MORGAN STANLEY EMERGING MARKETS DEBT FUND INC
Form N-CSR
March 11, 2013

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)

Arthur Lev

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

Registrant s telephone number, including area code: 201-830-8894

Date of fiscal year end: December 31, 2012

Date of reporting period: December 31, 2012

Item 1 - Report to Shareholders

Morgan Stanley Emerging Markets Debt Fund, Inc.

Directors

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Michael E. Nugent

W. Allen Reed

Fergus Reid

Officers

Michael E. Nugent

Chairperson of the Board and Director

Arthur Lev

President and Principal Executive Officer

Mary Ann Picciotto

Chief Compliance Officer

Stefanie V. Chang Yu

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.

250 Royall Street

Canton, Massachusetts 02021

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at www.morganstanley.com/im. All investments involve risks, including the possible loss of principal.

INVESTMENT MANAGEMENT

Morgan Stanley

Emerging Markets Debt

Fund, Inc.

NYSE: MSD

Morgan Stanley

Investment Management Inc.

Adviser

Annual
Report

December 31, 2012

CEMSDANN
IU-13-00415P-Y12/12

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

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Morgan Stanley Emerging Markets Debt Fund, Inc.

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Letter to Stockholders (unaudited)

Performance

For the year ended December 31, 2012, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had total returns of 19.51%, based on net asset value, and 21.04% 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 18.54%. On December 31, 2012, the closing price of the Fund's shares on the New York Stock Exchange was $11.95, representing an 8.6% 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

• Global risk assets, including emerging markets (EM) asset classes, strengthened in the first two months of the year due to signs of a global recovery, before slightly weakening in March, as U.S. economic optimism could not overcome fears about global growth, led by softer-than-expected economic data out of China.

• In the second quarter of 2012, risk sentiment trended lower due to Greek political and debt-sustainability concerns, signs of distress out of the euro area periphery, stagnant U.S. jobs growth, and softer Chinese economic data. The benchmark 10-year U.S. Treasury registered record low yields at the end of May amid heightened global growth fears. However, global risk assets recovered partially in June as risk sentiment modestly improved.

• Global risk assets continued their ascent in the third quarter as decisive developed market policy measures reduced the "tail" risks (that is, an extreme level of risk) for investors, particularly in the euro area, and fostered a more supportive macro environment, despite more moderation in U.S. and China's growth. Emerging market currencies strengthened markedly versus the U.S. dollar as the European Central Bank's (ECB) aggressive rhetoric and bond-buying program as well as Federal Reserve policy action helped buoy higher-yielding assets. Soybean, grain, and corn prices hit record highs due to damaged agricultural harvests, while crude oil stayed at high levels.

• Despite drawn-out U.S. fiscal cliff negotiations and anti-austerity labor protests sweeping across Europe, risk assets ended the fourth quarter stronger as manufacturing activity in China expanded, U.S. presidential election uncertainty abated, and the likelihood of a Greek euro exit fell, prompting investors to take a more optimistic tone toward global growth.

• New issuance activity hit record numbers in 2012, as EM sovereign supply reached $82 billion and a record $329 billion by corporate issuers, bringing the combined total to $411 billion, according to our research.

• In 2012, emerging market dedicated bond funds tracked by EPFR Global saw net inflows of $38.85 billion, up from $7.9 billion accumulated in 2011, according to weekly data. By currency, while around 60% of inflows went into hard currency funds, local currency inflows picked up pace in the last two months of the year and saw relatively larger flows. EM equity fund inflows totaled $49.4 billion in 2012.

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Letter to Stockholders (unaudited) (cont'd)

- Over the course of the year, the risk premium on the Index tightened 160 basis points to 266 basis points above U.S. Treasuries.

- The Fund benefited from overweight exposure to Brazil, Kazakhstan, Mexico, Russia, and Venezuela. Brazil benefited from signs of a recovery in growth and the recent increase in global agricultural prices, notably soybean, caused by droughts in the U.S. In Kazakhstan, Russia and Venezuela, rising oil prices acted as a support. Additionally, in Venezuela, investors speculated that political transition may ensue given the fragile state of market-unfriendly President Hugo Chavez's health. In addition, exposure to Peruvian local markets as well as Mexican and Russian corporates helped boost relative performance.

