-22011

EMERGING MARKETS DOMESTIC DEBT, INC.
(Exact name of registrant as specified in charter)

522 FIFTH AVENUE NEW YORK, NY
(Address of principal executive offices)

10036
(Zip code)

RONALD E. ROBISON

522 FIFTH AVENUE NEW YORK, NY 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-888-378-1630

Date of fiscal year 10/31
end:

Date of reporting period: 10/31/07

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:

2007 Annual Report

October 31, 2007

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

Morgan Stanley
Investment Management Inc.
Investment Adviser

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the period from April 24, 2007 (commencement of operations) through October 31, 2007, The Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") had total returns, based on net asset value on the last business day of the period and market price per share of 10.77%, net of fees, and (2.46)% respectively. The Fund underperformed against its benchmark, the JPMorgan Government Bond Index - Emerging Markets Global Diversified Index (the "Index") which returned 11.77% during the same period. On October 31, 2007, the closing price of the Fund's shares on the New York Stock Exchange was \$18.93, representing a 7.6% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- Factors external to the emerging markets drove much of the turbulence in the global financial markets during the latter part of the reporting period. The main culprits were subprime mortgages and massive amounts of hung-leveraged buyout (LBO) financings.
- However, the volatility in these and other credit markets did not trigger a commensurate panic in the emerging markets debt (EMD) market. Emerging markets remained liquid and trading volumes stayed robust. Most emerging market countries are highly liquid and do not need access to the international capital markets. Foreign exchange (FX) reserves far exceeded short-term debt and, as such, there was no internally driven liquidity crisis in the emerging markets. Moreover, the massive accumulation of FX reserves in conjunction with the lower debt levels now commonplace across the emerging world provided comfort to investors fearing liquidity-induced corrections in other markets.
- Following the U.S. Federal Open Market Committee's decision to loosen monetary policy in September and October, the EMD market rallied as investors moved to cover their short positions amid a rapid resumption of risk appetite.

Management Strategies

- Positive contributors to relative performance versus the Index included an overweight in Turkey. Disinflation, robust foreign direct investment flows, orderly democratic elections, and prudent fiscal and monetary management were key themes aiding Turkey's strong performance during the period. The Turkish Lira gained 13% vs. the U.S. dollar, while yields fell by more than 300 basis points.

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-CSR

- An overweight in Brazil also benefited relative performance. Here, continued reserve accumulation, a strong trade balance, and attractive real rates helped spur the currency by 15%. During the period, Moody's and S&P upgraded the country's local currency long-term credit rating to Ba1 and BBB, respectively.
- However, detractors from relative gains included an overweight in Argentina. Argentina's inflation-linked bonds declined during the period, reflecting investors' doubts about the legitimacy of reported inflation.
- The Fund's general underexposure to the European currency bloc further detracted from returns. Specifically, underweights in the Czech Republic and Poland hampered relative performance. During the period, both countries' currencies rallied against the Euro, which in turn had gained significantly relative to the U.S. dollar.
- In our view, emerging market countries could be a source of stability for the global economy as they represent an increasing share of global growth. However, in the short term, financial assets may be subject to turmoil if investors panic and reduce their exposure to all but the highest-quality assets.

