MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSRS
September 02, 2016

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, New York	10036
(Address of principal executive offices)	(Zip code)

John H. Gernon

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

Registrant s telephone number, including area code: 212-296-0289

Date of fiscal year end: December 31,

Date of reporting period: June 30, 2016

Item 1 - Report to Shareholders

Morgan Stanley Emerging Markets Debt Fund, Inc.

Directors

Frank L. Bowman

Kathleen A. Dennis

Nancy C. Everett

Jakki L. Haussler

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Michael E. Nugent,

Chair of the Board

W. Allen Reed

Fergus Reid

Officers

John H. Gernon

President and Principal Executive Officer

Stefanie V. Chang Yu

Chief Compliance Officer

Joseph C. Benedetti

Vice President

Francis J. Smith

Treasurer and Principal Financial Officer

Mary E. Mullin

Secretary

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.

211 Quality Circle, Suite 210

College Station, Texas 77845

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Counsel to the Independent Directors

Kramer Levin Naftalis & Frankel LLP

1177 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. All investments involve risks, including the possible loss of principal.

INVESTMENT MANAGEMENT

Morgan Stanley
Investment Management Inc.
Adviser

Morgan Stanley Emerging Markets Debt Fund, Inc.
NYSE: MSD

Semi-Annual Report

June 30, 2016

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Letter to Stockholders (unaudited)

Performance

For the six months ended June 30, 2016, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had total returns of 10.85%, based on net asset value, and 11.58% 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 10.90%. On June 30, 2016, the closing price of the Fund's shares on the New York Stock Exchange was $9.26, representing a 14.4 % discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The year started on rocky footing with concerns about global growth and commodity prices weighing on the market. Sentiment improved heading into February, and emerging markets (EM) fixed income assets turned the corner as energy and commodity prices rebounded and China fears eased in tandem with a weaker U.S. dollar and accommodative central bank policies. The recovery was driven by attractive valuations and a favorable backdrop set by dovish communications from the U.S. Federal Reserve (Fed), as well as policy easing measures by the European Central Bank (ECB) and the People's Bank of China (PBOC). Contributing to the strength in performance for the first half of the year was the return of investors who added $8.3 billion to the asset class.[i]

- The U.K.'s Brexit vote dominated the market's focus toward the half-way point of 2016 as investors mulled the potential ramifications. Although the Brexit outcome resulted in a pickup in market volatility, weakness was generally short-lived, seeming to confirm anecdotal evidence that investors had built cash positions looking to take advantage of opportunities in the event of a sharp sell-off. Moreover, EM fixed income assets benefited from a global reach for duration as developed market central bank tightening fears receded further as the Fed held interest rates steady (with one eye on Brexit and the other on U.S. labor data) and other central banks, including Argentina, Indonesia and Russia, cut interest rates. Monetary authorities across the globe also readied supportive measures such as swap lines and currency reserve buffers to address any market disruptions stemming from the Brexit vote. The immediate impact on EM economies was limited to financial market channels, with currencies marginally weakening versus the U.S. dollar. The medium-to-long-term economic impact is still unknown as the pace and path, if at all, of Britain's exit from the European Union, will depend on the actual nature and shape Brexit will take, the length of the process and volatility that the uncertainty would generate. The broader issue for EM economies is whether the vote signals the start of political changes that will lead to protectionist trends and lower global trade, which would add to the headwinds for emerging markets. Latin America is a notable standout against this trend with governments from the Pacific Alliance trade bloc (including Mexico, Chile, Colombia and Peru) meeting to discuss cross-border investment, innovation and financial services to encourage foreign investment in energy and infrastructure, as well as reducing tariffs and increasing financial linkages.

- Issuers took advantage of the surprisingly favorable market with a number of corporate and sovereign deals being placed in the market. Oman returned to international debt markets after 19 years with a $2.5 billion issue to fund a budget deficit exacerbated by the downturn in oil prices.[ii] Argentina continued to access international debt markets with a number of provincial and corporate deals taking advantage of the opening provided by the government's resolution of a dispute with holdout creditors from previous defaults. President Macri needs to maintain popular support and make concessions to continue toward his goal of revitalizing the Argentine economy.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Letter to Stockholders (unaudited) (cont'd)

• Brazil completed its seven-year ratings roundtrip after Moody's stripped the country of its final investment grade rating, while policymakers were distracted by the far-reaching corruption, Lava Jato (or Car Wash), which continued to claim political and business leaders as President Dilma Rousseff was impeached. Vice President Michel Temer was elevated to acting president but despite a strong start toward making the necessary changes in reforming the economy, his acting administration was marred by allegations that his appointed planning minister, Romero Juca, was attempting to obstruct the Lava Jato corruption probe.

• In a positive surprise to the market, South Africa's foreign currency rating was affirmed at BBB- by S&P, with the outlook remaining negative. However, the country's rating remains at risk given the political volatility and fiscal situation. Other positive news included Hungary's foreign credit rating being upgraded to investment grade (BBB-) from BB+ by Fitch. The country is still rated below investment grade by Moody's and S&P, but investors believe the remaining agencies could take similar actions over the next year.

• Contributing to relative performance during the period were the Fund's overweight positions and security selection in Argentina, Indonesia and Mexico, as well as overweight positions in Zambia, Chile, the Dominican Republic and Kenya. Security selection in South Africa also contributed to relative performance.

• Detracting from relative performance during the period was security selection in Venezuela, Brazil, Russia and Nigeria, as well as positioning in Ghana.

• The use of U.S. Treasury futures, used to manage interest rate duration, detracted from relative performance in the period.