- Conversely, underweight exposure to Hungary, Philippines, Poland, Turkey, and Ukraine detracted from relative returns. Hungary outperformed due to investor optimism over the country's ability to meet its debt obligations, despite the lack of progress on an International Monetary Fund/European Union financing agreement. In the Philippines, resilient growth, strong capital inflows, and positive ratings momentum were supportive. Despite slowing growth, Poland and high-beta Ukraine outperformed due to euro-optimism. Turkey benefited from relatively strong growth when compared to its neighbors, export growth from countries outside the slower growing euro zone, and improvement in its current account deficit.

Management Strategies

- We expect the global economy to exhibit varying degrees of economic recovery in 2013. Global growth has moderated, but we still expect emerging market growth rates to outpace growth rates in developed markets, where growth could likely remain below potential. We believe that this growth differential could remain well into 2013. U.S. issues remain prominent with the fiscal threat representing a serious impediment to the timing of a global growth rebound, while the uncertainty around developments in Europe and, to a lesser extent, China still remain. We anticipate that the emerging markets could from time to time come under pressure until there is some resolution to fiscal issues in Europe and the U.S.

- Tail risks for investors, particularly those associated with a disorderly sovereign breakup in Europe, appear to have been reduced. However, market direction may likely closely mirror the ongoing issues in Europe and the pace of economic activity in the U.S. and China. Policy easing by core developed market central banks could support commodity prices, capital inflows into emerging countries, and demand for higher-yielding assets.

- Despite challenges ahead from an uncertain global environment, we remain positive on emerging markets debt prospects. There was a shift in 2012 toward more of an easing bias among emerging economies; however, recent food and energy inflation pressures suggest that policy easing in emerging markets may be put on hold. Nevertheless, most EM countries still appear to have scope for policy stimulus should global growth weaken further. We believe that EM central banks may continue to adopt policies aimed at limiting local currency appreciation, but may not be able to reverse the longer-term appreciation trend in their currencies.

Morgan Stanley Emerging Markets Debt Fund, Inc.

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Letter to Stockholders (unaudited) (cont'd)

• By region, we see better potential growth prospects in Latin America, which has shown relative resilience to global factors, and where we are overweight countries with strong and improving fundamentals. We are underweight the euro area as we remain concerned about European bank deleveraging and Europe's debt crisis, particularly among countries where dependency on the euro zone is high. In Asia, growth has held up relatively well, but we believe that many credits are fairly priced and offer lower carry relative to fundamentals. In the Middle East and North Africa, geopolitical risks remain, creating possible spillovers into neighboring countries.**

Sincerely,

Arthur Lev
President and Principal Executive Officer January 2013

*The J.P. Morgan Emerging Markets Bond Global ("EMBG") 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 over 30 emerging market countries. It is not possible to invest directly in an index.

**Country weightings are subject to change.

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
FIXED INCOME SECURITIES (93.0%)		
Argentina (1.2%)		
Sovereign (1.2%)		
Argentina Boden Bonds, 7.00%, 10/3/15	$ 4,609	$ 4,139
Bolivia (0.6%)		
Sovereign (0.6%)		
Bolivian Government International Bond, 4.88%, 10/29/22 (a)	2,260	2,209
Brazil (9.6%)		
Corporate Bonds (2.4%)		
Banco Safra Cayman Islands Ltd., 6.75%, 1/27/21	690	776
6.75%, 1/27/21 (a)	1,360	1,530
Odebrecht Finance Ltd., 6.00%, 4/5/23 (a)	2,411	2,800
7.13%, 6/26/42 (a)	2,520	2,936
		8,042
Sovereign (7.2%)		
Banco Nacional de Desenvolvimento, Economico e Social, 5.50%, 7/12/20 (a)	1,960	2,318
5.50%, 7/12/20	2,300	2,720
6.37%, 6/16/18 (a)(b)	276	328
Brazilian Government International Bond, 4.88%, 1/22/21 (b)	7,780	9,414
5.88%, 1/15/19 (b)	2,235	2,776
7.13%, 1/20/37	3,290	5,050
Caixa Economica Federal, 3.50%, 11/7/22 (a)	1,760	1,791
		24,397
		32,439
Colombia (3.9%)		
Sovereign (3.9%)		
	1,460	1,685