Sincerely,

Ronald E. Robison

President and Principal Executive Officer

November 2007

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2007

Portfolio of Investments*(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
DEBT INSTRUMENTS (98.4%)		
Argentina (3.8%)		
Sovereign (3.8%)		
Republic of Argentina, 5.83%, 12/31/33	\$ (a)(b)185,900	\$ 71,880
Brazil (18.3%)		
Sovereign (18.3%)		
Federative Republic of Brazil, 10.00%, 1/1/14	BRL 355,073	190,176
Nota do Tesouro Nacional, 10.00%, 7/1/10 - 1/1/17	285,020	157,329
		347,505
Chile (2.6%)		
Sovereign (2.6%)		
Credit Suisse First Boston, Chilean Peso Linked Notes, 5.79%, 5/2/14	\$ (a)50,000	50,209
Colombia (3.8%)		
Sovereign (3.8%)		
Jupiter, S.p.V., Columbian Peso Linked Bonds, 13.50%, 9/15/14	(a)75,000	73,039
Egypt (4.2%)		
Sovereign (4.2%)		
Arab Republic of Egypt, 8.75%, 7/18/12	EGP (c)426,980	79,708
Hungary (12.1%)		
Sovereign (12.1%)		
Republic of Hungary, 6.75%, 4/12/10	HUF 16,380,000	94,053
6.75%, 2/24/17	4,834,840	28,190
7.25%, 6/12/12	18,460,000	108,535
		230,778
Indonesia (15.1%)		
Sovereign (15.1%)		
Barclays Bank plc, Indonesian Government Bond Linked Notes, 10.00%, 7/17/17	IDR (a)(c)800,000,000	92,567
Citigroup, Inc., Indonesian Indexed Credit Linked Unsecured Notes, Zero Coupon, 7/19/17	\$ 28,776	28,713
Credit Suisse, Republic of Indonesia Government Bonds Credit Linked Notes, 10.00%, 7/17/17	IDR (c)154,683,530	17,898
Republic of Indonesia Government, 10.00%, 7/15/17	\$ 500,000,000	\$ 57,854
JPMorgan Chase & Co., London, Indonesian Treasury Bill Linked Notes, 10.00%, 7/19/17 - 9/17/24	IDR (c)807,525,000	91,157
		288,189
Malaysia (4.7%)		
Sovereign (4.7%)		

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-CSR

Government of Malaysia, 3.72%, 6/15/12	MYR	295,000	88,897
Mexico (11.3%)			
Sovereign (11.3%)			
Mexican Bonos, 8.00%, 12/17/15	MXN	767,000	72,456
9.50%, 12/18/14		56,000	5,725
10.00%, 12/5/24 - 11/20/36		1,189,849	135,827
			214,008
Peru (0.8%)			
Sovereign (0.8%)			
Republic of Peru, 12.25%, 8/10/11	PEN	38,000	15,310
South Africa (11.3%)			
Sovereign (11.3%)			
Republic of South Africa, 13.00%, 8/31/10	ZAR	(b) 1,159,000	196,695
Standard Bank plc, African Currency Basket Linked Bonds, Zero Coupon, 5/21/08	\$	(a)19,000	19,109
			215,804
Turkey (10.4%)			
Sovereign (10.4%)			
Republic of Turkey, Zero Coupon, 11/26/08 - 5/6/09	TRY	280,309	197,267
TOTAL DEBT INSTRUMENTS			
(Cost \$1,798,441)			1,872,594

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

	Face Amount (000)	Value (000)
U.S. Treasury Security (0.1%)		
United States (0.1%)		
U.S. Treasury Bill		
4.03%, 4/24/08 (Cost \$1,496)	\$ (d)1,525	\$ 1,496
	No. of Contracts	
PUT OPTION PURCHASED (0.4%)		
Turkey (0.4%)		
Turkish Lira Put @ \$1.297, expiring 7/4/08 (Cost \$22,080)	185,000,000	7,016
	Shares	
SHORT-TERM INVESTMENT (1.1%)		
United States (1.1%)		
Investment Company		
Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class		
(Cost \$21,731)	(e)21,730,833	21,731
TOTAL INVESTMENTS (100.0%)		
(Cost \$1,843,748)		1,902,837
LIABILITIES IN EXCESS OF OTHER ASSETS		
		(401,774)
NET ASSETS		
	\$	1,501,063

- (a) 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 October 31, 2007.
- (b) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of October 31, 2007.
- (c) 144A Security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (d) Rate shown is the Yield to Maturity at October 31, 2007.
- (e) See Note G within the Notes to Financial Statements regarding investment in Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class.