Management Strategies

• After a turbulent start of the year, followed by Brexit in June, we are still cautiously optimistic due to the stabilization in energy prices, reduced Fed hike fears and diminished China hard landing concerns. While one more Fed hike is likely by year-end, overall supportive developed market monetary policies combined with lower China fears will likely remain the main drivers of asset price performance in the third quarter of 2016. We note that June's stronger performance, which largely offset May's weakness, was mostly driven by a duration appetite piqued by recent statements of further easing by the Bank of England and potential laxer terms for the ECB's quantitative easing program. To see a continued rally with more-lasting effects we need to see a turn in EM economic fundamentals, a stable U.S. dollar and range-bound developed market rates. The resilience of EM assets to Brexit fears was encouraging, and in our view, sets the stage for the asset classes to deliver their carry over the summer.

• We believe that EM assets could absorb one to two rate hikes in 2016, though they remain vulnerable to more hawkish surprises, especially if they do not reflect an upward assessment in U.S./global growth prospects, but instead incipient inflationary concerns. The inflationary environment should remain relatively benign for the world as a whole, especially post-Brexit and with unresolved China vulnerability. Core consumer price inflation should show ongoing signs of stabilization/recovery in the U.S. as the output gap was largely closed by year-end 2015. Deflationary pressures from lower commodity prices should start to fade if we are right that oil has troughed and recovers further in the second half of 2016.

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Letter to Stockholders (unaudited) (cont'd)

- Broadly, we expect a modest rebound in EM growth for the rest of 2016 and 2017 as the negative impacts from Brazil and Russia lessen. China's growth slowdown is likely to continue in the medium term, though we expect stability in the short term and were surprised we haven't seen more of a growth rebound on the back of the aggressive policy response through fiscal policy, required reserve ratio adjustments and rate cuts. The stabilization of the U.S. dollar has provided the renminbi a welcome respite and allowed the authorities to successfully manage the Chinese currency vis-à-vis the basket of currencies while allowing foreign exchange reserve losses to slow. We expect "official" growth to slow to 6.5% with "actual" growth at around 5% in 2016. In our opinion, the gradual shift toward managing the renminbi against a basket of currencies reduces the risk of an abrupt devaluation while China is the president of the G20 this year.

- Despite a narrowing of the emerging market/developed market growth differential and a weakening of fundamentals following the global financial crisis, EM economies, in our opinion, are still in better health than they were 10 to 15 years ago, supported by generally lower levels of external debt as a percentage of gross domestic product, freely floating exchange rates, relatively large buffers in the form of foreign currency reserves and growing local debt markets supported by generally robust and well-capitalized banking systems, limiting the risks of external funding pressures inflicting severe damage on their economies. In the absence of extremely attractive valuations and/or an improving fundamental outlook, EM economies must recommit to structural reforms to address economic challenges and restore widespread faith by the investment community. For long-term investors, EM debt still offers attractive real yields, providing yield advantages and potential spread compression, which could provide a buffer should interest rates rise in the U.S., but downside surprises in China are likely to remain the major potential headwind for commodity prices and the asset class in our opinion. With many in the market forecasting moderate global growth and low inflation, we believe EM debt should perform reasonably well for investors looking for diversification, yield and total return potential.

Sincerely,

John H. Gernon
President and Principal Executive Officer July 2016

*The J.P. Morgan Emerging Markets Bond Global Index tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds and local market instruments for emerging market countries. It is not possible to invest directly in an index.

[i] Source: J.P. Morgan, June 30, 2016

[ii] Source: Bloomberg.com

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Portfolio of Investments (unaudited)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
FIXED INCOME SECURITIES (89.5%)		
Argentina (6.3%)		
Corporate Bond (0.2%)		
IRSA Propiedades Comerciales SA, 8.75%, 3/23/23 (a)	$ 520	$ 554
Sovereign (6.1%)		
Argentina Bonar Bonds, 33.24%, 10/9/17 (b)	ARS 14,020	958
Argentine Republic Government International Bond, 6.88%, 4/22/21 (a)	$ 2,500	2,672
7.50%, 4/22/26 (a)	3,030	3,283
7.63%, 4/22/46 (a)(c)	770	834
Province of Salta Argentina, 9.13%, 7/7/24 (a)	1,330	1,330
Provincia de Buenos Aires, 5.75%, 6/15/19 (a)	1,420	1,439
Provincia de Cordoba, 7.13%, 6/10/21 (a)	1,432	1,439
Republic of Argentina, 2.50%, 12/31/38 (d)	1,750	1,186
7.13%, 7/6/36 (a)	2,320	2,320
		15,461
		16,015
Brazil (5.7%)		
Corporate Bonds (3.0%)		
Banco Safra SA, 6.75%, 1/27/21	690	735
6.75%, 1/27/21 (a)(c)	1,360	1,448
CIMPOR Financial Operations BV, 5.75%, 7/17/24 (a)	1,318	985
Minerva Luxembourg SA, 8.75%, 4/3/19 (a)(b)(e)	1,290	1,309
Petrobras Global Finance BV, 8.38%, 5/23/21	3,030	3,135
		7,612
Sovereign (2.7%)		