Colombia Government International Bond, 4.38%, 7/12/21		
4.38%, 3/21/23	COP5,507,000	3,120
	Face Amount (000)	**Value (000)**
6.13%, 1/18/41	$ 2,080	$ 2,866
7.38%, 3/18/19	390	515
11.75%, 2/25/20	3,015	4,890
		13,076
Costa Rica (0.3%)		
Sovereign (0.3%)		
Costa Rica Government International Bond, 4.25%, 1/26/23 (a)	1,020	1,034
Croatia (0.5%)		
Sovereign (0.5%)		
Croatia Government International Bond, 6.63%, 7/14/20 (a)	1,340	1,538
Dominican Republic (0.5%)		
Sovereign (0.5%)		
Dominican Republic International Bond, 7.50%, 5/6/21	1,320	1,543
Ecuador (0.1%)		
Sovereign (0.1%)		
Ecuador Government International Bond, 9.38%, 12/15/15	355	357
El Salvador (0.3%)		
Sovereign (0.3%)		
El Salvador Government International Bond, 5.88%, 1/30/25 (a)(b)	940	955
Hungary (0.5%)		
Sovereign (0.5%)		
Hungary Government International Bond, 6.38%, 3/29/21 (b)	1,050	1,165
7.63%, 3/29/41	490	568
		1,733
India (0.3%)		
Corporate Bond (0.3%)		
Reliance Holdings USA, Inc., 6.25%, 10/19/40 (a)	810	934

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 (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Indonesia (6.6%)		
Sovereign (6.6%)		
Indonesia Government International Bond,		
6.88%, 1/17/18	$ 320	$ 392
7.75%, 1/17/38	630	954
7.75%, 1/17/38 (a)	1,353	2,050
11.63%, 3/4/19	430	653
11.63%, 3/4/19 (a)	2,169	3,292
Majapahit Holding BV,		
7.75%, 1/20/20	7,590	9,582
Pertamina Persero PT,		
4.88%, 5/3/22	350	383
5.25%, 5/23/21	870	979
Perusahaan Listrik Negara PT,		
5.50%, 11/22/21	3,470	3,938
		22,223
Ivory Coast (0.4%)		
Sovereign (0.4%)		
Ivory Coast Government International Bond,		
3.75%, 12/31/32 (c)	1,620	1,523
Kazakhstan (4.4%)		
Sovereign (4.4%)		
Development Bank of Kazakhstan JSC,		
4.13%, 12/10/22 (a)	1,850	1,873
5.50%, 12/20/15	230	247
5.50%, 12/20/15 (a)	388	418
Intergas Finance BV,		
6.38%, 5/14/17	700	803
KazMunaiGaz Finance Sub BV,		
6.38%, 4/9/21	1,510	1,855
6.38%, 4/9/21 (a)(b)	2,430	2,986
9.13%, 7/2/18	1,930	2,560
9.13%, 7/2/18 (a)(b)	3,080	4,085
		14,827
Lithuania (1.2%)		
Sovereign (1.2%)		

Lithuania Government International Bond, 6.13%, 3/9/21 (a)		520		643
6.63%, 2/1/22 (a)		670		859
6.75%, 1/15/15 (a)		160		177
7.38%, 2/11/20		1,790		2,340
				4,019
		Face Amount (000)		**Value (000)**
Malaysia (0.8%)				
Sovereign (0.8%)				
Malaysia Government Bond, 3.21%, 5/31/13	MYR	8,110	$	2,654
Mexico (12.9%)				
Corporate Bonds (0.7%)				
Cemex SAB de CV, 9.00%, 1/11/18 (a)	$	412		448
9.50%, 6/15/18		480		539
9.50%, 6/15/18 (a)(b)		1,300		1,459
				2,446
Sovereign (12.2%)				
Mexican Bonos, 8.00%, 6/11/20	MXN	66,500		6,063
Mexico Government International Bond, 3.63%, 3/15/22	$	3,244		3,556
5.95%, 3/19/19		3,032		3,744
6.05%, 1/11/40		1,760		2,369
6.75%, 9/27/34		4,674		6,754
Pemex Project Funding Master Trust, 6.63%, 6/15/35 - 6/15/38		4,316		5,499
8.63%, 12/1/23		1,990		2,507
Petroleos Mexicanos, 4.88%, 1/24/22		1,800		2,036
5.50%, 1/21/21 (b)		5,430		6,372
8.00%, 5/3/19		1,750		2,297
				41,197
				43,643
Mongolia (0.7%)				
Sovereign (0.7%)				
Mongolia Government International Bond, 5.13%, 12/5/22 (a)		2,430		2,394
Panama (0.8%)				
Sovereign (0.8%)				
Panama Government International Bond, 5.20%, 1/30/20 (b)		310		372
7.13%, 1/29/26		1,140		1,622