BRL	Brazilian Real
EGP	Egyptian Pound
HUF	Hungary Forint
IDR	Indonesian Rupiah
MXN	Mexican Peso
MYR	Malaysian Ringgit
PEN	Peruvian Nuevo Sol
TRY	Turkish Lira
ZAR	South African Rand

Total Return Swap Contracts

The Fund had the following total return swap agreement(s) open at period end:

Swap Counterparty	Pay	Receive	Termination Date	Notional Amount (000)	Unrealized Appreciation (000)
-------------------	-----	---------	------------------	-----------------------------	-------------------------------------

Edgar Filing: Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. - Form N-CSR

Citigroup	USD-LIBOR-BBA + 0.20%	7.34%	2/13/17	RUB	982,224 \$	1,663
-----------	-----------------------	-------	---------	-----	------------	-------

BBA British Bankers Association

LIBOR London Inter Bank Offer Rate

RUB Russian Ruble

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2007

Portfolio of Investment (cont d)

(Showing Percentage of Total Value of Investments)

Graphic Presentation of Portfolio Holdings

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

* Investment types which do not appear in the above graph, as well as those which represent less than 0.5% of total investments, if applicable, are included in the category labeled "Other".

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2007

Statement of Assets and Liabilities

	October 31, 2007 (000)
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$1,822,017)	\$ 1,881,106
Investments in Security of Affiliated Issuer, at Value (Cost \$21,731)	21,731
Total Investments in Securities, at Value (Cost \$1,843,748)	1,902,837
Cash	1,711
Interest Receivable	44,019
Unrealized Appreciation on Swap Agreements	1,663
Foreign Currency, at Value (Cost \$1,275)	1,358
Receivable from Affiliate	5
Total Assets	1,951,593
Liabilities:	
Payable For:	
Reverse Repurchase Agreements	229,699
Line of Credit	215,932
Investment Advisory Fees	1,603
Investments Purchased	1,496
Due to Broker	1,424
Administration Fees	128
Custodian Fees	101
Directors Fees and Expenses	@
Other Liabilities	147
Total Liabilities	450,530
Net Assets	
Applicable to 73,317,736 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 1,501,063
Net Asset Value Per Share	\$ 20.47
Net Assets Consist of:	
Common Stock	\$ 733
Paid-in Capital	1,399,403
Undistributed (Distributions in Excess of) Net Investment Income	36,010
Accumulated Net Realized Gain (Loss)	3,346
Unrealized Appreciation (Depreciation) on:	
Investments	59,089
Swap Agreements	1,663
Foreign Currency Translations	819
Net Assets	\$ 1,501,063

@ Amount is less than \$500.

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Financial Statements

Statement of Operations

	Year Ended October 31, 2007 (000)
Investment Income	
Interest from Securities of Unaffiliated Issuers	\$ 85,850
Interest from Security of Affiliated Issuer	3,337
Total Investment Income	89,187
Expenses	
Investment Advisory Fees (Note B)	9,379
Interest Expense on Reverse Repurchase Agreements	5,473
Country Tax Expense [#]	1,245
Administration Fees (Note C)	750
Custodian Fees (Note D)	365
Professional Fees	120
Commitment Fees	72
Stockholder Reporting Expenses	38
Custody Overdraft Expense	23
Maintenance Fees on Line of Credit	12
Directors Fees and Expenses	9
Stockholder Servicing Agent Fees	6
Other Expenses	104
Expenses Before Interest Expense	17,596
Interest Expense on Line of Credit (Note H)	6,369
Total Expenses	23,965
Expense Offset (Note D)	(30)
Rebate from Morgan Stanley Affiliated Cash Sweep (Note G)	(69)
Net Expenses	23,866
Net Investment Income (Loss)	65,321
Net Realized Gain (Loss) on:	
Investments	15,918
Foreign Currency Transactions	12,302
Swaps	(20,169)
Options Written	10,393
Net Realized Gain (Loss)	18,444
Change in Unrealized Appreciation (Depreciation) on:	
Investments	59,089
Swap Agreements	1,663
Foreign Currency Translations	819
Change in Unrealized Appreciation (Depreciation)	61,571
Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)	80,015
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 145,336

[^] For the Period from April 24, 2007 (commencement of operations) to October 31, 2007.