Brazil Minas SPE via State of Minas Gerais, 5.33%, 2/15/28 (a)	2,750	2,468
5.33%, 2/15/28	1,900	1,705
	Face Amount (000)	**Value (000)**
Brazilian Government International Bond, 5.00%, 1/27/45	$ 2,988	$ 2,697
		6,870
		14,482
Chile (2.7%)		
Corporate Bonds (1.1%)		
Colbun SA, 4.50%, 7/10/24 (a)	1,372	1,437
Empresa Electrica Angamos SA, 4.88%, 5/25/29 (a)	1,290	1,272
		2,709
Sovereign (1.6%)		
Empresa Nacional del Petroleo, 4.75%, 12/6/21	2,105	2,241
5.25%, 8/10/20	1,600	1,733
		3,974
		6,683
China (3.2%)		
Sovereign (3.2%)		
Sinopec Group Overseas Development 2013 Ltd., 4.38%, 10/17/23	4,740	5,124
Three Gorges Finance I Cayman Islands Ltd., 2.30%, 6/2/21 (a)	2,000	2,030
3.70%, 6/10/25 (a)	780	843
		7,997
Colombia (2.0%)		
Sovereign (2.0%)		
Colombia Government International Bond, 4.38%, 7/12/21	1,460	1,571
5.00%, 6/15/45 (c)	2,400	2,502
11.75%, 2/25/20	815	1,078
		5,151
Dominican Republic (2.6%)		
Sovereign (2.6%)		
Dominican Republic International Bond, 6.85%, 1/27/45 (a)	4,182	4,349
6.88%, 1/29/26 (a)	1,215	1,344
7.45%, 4/30/44 (a)	666	736
		6,429

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Portfolio of Investments (unaudited) (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Gabon (0.4%)		
Sovereign (0.4%)		
Republic of Gabon, 6.95%, 6/16/25 (a)	$ 1,200	$ 1,053
Guatemala (0.4%)		
Sovereign (0.4%)		
Guatemala Government Bond, 4.50%, 5/3/26 (a)	890	907
Honduras (0.5%)		
Sovereign (0.5%)		
Republic of Honduras, 8.75%, 12/16/20	1,030	1,159
Hungary (2.8%)		
Sovereign (2.8%)		
Hungary Government International Bond, 4.00%, 3/25/19 (c)	152	158
5.38%, 3/25/24	1,358	1,519
5.75%, 11/22/23	730	832
6.38%, 3/29/21	1,050	1,197
7.63%, 3/29/41 (c)	2,220	3,225
		6,931
Indonesia (8.8%)		
Sovereign (8.8%)		
Indonesia Government International Bond, 4.13%, 1/15/25	1,270	1,326
4.75%, 1/8/26 (a)	1,360	1,484
5.13%, 1/15/45 (a)(c)	1,530	1,629
5.88%, 1/15/24 (a)	1,200	1,392
5.88%, 1/15/24	4,360	5,058
5.95%, 1/8/46 (a)	1,360	1,606
7.75%, 1/17/38	2,429	3,309
Majapahit Holding BV, 7.75%, 1/20/20	1,029	1,179
Pertamina Persero PT, 4.30%, 5/20/23	2,100	2,140
4.88%, 5/3/22	1,050	1,107
6.45%, 5/30/44 (a)	1,720	1,829

	Face Amount (000)	Value (000)
		22,059
Iraq (0.3%)		
Sovereign (0.3%)		
Republic of Iraq, 5.80%, 1/15/28	$ 1,100	$ 842
Ivory Coast (1.2%)		
Sovereign (1.2%)		
Ivory Coast Government International Bond, 5.38%, 7/23/24 (a)	830	782
5.75%, 12/31/32	2,495	2,329
		3,111
Jamaica (1.1%)		
Corporate Bond (0.4%)		
Digicel Group Ltd., 8.25%, 9/30/20	1,150	966
Sovereign (0.7%)		
Jamaica Government International Bond, 7.63%, 7/9/25	780	873
7.88%, 7/28/45	870	931
		1,804
		2,770
Kazakhstan (2.5%)		
Sovereign (2.5%)		
Development Bank of Kazakhstan JSC, 4.13%, 12/10/22 (a)(c)	278	273
KazAgro National Management Holding JSC, 4.63%, 5/24/23 (a)	1,390	1,279
Kazakhstan Government International Bond, 5.13%, 7/21/25 (a)(c)	2,100	2,307
KazMunayGas National Co., JSC, 9.13%, 7/2/18	2,180	2,425
		6,284
Lithuania (0.9%)		
Sovereign (0.9%)		
Lithuania Government International Bond, 6.63%, 2/1/22	1,350	1,633
7.38%, 2/11/20	500	591
		2,224

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Portfolio of Investments (unaudited) (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Mexico (11.0%)		
Corporate Bonds (2.1%)		
Alfa SAB de CV, 6.88%, 3/25/44	$ 1,340	$ 1,390
Fermaca Enterprises S de RL de CV, 6.38%, 3/30/38 (a)	1,851	1,851
Nemak SAB de CV, 5.50%, 2/28/23 (a)	440	458
5.50%, 2/28/23	1,500	1,560
		5,259
Sovereign (8.9%)		
Mexico Government International Bond, 3.60%, 1/30/25	3,450	3,614
4.60%, 1/23/46	2,080	2,202
6.05%, 1/11/40	898	1,133
Petroleos Mexicanos, 4.88%, 1/24/22	1,863	1,909
5.63%, 1/23/46	2,000	1,831
6.38%, 1/23/45	2,520	2,545
6.50%, 6/2/41	2,600	2,646
6.63%, 6/15/35 - 6/15/38	2,780	2,852
6.88%, 8/4/26 (a)	1,260	1,412
8.63%, 12/1/23	1,990	2,353
		22,497
		27,756
Namibia (0.6%)		
Sovereign (0.6%)		
Namibia International Bonds, 5.25%, 10/29/25 (a)	1,402	1,434
Nigeria (0.6%)		
Sovereign (0.6%)		
Nigeria Government International Bond, 6.38%, 7/12/23	1,670	1,616
Panama (1.6%)		
Corporate Bond (0.6%)		
Aeropuerto Internacional de Tocumen SA,	1,530	1,538