8.88%, 9/30/27	483	788
		2,782

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

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Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

		Face Amount (000)		Value (000)
Peru (3.6%)				
Corporate Bond (0.2%)				
Corp. Azucarera del Peru SA, 6.38%, 8/2/22 (a)(b)	$	710	$	770
Sovereign (3.4%)				
Peruvian Government International Bond, 7.35%, 7/21/25		1,390		2,021
8.20%, 8/12/26 (Units) (d)	PEN	9,000		4,955
8.75%, 11/21/33 (b)	$	2,580		4,496
				11,472
				12,242
Philippines (4.0%)				
Sovereign (4.0%)				
Philippine Government International Bond, 4.00%, 1/15/21		6,756		7,601
8.38%, 6/17/19		1,491		2,063
9.50%, 2/2/30		2,200		3,825
				13,489
Poland (2.3%)				
Sovereign (2.3%)				
Poland Government International Bond, 3.00%, 3/17/23		6,850		6,850
5.00%, 3/23/22		770		911
				7,761
Russia (13.4%)				
Corporate Bonds (1.4%)				
Severstal OAO Via Steel Capital SA, 5.90%, 10/17/22 (a)(b)		2,150		2,179
Vimpel Communications Via VIP Finance Ireland Ltd. OJSC, 7.75%, 2/2/21 (a)(b)		1,390		1,623
VimpelCom Holdings BV, 7.50%, 3/1/22 (a)(b)		820		942
				4,744

	Face Amount (000)	Value (000)
Sovereign (12.0%)		
Russian Agricultural Bank OJSC Via RSHB Capital SA,		
6.30%, 5/15/17 (a)	$ 2,104	$ 2,335
7.18%, 5/16/13 (a)	2,030	2,072
Russian Foreign Bond Eurobond,		
5.00%, 4/29/20	4,000	4,732
5.63%, 4/4/42 (a)	11,200	13,944
7.50%, 3/31/30	1,341	1,726
7.50%, 3/31/30 (a)	919	1,182
12.75%, 6/24/28	4,225	8,577
Vnesheconombank Via VEB Finance PLC,		
6.90%, 7/9/20	4,900	5,990
		40,558
		45,302
Serbia (0.4%)		
Sovereign (0.4%)		
Republic of Serbia,		
5.25%, 11/21/17 (a)(b)	1,150	1,199
South Africa (2.3%)		
Sovereign (2.3%)		
Eskom Holdings SOC Ltd.,		
5.75%, 1/26/21 (a)	3,556	4,049
5.75%, 1/26/21	2,370	2,699
Transnet SOC Ltd.,		
4.00%, 7/26/22 (a)	970	990
		7,738
Sri Lanka (0.4%)		
Sovereign (0.4%)		
Sri Lanka Government International Bond,		
5.88%, 7/25/22 (a)	490	525
6.25%, 10/4/20	100	109
6.25%, 10/4/20 (a)	650	710
		1,344
Thailand (0.4%)		
Corporate Bond (0.4%)		
PTT Global Chemical PCL,		
4.25%, 9/19/22 (a)	1,370	1,425