[#] CPMF (Provisional Contribution on Financial Transactions) is a Brazilian federal tax imposed on certain banking transactions and account withdrawals. The Tax is charged based on the value of the transaction.

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Financial Statements

Statement of Changes in Net Assets

	Period Ended October 31, 2007 [^] (000)
Increase (Decrease) in Net Assets	
Operations:	
Net Investment Income (Loss)	\$ 65,321
Net Realized Gain (Loss)	18,444
Change in Unrealized Appreciation (Depreciation)	61,571
Net Increase (Decrease) in Net Assets Resulting from Operations	145,336
Distributions from and/or in Excess of:	
Net Investment Income	(43,991)
Capital Share Transactions:	
Fund Shares Sold (73,317,736 shares, Net of Expenses of \$651,000)	1,399,618
Total Increase (Decrease)	1,500,963
Net Assets:	
Beginning of Period	100
End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of \$36,010)	\$ 1,501,063

[^] For the Period from April 24, 2007 (commencement of operations) to October 31, 2007.

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Financial Statements

Statement of Cash Flows

	Year Ended October 31, 2007 [^] (000)
Cash Flows From Operating Activities:	
Proceeds from Sales and Maturities of Investments	\$ 952,412
Purchases of Investments	(2,733,165)
Net (Increase) Decrease in Short-Term Investments	(23,227)
Net (Increase) Decrease in Foreign Currency Holdings	(1,275)
Net Realized Gain (Loss) for Foreign Currency Translations	12,302
Net Realized Gain (Loss) on Swaps	(20,169)
Net Realized Gain (Loss) on Options Written	10,393
Net Investment Income	65,321
Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:	
Net (Increase) Decrease in Receivables Related to Operations	(43,288)
Net Increase (Decrease) in Payables Related to Operations	3,784
Accretion/Amortization of Discounts and Premiums	(20,930)
Net Cash Provided (Used) by Operating Activities	(1,797,842)
Cash Flows from Financing Activities:	
Cash Received for Reverse Repurchase Agreements	958,601
Cash (Paid) for Reverse Repurchase Agreements	(730,075)
Cash Received for Line of Credit	215,300
Proceeds from Portfolio Shares Sold	1,399,718
Cash Dividends and Distributions Paid	(43,991)
Net Cash Received (Paid) from Financing Activities	1,799,553
Net Increase (Decrease) in Cash	1,711
Cash at Beginning of Period	
Cash at End of Period	\$ 1,711
Supplemental Disclosure of Cash Flow Information:	
Interest Paid on Line of Credit during the Period	\$ 6,369

[^] For the Period from April 24, 2007 (commencement of operations) to October 31, 2007.

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

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Financial Highlights

Selected Per Share Data and Ratios

	Period from April 24, 2007 [^] to October 31, 2007
Net Asset Value, Beginning of Period	\$ 19.10
Net Investment Income (Loss)	0.90
Net Realized and Unrealized Gain (Loss) on Investments	1.07
Total from Investment Operations	1.97
Distributions from and/or in Excess of:	
Net Investment Income	(0.60)
Net Asset Value, End of Period	\$ 20.47
Per Share Market Value, End of Period	\$ 18.93
TOTAL INVESTMENT RETURN:	
Market Value	(2.46)%**
Net Asset Value (1)	10.77%**
RATIOS, SUPPLEMENTAL DATA:	
Net Assets, End of Period (Thousands)	\$ 1,501,063
Ratio of Expenses to Average Net Assets	3.24%*
Ratio of Expenses Excluding Interest Expense and Country Tax Expense to Average Net Assets	2.21%*
Ratio of Net Investment Income (Loss) to Average Net Assets	8.88%*
Portfolio Turnover Rate	58%**

- (1) Total investment return based on net asset value per share on the last business day of the period reflects the effects of changes in net asset value on the performance of the Fund during the 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 of the Fund.
Per share amount is based on average shares outstanding.

^