	Face Amount (000)	Value (000)
5.63%, 5/18/36 (a)(c)		
Sovereign (1.0%)		
Panama Government International Bond,		
4.00%, 9/22/24	$ 1,434	$ 1,545
5.20%, 1/30/20	460	511
8.88%, 9/30/27	263	388
		2,444
		3,982
Paraguay (1.0%)		
Sovereign (1.0%)		
Republic of Paraguay,		
4.63%, 1/25/23 (a)(c)	880	920
6.10%, 8/11/44 (a)	1,420	1,530
		2,450
Peru (2.5%)		
Corporate Bonds (1.1%)		
Banco de Credito del Peru,		
6.13%, 4/24/27 (a)(b)	1,680	1,849
Union Andina de Cementos SAA,		
5.88%, 10/30/21 (a)	960	975
		2,824
Sovereign (1.4%)		
Corporación Financiera de Desarrollo SA,		
5.25%, 7/15/29 (a)(b)(c)	978	1,005
Fondo MIVIVIENDA SA,		
3.50%, 1/31/23 (a)	491	492
Peruvian Government International Bond,		
6.55%, 3/14/37 (c)	1,550	2,096
		3,593
		6,417
Philippines (3.1%)		
Sovereign (3.1%)		
Philippine Government International Bond,		
3.95%, 1/20/40 (c)	3,514	4,060
9.50%, 2/2/30	2,200	3,772
		7,832

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Portfolio of Investments (unaudited) (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Poland (1.4%)		
Sovereign (1.4%)		
Poland Government International Bond, 3.00%, 3/17/23 (c)	$ 2,250	$ 2,293
4.00%, 1/22/24	570	616
5.00%, 3/23/22	470	530
		3,439
Romania (0.8%)		
Sovereign (0.8%)		
Romanian Government International Bond, 4.38%, 8/22/23	2,000	2,144
Russia (7.4%)		
Sovereign (7.4%)		
Russian Foreign Bond - Eurobond, 4.50%, 4/4/22	15,200	16,283
5.63%, 4/4/42	400	454
SCF Capital Ltd., 5.38%, 6/16/23 (a)(c)	1,950	1,964
		18,701
Serbia (1.8%)		
Sovereign (1.8%)		
Republic of Serbia, 7.25%, 9/28/21	3,945	4,525
South Africa (1.8%)		
Sovereign (1.8%)		
Eskom Holdings SOC Ltd., 5.75%, 1/26/21 (a)(c)	2,556	2,540
7.13%, 2/11/25 (a)(c)	1,940	1,927
		4,467
Sri Lanka (1.1%)		
Sovereign (1.1%)		
Sri Lanka Government International Bond, 6.25%, 10/4/20	100	102
6.25%, 10/4/20 (a)	650	665
6.85%, 11/3/25 (a)	1,980	1,939
		2,706

	Face Amount (000)	Value (000)
Tunisia (0.4%)		
Sovereign (0.4%)		
Banque Centrale de Tunisie SA, 5.75%, 1/30/25 (a)	$ 1,210	$ 1,103
Turkey (5.2%)		
Sovereign (5.2%)		
Export Credit Bank of Turkey, 5.88%, 4/24/19 (a)	2,100	2,231
Turkey Government International Bond, 3.25%, 3/23/23	3,100	3,011
4.88%, 4/16/43	1,800	1,763
5.63%, 3/30/21	4,350	4,752
6.88%, 3/17/36	1,000	1,222
		12,979
Ukraine (2.8%)		
Sovereign (2.8%)		
Ukraine Government International Bond, 7.75%, 9/1/22 - 9/1/26	7,300	6,973
Venezuela (4.2%)		
Sovereign (4.2%)		
Petroleos de Venezuela SA, 6.00%, 11/15/26	29,870	10,490
Zambia (0.8%)		
Sovereign (0.8%)		
Zambia Government International Bond, 8.50%, 4/14/24	1,740	1,521
8.97%, 7/30/27 (a)	720	626
		2,147
TOTAL FIXED INCOME SECURITIES (Cost $220,544)		225,258
	No. of Warrants	
WARRANTS (0.1%)		
Nigeria (0.1%)		
Central Bank of Nigeria, expires 11/15/20 (b)(f)	2,250	163
Venezuela (0.0%)		
Venezuela Government International Bond, Oil-Linked Payment Obligation, expires 4/15/20 (b)(f)	5,450	8
TOTAL WARRANTS (Cost $)		171

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Portfolio of Investments (unaudited) (cont'd)

(Showing Percentage of Total Value of Investments)

	Shares	Value (000)
SHORT-TERM INVESTMENTS (10.4%)		
Securities held as Collateral on Loaned Securities (7.2%)		
Investment Company (5.8%)		
Morgan Stanley Institutional Liquidity Funds Treasury Securities Portfolio Institutional Class (See Note E)	14,668,069	$ 14,668
	Face Amount (000)	
Repurchase Agreements (1.4%)		
Barclays Capital, Inc., (0.42%, dated 6/30/16, due 7/1/16; proceeds $3,389; fully collateralized by a U.S. Government obligation; 2.00% due 8/15/25; valued at $3,457)	$ 3,389	3,389
Merrill Lynch & Co., Inc., (0.44%, dated 6/30/16, due 7/1/16; proceeds $138; fully collateralized by a U.S. Government agency security; 4.50% due 4/20/44; valued at $141)	138	138
		3,527
TOTAL SECURITIES HELD AS COLLATERAL ON LOANED SECURITIES (Cost $18,195)		18,195
	Shares	
Investment Company (2.3%)		
Morgan Stanley Institutional Liquidity Funds Treasury Securities Portfolio Institutional Class (See Note E) Cost $5,869)	5,869,313	5,869