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

	Face Amount (000)	Value (000)
Turkey (7.7%)		
Sovereign (7.7%)		
Export Credit Bank of Turkey, 5.88%, 4/24/19 (a)(b)	$ 2,850	$ 3,253
Turkey Government International Bond,		
5.63%, 3/30/21	4,350	5,187
6.00%, 1/14/41	5,320	6,657
6.88%, 3/17/36	2,904	3,931
7.50%, 7/14/17 - 11/7/19	2,866	3,598
11.88%, 1/15/30	1,771	3,482
		26,108
Uruguay (0.7%)		
Sovereign (0.7%)		
Uruguay Government International Bond, 8.00%, 11/18/22	1,589	2,315
Venezuela (11.9%)		
Sovereign (11.9%)		
Petroleos de Venezuela SA, 8.50%, 11/2/17	21,300	21,087
Venezuela Government International Bond,		
6.00%, 12/9/20	1,340	1,126
7.65%, 4/21/25	2,850	2,522
9.00%, 5/7/23	600	585
9.25%, 9/15/27 (e)	14,920	14,994
		40,314
Zambia (0.3%)		
Sovereign (0.3%)		
Zambia Government International Bond, 5.38%, 9/20/22 (a)	1,150	1,150
TOTAL FIXED INCOME SECURITIES (Cost $270,940)		314,409
	No. of Warrants	
WARRANTS (0.2%)		
Nigeria (0.1%)		

Central Bank of Nigeria, expires 11/15/20 (f)(g)	2,250	405
	No. of Warrants	**Value (000)**
Venezuela (0.1%)		
Venezuela Government International Bond, Oil-Linked Payment Obligation, expires 4/15/20 (f)(g)	5,450	$ 169
TOTAL WARRANTS (Cost $)		574
	Shares	
SHORT-TERM INVESTMENTS (6.8%)		
Securities held as Collateral on Loaned Securities (6.1%)		
Investment Company (5.6%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F)	18,892,452	18,892
	Face Amount (000)	
Repurchase Agreements (0.5%)		
Barclays Capital, Inc., (0.20%, dated 12/31/12, due 1/2/13; proceeds $1,070; fully collateralized by a U.S. Government Obligation; U.S. Treasury Note 2.00% due 1/31/16; valued at $1,092)	$ 1,071	1,071
Merrill Lynch & Co., Inc., (0.20%, dated 12/31/12, due 1/2/13; proceeds $749; fully collateralized by a U.S. Government Agency; Federal National Mortgage Association 2.50% due 8/1/27; valued at $764)	749	749
		1,820
TOTAL SECURITIES HELD AS COLLATERAL ON LOANED SECURITIES (Cost $20,712)		20,712

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

	Shares	Value (000)
Investment Company (0.7%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost $2,432)	2,431,901	$ 2,432
TOTAL SHORT-TERM INVESTMENTS (Cost $23,144)		23,144
TOTAL INVESTMENTS (100.0%) (Cost $294,084) Including $20,974 of Securities Loaned (h)		338,127
LIABILITIES IN EXCESS OF OTHER ASSETS		(28,482)
NET ASSETS		$309,645

(a) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(b) All or a portion of this security was on loan at December 31, 2012.

(c) Step Bond Coupon rate increases in increments to maturity. Rate disclosed is as of December 31, 2012. Maturity date disclosed is the ultimate maturity date.

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

(e) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of December 31, 2012.

(f) 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 December 31, 2012.

(g) Security has been deemed illiquid at December 31, 2012.

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

Foreign Currency Exchange Contracts Information:

The Fund had the following foreign currency exchange contracts open at December 31, 2012:

Counterparty

	Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Unrealized Appreciation (000)
JPMorgan Chase Bank	USD 3,084	$3,084	1/18/13	RUB 96,000	$3,134	$ 50

COP Colombian Peso

MXN Mexican New Peso

MYR Malaysian Ringgit

PEN Peruvian Nuevo Sol

RUB Russian Ruble

USD United States Dollar

Portfolio Composition*

Classification	Percentage of Total Investments
Sovereign	92.7%
Corporate Bonds	6.4
Other**	0.9
Total Investments	100.0%***

* Percentages indicated are based upon total investments (excluding Securities held as Collateral on Loaned Securities) as of December 31, 2012.