		Face Amount (000)	Value (000)
Argentina (0.9%)			
Sovereign (0.9%)			
Letras del Banco Central de la Republica Argentina, 28.25%, 1/11/17	ARS	2,930	$ 171
29.50%, 1/11/17		2,940	172
30.25%, 12/28/16		21,500	1,269
30.50%, 12/28/16		9,920	585
TOTAL SOVEREIGN (Cost $2,288)			2,197
TOTAL SHORT-TERM INVESTMENTS (Cost $26,352)			26,261
TOTAL INVESTMENTS (100.0%) (Cost $246,896) Including $22,091 of Securities Loaned (g)(h)			251,690
LIABILITIES IN EXCESS OF OTHER ASSETS			(20,858)
NET ASSETS			$230,832

(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 June 30, 2016.

(c) All or a portion of this security was on loan at June 30, 2016.

(d) Multi-step Coupon rate changes in predetermined increments to maturity. Rate disclosed is as of June 30, 2016. Maturity date disclosed is the ultimate maturity date.

(e) Perpetual One or more securities do not have a predetermined maturity date. Rates for these securities are fixed for a period of time, after which they revert to a floating rate. Interest rates in effect are as of June 30, 2016.

(f) Security has been deemed illiquid at June 30, 2016.

(g) Securities are available for collateral in connection with open foreign currency forward exchange contracts and an open futures contract.

(h) At June 30, 2016, the aggregate cost for Federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately $12,807,000 and the aggregate gross unrealized depreciation is approximately $8,013,000 resulting in net unrealized appreciation of approximately $4,794,000.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Portfolio of Investments (unaudited) (cont'd)

(Showing Percentage of Total Value of Investments)

Foreign Currency Forward Exchange Contracts:

The Fund had the following foreign currency forward exchange contracts open at June 30, 2016:

Counterparty	Contracts to Deliver (000)	In Exchange For (000)	Delivery Date	Unrealized Appreciation (Depreciation) (000)
Citibank NA	ARS 9,300	$ 565	12/30/16	$ 2
Citibank NA	ARS 6,890	$ 411	12/30/16	(5)
Citibank NA	ARS 6,910	$ 411	12/30/16	(7)
Citibank NA	ARS 7,640	$ 469	1/18/17	12
Citibank NA	ARS 2,280	$ 140	1/18/17	4
Citibank NA	ARS 23,100	$ 1,261	6/13/17	(20)
				$ (14)

ARS Argentine Peso

Futures Contract:

The Fund had the following futures contract open at June 30, 2016:

	Number of Contracts	Value (000)	Expiration Date	Unrealized Depreciation (000)
Short:				
U.S. Treasury 10 yr. Note	72	$(9,575)	Sep-16	$ (260)

Portfolio Composition*

Classification	Percentage of Total Investments
Sovereign	87.3%
Corporate Bonds	9.2
Other**	3.5
Total Investments	100.0%***

* Percentages indicated are based upon total investments (excluding Securities held as Collateral on Loaned Securities) as of June 30, 2016.

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

*** Does not include an open short futures contract with an underlying face amount of approximately $9,575,000 with unrealized depreciation of approximately $260,000. Does not include open foreign currency forward exchange contracts with net unrealized depreciation of approximately $14,000.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Financial Statements

Statement of Assets and Liabilities	**June 30, 2016 (unaudited) (000)**
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value(1) (Cost $226,359)	$ 231,153
Investment in Security of Affiliated Issuer, at Value (Cost $20,537)	20,537
Total Investments in Securities, at Value (Cost $246,896)	251,690
Cash	25
Interest Receivable	3,690
Receivable for Investments Sold	1,854
Receivable for Variation Margin on Futures Contracts	128
Unrealized Appreciation on Foreign Currency Forward Exchange Contracts	18
Receivable from Affiliate	1
Other Assets	38
Total Assets	257,444
Liabilities:	
Collateral on Securities Loaned, at Value	18,195
Payable for Investments Purchased	4,790
Dividends Declared	3,200
Payable for Advisory Fees	187
Deferred Capital Gain Country Tax	149
Unrealized Depreciation on Foreign Currency Forward Exchange Contracts	32
Payable for Professional Fees	21
Payable for Custodian Fees	8
Payable for Administration Fees	6
Payable for Stockholder Servicing Agent Fees	2
Other Liabilities	22
Total Liabilities	26,612
Net Assets	
Applicable to 21,333,620 Issued and Outstanding $0.01 Par Value Shares (100,000,000 Shares Authorized)	$ 230,832
Net Asset Value Per Share	$ 10.82
Net Assets Consist of:	
Common Stock	$ 213
Paid-in-Capital	242,999
Accumulated Undistributed Net Investment Income	1,266
Accumulated Net Realized Loss	(18,042)
Unrealized Appreciation (Depreciation) on:	
	4,670

Investments (Net of $128 of Deferred Capital Gain Country Tax)		
Futures Contracts		(260)
Foreign Currency Forward Exchange Contracts		(14)
Net Assets	$	230,832
(1) Including:		
Securities on Loan, at Value:	$	22,091

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Financial Statements (cont'd)

Statement of Operations		**Six Months Ended June 30, 2016 (unaudited) (000)**
Investment Income:		
Interest from Securities of Unaffiliated Issuers	$	8,047
Dividends from Securities of Unaffiliated Issuers		290
Income from Securities Loaned Net		49
Dividends from Securities of Affiliated Issuer (Note E)		5
Total Investment Income		8,391
Expenses:		
Advisory Fees (Note B)		1,104
Administration Fees (Note C)		88
Professional Fees		63
Stockholder Reporting Expenses		24
Custodian Fees (Note D)		7
Stockholder Servicing Agent Fees		4
Directors' Fees and Expenses		3
Other Expenses		29
Total Expenses		1,322
Waiver of Administration Fees (Note C)		(49)
Rebate from Morgan Stanley Affiliate (Note E)		(2)
Net Expenses		1,271
Net Investment Income		7,120
Realized Loss:		
Investments Sold (Net of $20 of Capital Gain Country Tax)		(6,331)
Foreign Currency Forward Exchange Contracts		(120)
Foreign Currency Transactions		(69)
Futures Contracts		(349)
Net Realized Loss		(6,869)
Change in Unrealized Appreciation (Depreciation):		
Investments (Net of Increase in Deferred Capital Gain Country Tax of $87)		21,958
Foreign Currency Forward Exchange Contracts		(14)
Foreign Currency Translations		24
Futures Contracts		(268)
Net Change in Unrealized Appreciation (Depreciation)		21,700
Net Realized Loss and Change in Unrealized Appreciation (Depreciation)		14,831
Net Increase in Net Assets Resulting from Operations	$	21,951

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Financial Statements (cont'd)

Statements of Changes in Net Assets	**Six Months Ended June 30, 2016 (unaudited) (000)**	**Year Ended December 31, 2015 (000)**
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	$ 7,120	$ 12,481
Net Realized Gain (Loss)	(6,869)	653
Net Change in Unrealized Appreciation (Depreciation)	21,700	(15,994)
Net Increase (Decrease) in Net Assets Resulting from Operations	21,951	(2,860)
Distributions from and/or in Excess of:		
Net Investment Income	(6,417)	(13,106)
Capital Share Transactions:		
Repurchase of Shares (169,317 and 1,112,006 shares)	(1,516)	(10,192)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(1,516)	(10,192)
Total Increase (Decrease)	14,018	(26,158)
Net Assets:		
Beginning of Period	216,814	242,972
End of Period (Including Accumulated Undistributed Net Investment Income of $1,266 and $563)	$ 230,832	$ 216,814

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Financial Highlights

Selected Per Share Data and Ratios

	Six Months Ended June 30, 2016 (unaudited)	Year Ended December 31, 2015	2014	2013	2012	2011
Net Asset Value, Beginning of Period	$ 10.08	$ 10.74	$ 10.97	$ 13.08	$ 11.54	$ 11.38
Net Investment Income†	0.33	0.57	0.53	0.56	0.58	0.61
Net Realized and Unrealized Gain (Loss)	0.70	(0.71)	(0.23)	(1.73)	1.59	0.21
Total from Investment Operations	1.03	(0.14)	0.30	(1.17)	2.17	0.82
Distributions from and/or in excess of:						
Net Investment Income	(0.30)	(0.60)	(0.57)	(0.60)	(0.60)	(0.62)
Net Realized Gain				(0.37)	(0.03)	(0.04)
Total Distributions	(0.30)	(0.60)	(0.57)	(0.97)	(0.63)	(0.66)
Anti-Dilutive Effect of Share Repurchase Program	0.01	0.08	0.04	0.03		
Net Asset Value, End of	$ 10.82	$ 10.08	$ 10.74	$ 10.97	$ 13.08	$ 11.54

Period						
Per Share Market Value, End of Period	$ 9.26	$ 8.57	$ 9.09	$ 9.54	$ 11.95	$ 10.41
TOTAL INVESTMENT RETURN:						
Market Value	11.58%#	0.95%	1.02%	(12.27)%	21.04%	5.73%
Net Asset Value(1)	10.85%#	0.50%	3.80%	(7.84)%	19.51%	7.93%
RATIOS, SUPPLEMENTAL DATA:						
Net Assets, End of Period (Thousands)	$230,832	$216,814	$242,972	$254,350	$309,645	$273,259
Ratio of Expenses to Average Net Assets(2)	1.15%+*	1.16%+	1.14%+	1.16%+	1.13%+	1.14%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	N/A	N/A	1.14%+	N/A	1.14%+
Ratio of Net Investment Income to Average Net Assets(2)	6.42%+*	5.32%+	4.73%+	4.66%+	4.65%+	5.28%+
Ratio of Rebate from Morgan Stanley Affiliates to Average	0.00%§*	0.00%§	0.00%§	0.00%§	0.01%	0.00%§

Net Assets						
Portfolio Turnover Rate	32%#	38%	80%	85%	46%	46%
(2) Supplemental Information on the Ratios to Average Net Assets:						
Ratios Before Expenses Waived by Administrator:						
Ratio of Expenses to Average Net Assets	1.20%*	1.21%	1.19%	1.21%	1.18%	1.19%
Ratio of Net Investment Income to Average Net Assets	6.37%*	5.27%	4.68%	4.61%	4.60%	5.23%

(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.

+ 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%.

Not annualized.