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

*** Does not include open foreign currency exchange contracts with total unrealized appreciation of approximately $50,000.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Financial Statements

Statement of Assets and Liabilities		**December 31, 2012 (000)**	
Assets:			
Investments in Securities of Unaffiliated Issuers, at Value(1) (Cost $272,760)	$	316,803	
Investment in Security of Affiliated Issuer, at Value (Cost $21,324)		21,324	
Total Investments in Securities, at Value (Cost $294,084)		338,127	
Foreign Currency, at Value (Cost $252)		251	
Cash		738	
Interest Receivable		4,911	
Receivable for Investments Sold		3,685	
Receivable for Lehman Brothers Closed Reverse Repurchase Transactions		657	
Unrealized Appreciation on Foreign Currency Exchange Contracts		50	
Receivable from Affiliate			@
Other Assets		4	
Total Assets		348,423	
Liabilities:			
Collateral on Securities Loaned, at Value		21,450	
Reverse Repurchase Agreements		12,008	
Dividends Declared		4,973	
Payable for Advisory Fees		263	
Payable for Professional Fees		45	
Payable for Administration Fees		8	
Payable for Custodian Fees		8	
Payable for Stockholder Servicing Agent Fees		1	
Other Liabilities		22	
Total Liabilities		38,778	
Net Assets			
Applicable to 23,669,536 Issued and Outstanding $0.01 Par Value Shares (100,000,000 Shares Authorized)	$	309,645	
Net Asset Value Per Share	$	13.08	
Net Assets Consist of:			
Common Stock	$	237	
Paid-in-Capital		265,034	
Accumulated Undistributed Net Investment Income		753	
Accumulated Net Realized Loss		(477)	
Unrealized Appreciation (Depreciation) on:			
Investments		44,043	
Foreign Currency Exchange Contracts		50	
Foreign Currency Translations		5	

Net Assets	$	309,645
(1) Including:		
Securities on Loan, at Value:	$	20,974

@ Amount is less than $500.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Financial Statements (cont'd)

Statement of Operations	**Year Ended December 31, 2012 (000)**
Investment Income:	
Interest from Securities of Unaffiliated Issuers	$ 16,800
Dividends from Securities of Unaffiliated Issuers	100
Income from Securities Loaned Net	52
Dividends from Security of Affiliated Issuer	26
Total Investment Income	16,978
Expenses:	
Advisory Fees (Note B)	2,936
Administration Fees (Note C)	235
Professional Fees	155
Stockholder Reporting Expenses	47
Custodian Fees (Note D)	31
Directors' Fees and Expenses	8
Stockholder Servicing Agent Fees	8
Other Expenses	54
Total Expenses	3,474
Waiver of Administration Fees (Note C)	(139)
Rebate from Morgan Stanley Affiliate (Note F)	(21)
Expense Offset (Note D)	(@)
Net Expenses	3,314
Net Investment Income	13,664
Realized Gain:	
Investments Sold	8,663
Foreign Currency Exchange Contracts	191
Foreign Currency Transactions	2
Futures Contracts	256
Net Realized Gain	9,112
Change in Unrealized Appreciation (Depreciation):	
Investments	28,453
Foreign Currency Exchange Contracts	52
Foreign Currency Translations	20
Net Change in Unrealized Appreciation (Depreciation)	28,525
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	37,637
Net Increase in Net Assets Resulting from Operations	$ 51,301

@ Amount is less than $500.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Financial Statements (cont'd)

Statements of Changes in Net Assets	**Year Ended December 31, 2012 (000)**	**Year Ended December 31, 2011 (000)**
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Income	$ 13,664	$ 14,415
Net Realized Gain (Loss)	9,112	(2,223)
Net Change in Unrealized Appreciation (Depreciation)	28,525	7,217
Net Increase in Net Assets Resulting from Operations	51,301	19,409
Distributions from and/or in Excess of:		
Net Investment Income	(14,202)	(14,675)
Net Realized Gain	(713)	(872)
Total Distributions	(14,915)	(15,547)
Total Increase	36,386	3,862
Net Assets:		
Beginning of Period	273,259	269,397
End of Period (Including Accumulated Undistributed (Distributions in Excess of) Net Investment Income of $753 and $(7))	$ 309,645	$ 273,259