* Annualized.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited)

Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") was incorporated in Maryland on May 6, 1993, 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 applies investment company accounting and reporting guidance. The Fund's primary investment objective is to produce high current income and as a secondary objective, to seek capital appreciation, through investments primarily in debt securities of government and government-related issuers located in emerging countries, of entities organized to restructure outstanding debt of such issuers and debt securities of corporate issuers in or organized under the laws of emerging countries. To the extent that the Fund invests in derivative instruments that Morgan Stanley Investment Management Inc. (the "Adviser") believes have economic characteristics similar to debt securities of government and government-related issuers located in emerging market countries and of entities organized to restructure outstanding debt of such issuers, such investments will be counted for purposes of meeting the Fund's investment objective. To the extent the Fund makes such investments, the Fund will be subject to the risks 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: (1) 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; (2) an equity portfolio security listed or traded on an exchange is valued at its latest reported sales price (or at the exchange official closing price if such exchange reports an official closing price), and if there were no sales on a given day and if there is no official exchange closing price for that day, the security is valued at the mean between the last reported bid and asked prices if such bid and asked prices are available on the relevant exchanges; (3) futures are valued at the latest price published by the commodities exchange on which they trade; (4) when market quotations are not readily available, including circumstances under which the Adviser determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors (the "Directors"). Occasionally, developments affecting 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 of the New York Stock Exchange ("NYSE"). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (5) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE;

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Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

(6) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value ("NAV") as of the close of each business day; and (7) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Fund's Adviser or a valuation committee, to assist the Directors in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the Directors. Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment

to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurement" ("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 the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

- 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.

The following is a summary of the inputs used to value the Fund's investments as of June 30, 2016.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Fixed Income Securities				
Corporate Bonds	$	$ 21,462	$	$ 21,462
Sovereign		203,796		203,796
Total Fixed Income Securities		**225,258**		**225,258**
Warrants		171		171

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets: (cont'd)				
Short-Term Investments				
Investment Company	$ 20,537	$	$	$ 20,537

Repurchase Agreements		3,527		3,527
Sovereign		2,197		2,197
Total Short-Term Investments	**20,537**	**5,724**		**26,261**
Foreign Currency Forward Exchange Contracts		18		18
Total Assets	**20,537**	**231,171**		**251,708**
Liabilities:				
Foreign Currency Forward Exchange Contracts		(32)		(32)
Futures Contract	(260)			(260)
Total Liabilities	**(260)**	**(32)**		**(292)**
Total	**$ 20,277**	**$ 231,139**	**$**	**$251,416**

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 June 30, 2016, the Fund did not have any investments transfer between investment levels.

3. Repurchase Agreements: The Fund may enter into repurchase agreements under which the Fund lends cash and takes possession of securities with an agreement that the counterparty will repurchase such securities. In connection with transactions in repurchase agreements, a

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

bank as custodian for the Fund takes possession of the underlying securities which are held as collateral, with a market value at least equal to the amount of the repurchase transaction, including principal and accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to determine that the value of the collateral does not decrease below the repurchase price plus accrued interest as earned. If such a decrease occurs, additional collateral will be requested and, when received, will be added to the account to maintain full collateralization. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. In the event of default or bankruptcy by the counterparty to the agreement, realization of the collateral proceeds may be subject to cost and delays. The Fund, along with other affiliated investment companies, may utilize a joint trading account for the purpose of entering into repurchase agreements.

4. Reverse Repurchase Agreements: The Fund may enter into reverse repurchase agreements with institutions that the Adviser has determined are creditworthy. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities the Fund is obligated to repurchase. Reverse repurchase agreements also involve credit risk with the counterparty to the extent that the value of securities subject to repurchase exceed the Fund's liability under the reverse repurchase agreement. Securities subject to repurchase under reverse repurchase agreements, if any, are designated as such in the Portfolio of Investments.

At June 30, 2016, the Fund did not have any outstanding reverse repurchase agreements.

5. Foreign Currency Translation and Foreign Investments: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars 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. However, pursuant to U.S. Federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are treated as ordinary income for U.S. Federal income tax purposes.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from foreign currency forward exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

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) 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 securities of companies based in the U.S. In addition, emerging market issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

6. 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, in part, on the value of an underlying asset, interest rate, index or financial instrument. Prevailing interest rates and volatility levels, among other things, also affect the value of derivative instruments. 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 the derivative instrument relates, risks that the transactions may not be liquid and risks arising from margin requirements. 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 the 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:

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

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 the settlement date. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the value of the contract (the variation margin). A decision as to whether, when and how to use futures contracts 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 contracts can lower total return, and the potential loss from futures contracts can exceed the Fund's initial investment in such contracts. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with which the Fund has open positions in the futures contract.

Foreign Currency Forward 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 forward exchange contract ("currency contract") is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate 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. To the extent hedged by the use of currency contracts, the precise matching of the currency contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the contract is entered into and the date it matures. Furthermore, such transactions may 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 additional risk to the extent 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. 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.

FASB ASC 815, "Derivatives and Hedging" ("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.

Morgan Stanley Emerging Markets Debt Fund, Inc.

June 30, 2016

Notes to Financial Statements (unaudited) (cont'd)

The following tables set forth the fair value of the Fund's derivative contracts by primary risk exposure as of June 30, 2016.

	Asset Derivatives Statement of Assets and Liabilities Location	Primary Risk Exposure	Value (000)
Foreign Currency Forward Exchange Contracts	Unrealized Appreciation on Foreign Currency Forward Exchange Contracts	Currency Risk	18 $

	Liability Derivatives Statement of Assets and Liabilities Location	Primary Risk Exposure	Value (000)
Foreign Currency Forward Exchange Contracts	Unrealized Depreciation on Foreign Currency Forward Exchange Contracts	Currency Risk	$ (32)
Futures Contract	Variation Margin on Futures Contract	Interest Rate Risk	(260)(a)
Total			$ (292)

(a)This amount represents the cumulative appreciation (depreciation) as reported in the Portfolio of Investments. The Statement of Assets and Liabilities only reflects the current day's net variation margin.

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 June 30, 2016 in accordance with ASC 815.

Realized Gain (Loss)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Forward Exchange Contracts	$ (120)
Interest Rate Risk	Futures Contracts	(349)
Total		$ (469)

Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Forward Exchange Contracts	$ (14)
Interest Rate Risk	Futures Contracts	(268)
Total		$ (282)

At June 30, 2016, the Fund's derivative assets and liabilities are as follows:

Gross Amounts of Assets and Liabilities Presented in the Statement of Assets and Liabilities

Derivatives(b)	Assets(c) (000)	Liabilities(c) (000)
Foreign Currency Forward Exchange Contracts	$ 18	$ (32)

(b)Excludes exchange traded derivatives.

(c)Absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

The Fund typically enters into International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") or similar master agreements (collectively, "Master Agreements") with its contract counterparties for certain OTC derivatives in order to, among other things, reduce its credit risk to counterparties. ISDA Master Agreements include provisions for general obligations, representations, collateral and events of default or termination. Under an ISDA Master Agreement, the Fund typically may offset with the counterparty certain OTC derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment (close-out netting) in the event of default, termination and/or potential deterioration in the credit quality of the counterparty. Various Master Agreements govern the terms of certain transactions with counterparties, including transactions such as swap,

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Notes to Financial Statements (unaudited) (cont'd)

forward, repurchase and reverse repurchase agreements. These Master Agreements typically attempt to reduce the counterparty risk associated with such transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Cross-termination provisions under Master Agreements typically provide that a default in connection with one transaction between the Fund and a counterparty gives the non-defaulting party the right to terminate any other transactions in place with the defaulting party to create one single net payment due to/due from the defaulting party and may be a feature in certain Master Agreements. In the event the Fund exercises its right to terminate a Master Agreement after a counterparty experiences a termination event as defined in the Master Agreement, the return of collateral with market value in excess of the Fund's net liability may be delayed or denied.

The following tables present derivative financial instruments that are subject to enforceable netting arrangements as of June 30, 2016.

		Gross Amounts Not Offset in the Statement of Assets and Liabilities		
Counterparty	Gross Asset Derivatives Presented in Statement of Assets and Liabilities (000)	Financial Instrument (000)	Collateral Received (000)	Net Amount (not less than $0) (000)
Citibank NA	$ 18	$ (18)	$	$ 0

		Gross Amounts Not Offset in the Statement of Assets and Liabilities		
Counterparty	Gross Liability Derivatives Presented in Statement of Assets and Liabilities (000)	Financial Instrument (000)	Collateral Pledged (000)	Net Amount (not less than $0) (000)
Citibank NA	$ 32	$ (18)	$	$ 14

For the six months ended June 30, 2016, the approximate average monthly amount outstanding for each derivative type is as follows:

Foreign Currency Forward Exchange Contracts:

Average monthly principal amount	$1,483,000

Futures Contracts:

Average monthly original value	$12,357,000

7. Securities Lending: The Fund lends securities to qualified financial institutions, such as broker-dealers, to earn additional income. Any increase or decrease in the fair value of the securities loaned that might occur and any interest earned or dividends declared on those securities during the term of the loan would remain in the Fund. The Fund would receive cash or securities as collateral in an amount equal to or exceeding 100% of the current fair value of the loaned securities. The collateral is marked-to-market daily by State Street Bank and Trust Company ("State Street"), the securities lending agent, to ensure that a minimum of 100% collateral coverage is maintained.

Based on pre-established guidelines, the securities lending agent invests any cash collateral that is received in an affiliated money market portfolio and repurchase agreements. Securities lending income is generated from the earnings on the invested collateral and borrowing fees, less any rebates owed to the borrowers and compensation to the lending agent, and is recorded as "Income from Securities Loaned Net" in the Fund's Statement of Operations. Risks in securities lending transactions are that a borrower may not provide additional collateral when required or return the securities when due, and that the value of the short-term investments will be less than the amount of cash collateral plus any rebate that is required to be returned to the borrower. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

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The following table presents financial instruments that are subject to enforceable netting arrangements as of June 30, 2016.

	Gross Amounts Not Offset in the Statement of Assets and Liabilities		
Gross Asset Amounts Presented in Statement of Assets and Liabilities (000)	**Financial Instrument (000)**	**Collateral Received (000)**	**Net Amount (not less than $0) (000)**
$ 22,091(d)	$	$(22,091)(e)(f)	$ 0

(d)Represents market value of loaned securities at period end.

(e)The Fund received cash collateral of approximately $18,195,000, which was subsequently invested in Repurchase Agreements and Morgan Stanley Institutional Liquidity Funds as reported in the Portfolio of Investments. In addition, the Fund received non-cash collateral of approximately $4,333,000 in the form of U.S. Government obligations, which the Fund cannot sell or repledge, and accordingly are not reflected in the Portfolio of Investments.

(f)The actual collateral received is greater than the amount shown here due to overcollateralization.

The Fund has adopted the disclosure provisions of FASB Accounting Standards Update No. 2014-11 ("ASU No. 2014-11"), "Transfers & Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures". ASU No. 2014-11 is intended to provide increased transparency about the types of collateral pledged in securities lending transactions and other similar transactions that are accounted for as secured borrowing.

The following table displays a breakdown of transactions accounted for as secured borrowings, the gross obligations by class of collateral pledged, and the remaining contractual maturity of those transactions as of June 30, 2016.

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous (000)	**<30 days (000)**	**Between 30 & 90 days (000)**	**>90 days (000)**	**Total (000)**
Securities Lending Transactions					
Corporate Bonds	$ 1,627	$	$	$	$ 1,627
Sovereign	16,568				16,568
Total	$18,195	$	$	$	$18,195
Total Borrowings	**$18,195**	**$**	**$**	**$**	