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Financial Highlights

Selected Per Share Data and Ratios

	Year Ended December 31, 2012	2011	2010	2009	2008
Net Asset Value, Beginning of Period	$ 11.54	$ 11.38	$ 11.19	$ 8.79	$ 11.27
Net Investment Income†	0.58	0.61	0.74	0.76	0.65
Net Realized and Unrealized Gain (Loss)	1.59	0.21	0.42	2.27	(2.32)
Total from Investment Operations	2.17	0.82	1.16	3.03	(1.67)
Distributions from and/or in excess of:					
Net Investment Income	(0.60)	(0.62)	(0.66)	(0.64)	(0.86)
Net Realized Gain	(0.03)	(0.04)	(0.31)		
Total Distributions	(0.63)	(0.66)	(0.97)	(0.64)	(0.86)
Anti-Dilutive Effect of Share Repurchase Program				0.01	0.05
Net Asset Value, End of Period	$ 13.08	$ 11.54	$ 11.38	$ 11.19	$ 8.79
Per Share Market Value, End of Period	$ 11.95	$ 10.41	$ 10.48	$ 10.08	$ 7.07
TOTAL INVESTMENT RETURN:					
Market Value	21.04%	5.73%	13.58%	52.55%	(18.74)%
Net Asset Value(1)	19.51%	7.93%	11.00%	36.18%	(12.95)%
RATIOS, SUPPLEMENTAL DATA:					
Net Assets, End of Period (Thousands)	$309,645	$273,259	$269,397	$234,449	$185,706
Ratio of Expenses to Average Net	1.13%+	1.14%+	1.19%+	1.21%+	1.23%+

Assets(2)					
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	N/A	1.14%+	1.13%+	1.13%+	1.15%+
Ratio of Net Investment Income to Average Net Assets(2)	4.65%+	5.28%+	6.35%+	7.54%+	6.19%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.01%	0.00%§	0.00%§	0.00%§	0.00%§
Portfolio Turnover Rate	46%	46%	105%	83%	64%
(2) Supplemental Information on the Ratios to Average Net Assets:					
Ratios Before Expenses Waived by Administrator:					
Ratio of Expenses to Average Net Assets	1.18%	1.19%	1.23%+	1.26%+	1.28%+
Ratio of Net Investment Income to Average Net Assets	4.60%	5.23%	6.31%+	7.49%+	6.14%+

(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%.

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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements

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'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 the Fund's policy in the previous sentence. 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: Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker-dealer market price quotations for institutional size trading in similar groups of

securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price, except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the last reported bid and ask prices. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Fund's Board of Directors (the "Directors") determines such valuation does not reflect the securities' fair value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

Under procedures approved by the Directors, the Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, 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

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

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.

Most foreign markets close before the New York Stock Exchange ("NYSE"). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurements and Disclosures" ("ASC 820"), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous

market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

• Level 1 unadjusted quoted prices in active markets for identical investments

• Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

• Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

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Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2012.

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	$	$ 20,153	$	$ 20,153
Sovereign		294,256		294,256
Total Fixed Income Securities		**314,409**		**314,409**
Warrants		574		574
Short-Term Investments				
Investment Company	21,324			21,324
Repurchase Agreements		1,820		1,820
Total Short-Term Investments	**21,324**	**1,820**		**23,144**
Foreign Currency Exchange Contracts		50		50
Total Assets	**$ 21,324**	**$ 316,853**	**$**	**$338,177**

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 December 31, 2012, the Fund did not have any investments transfer between investment levels.

3. Reverse Repurchase Agreements: The Fund entered 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 December 31, 2012, the Fund had a reverse repurchase agreement outstanding with UBS as follows:

	Maturity in Less than 365 Days
Value of Securities Subject to Repurchase	$14,070,000
Liability Under Reverse Repurchase Agreement	$12,008,000
Weighted Average Days to Maturity	25

The weighted average weekly balance of reverse repurchase agreements outstanding during the year ended December 31, 2012 was approximately $1,751,000 at a weighted average weekly interest rate of 0.00%.

4. Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at the mean of the bid and ask prices of such currencies against U.S. dollars last quoted by a major bank as follows:

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

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 exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) for the period is reflected in the Statement of Operations.

A significant portion of the Fund's net assets consist of securities of issuers located in emerging markets, which are

denominated in foreign currencies. Such securities may be concentrated in a limited number of countries and regions and may vary throughout the year. Changes in currency exchange rates will affect the value of and investment income from foreign currency denominated securities. Emerging market securities are often subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than U.S. securities. In addition, emerging market issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

5. Derivatives: The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of an underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's holdings, including derivative instruments, are marked-to-market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is recognized.

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and risk for 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 agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on 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 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 can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

Foreign Currency Exchange Contracts: In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency exchange contract ("currency contracts") is a negotiated agreement between two parties to exchange specified amounts of two or more currencies at a specified future time at a specified rate. The rate specified by the currency contract can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such currency 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.

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

FASB ASC 815, "Derivatives and Hedging: Overall" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of December 31, 2012.

	Asset Derivatives Statement of Assets and Liabilities Location	Primary Risk Exposure	Value (000)
Foreign Currency Exchange Contracts	Unrealized Appreciation on Foreign Currency Exchange Contracts	Currency Risk	$ 50

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 year ended December 31, 2012 in accordance with ASC 815.

Realized Gain (Loss)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	$ 191
Interest Rate Risk	Futures Contracts	256
Total		$ 447

Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	Derivative Type	Value (000)
Currency Risk	Foreign Currency Exchange Contracts	$ 52

For the year ended December 31, 2012, the average monthly principal amount of foreign currency exchange contracts was approximately $2,789,000 and the average monthly original value of futures contracts was approximately $3,670,000.

6. Security 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 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 value of loaned securities and related collateral outstanding at December 31, 2012 were approximately $20,974,000 and $21,450,000, respectively. The Fund received cash collateral of approximately $21,450,000, of which, approximately $20,712,000 was subsequently invested in Repurchase Agreements and Morgan Stanley Institutional Liquidity Funds as reported in the Portfolio of Investments. At December 31, 2012, there was uninvested

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

cash collateral of approximately $738,000, which is not reflected in the Portfolio of Investments. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

7. Structured Investments: The Fund invested a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency, commodity or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency, commodity or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including issuer risk, counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to issuer or counterparty risk because the Fund is relying on the creditworthiness of such issuer or counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular time, may be unable to find qualified buyers for these securities.

8. Indemnifications: The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

9. Other: Security transactions are accounted for on the date the securities are purchased or sold. Interest income is recognized on the accrual basis except where collection is in doubt and is recorded net of foreign withholding tax.

Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Dividend income and distributions are recorded on the ex-dividend date (except certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

B. Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, calculated weekly and payable monthly, at an annual rate of 1.00% of the Fund's average weekly net assets.

C. Administration Fees: The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund's average weekly net assets. The Adviser has agreed to limit the administration fee through a waiver so that it will be no greater than the previous administration fee (prior to November 1, 2004) of 0.02435% of the Fund's average weekly net assets plus $24,000 per annum. This waiver may be terminated at any time. For the year ended December 31, 2012, approximately $139,000 of administration fees were waived pursuant to this arrangement. Under a Sub-Administration Agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

D. Custodian Fees: State Street (the "Custodian") and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

Morgan Stanley Emerging Markets Debt Fund, Inc.

December 31, 2012

Notes to Financial Statements (cont'd)

The Fund has entered into an arrangement with its Custodian whereby credits realized on uninvested cash balances may be used to offset a portion of the Fund's expenses. If applicable, these custodian credits are shown as "Expense Offset" in the Statement of Operations.

E. Federal Income Taxes: It is the Fund's intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements.

Dividend income and distributions to stockholders are recorded on the ex-dividend date. Interest income is recognized on an accrual basis. Dividends from net investment income, if any, are declared and paid quarterly. Net realized capital gains, if any, are distributed at least annually.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued based on net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned. Taxes may also be based on transactions in foreign currency and are accrued based on the value of investments denominated in such currency.

FASB ASC 740-10, *Income Taxes Overall*, sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended December 31, 2012, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in the Statements of Changes in

Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal 2012 and 2011 was as follows:

2012 Distributions Paid From:		2011 Distributions Paid From:	
Ordinary Income (000)	Long-term Capital Gain (000)	Ordinary Income (000)	Long-term Capital Gain (000)
$ 14,202	$ 713	$ 14,675	$ 872

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from GAAP. These book/tax differences are either considered temporary or permanent in nature.

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions and the timing of the deductibility of certain expenses.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions, paydown adjustments and basis adjustments for securities sold, resulted in the following reclassifications among the components of net assets at December 31, 2012:

Accumulated Net Investment Income (000)	Undistributed Net Realized Loss (000)	Accumulated Paid-in-Capital (000)
$ 1,298	$ (1,298)	$

At December 31, 2012, the components of distributable earnings for the Fund on a tax basis were as follows: