

MORGAN STANLEY DEAN WITTER EMERGING MARKETS DEBT FUND INC
Form N-CSR
March 09, 2004

[ANNOTATED FORM N-CSR FOR ANNUAL REPORTS]

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)

1221 Avenue of the America's 22nd Floor New York, NY 10020

(Address of principal executive offices)

(Zip code)

Ronald E. Robison

1221 Avenue of the Americas, 33rd Floor New York, New York 10020

(Name and address of agent for service)

Registrant's telephone number, including area
code: 1-800-221-6726

Date of fiscal year
end: 12/31

Date of reporting
period: 12/31

ITEM 1. REPORTS TO STOCKHOLDERS.

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

MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

DIRECTORS

Charles A. Fiumefreddo

Michael Bozic

Edwin J. Garn

Wayne E. Hedien

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael Nugent

Philip J. Purcell

Fergus Reid

OFFICERS

Charles A. Fiumefreddo
CHAIRMAN OF THE BOARD

Mitchell M. Merin
PRESIDENT

Ronald E. Robison
EXECUTIVE VICE PRESIDENT
AND PRINCIPAL EXECUTIVE
OFFICER

Joseph J. McAlinden
VICE PRESIDENT

Barry Fink
VICE PRESIDENT

Stefanie V. Chang
VICE PRESIDENT

James W. Garrett
TREASURER AND CHIEF
FINANCIAL OFFICER

Michael J. Leary
ASSISTANT TREASURER

Mary E. Mullin
SECRETARY

INVESTMENT ADVISER
Morgan Stanley Investment Management Inc.
1221 Avenue of the Americas
New York, New York 10020

ADMINISTRATOR
JPMorgan Investor Services Company
73 Tremont Street
Boston, Massachusetts 02108

CUSTODIAN
JPMorgan Chase Bank
270 Park Avenue
New York, New York 10017

STOCKHOLDER SERVICING AGENT
American Stock Transfer & Trust Company
59 Maiden Lane

New York, New York 10030
1-(800) 278-4353

LEGAL COUNSEL
Clifford Chance US LLP
200 Park Avenue
New York, New York 10166

INDEPENDENT AUDITORS
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 1-800-221-6726 or visit our website at www.morganstanley.com/im.

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ANNUAL REPORT

DECEMBER 31, 2003

[MORGAN STANLEY LOGO]

MORGAN STANLEY
EMERGING MARKETS DEBT FUND,
INC.

MORGAN STANLEY
INVESTMENT MANAGEMENT INC.
INVESTMENT ADVISER

MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

Overview

LETTER TO STOCKHOLDERS

PERFORMANCE

For the year ended December 31, 2003, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had a total return, based on net asset value per share of 31.44%, compared to 25.66% for the J.P. Morgan Emerging Markets Bond Index Global (the "Index"). On December 31, 2003, the closing price of the Fund's shares on the New York Stock Exchange was \$9.76, representing a 4.7% discount to the Fund's net asset value per share.

FACTORS AFFECTING PERFORMANCE

- By almost any measure, 2003 was a remarkable year for emerging markets debt (EMD) investors. With the exception of a brief summer respite, the market rallied from start to finish with yield spreads on the J.P. Morgan Emerging Markets Bond Index Index plummeting by more than 300 basis points versus U.S. Treasuries. Thanks to this significant yield-spread

compression and attractive coupon income, the asset class generated total returns in excess of 25 percent -- one of its best years on record.

- Supportive external conditions -- including strong global economic growth, rising commodity prices and ample global liquidity -- in conjunction with significant improvements in emerging markets fundamentals led to a dramatic reduction of sovereign risk and improved credit quality over the course of the year. Most remarkably, Moody's upgrade of Russia's credit-quality rating to Baa3 shifted over half of the Index's market value to investment-grade status; clearly, this represented a dramatic change from the 1998 environment when Russia's default led many to speculate about the "death" of the asset class.
- Investors' EMD perceptions shifted remarkably during 2003, leading to significant new inflows into the asset class. This was perhaps the first year in which the notion that EMD could provide a diversified source of income to most fixed-income strategies gained widespread support. Improving fundamentals and a ten-year history of high returns and declining volatility attracted strategic investors in search of additional yield to meet liabilities or funding requirements.

MANAGEMENT STRATEGIES

- Key factors contributing to the Fund's favorable relative performance last year included overweights in Brazil, Peru and Russia, as well as an underweight to the Asian region. In addition, effective interest-rate risk management during the second half of the year aided performance. An underweight allocation to Ecuador, part of the year, detracted from relative returns.
- From a country-specific standpoint, both Brazil and Ecuador generated some of the asset class' best returns last year. In both cases, the newly elected presidents pleasantly surprised deeply skeptical investors with their ability to implement reasonable policies. In Brazil, President Lula adhered to cautious fiscal and monetary policies and negotiated approval of crucial structural reforms with the Brazilian congress. In Ecuador, President Gutierrez's adherence to International Monetary Fund commitments -- albeit with hiccups -- allowed his nation to benefit from higher oil production and prices. Better-than-expected economic performance and favorable external conditions led the value of Brazilian and Ecuadorian assets to increase by almost 70 percent and 100 percent, respectively, during 2003.

Sincerely,

/s/ Ronald E. Robison

Ronald E. Robison
Executive Vice President and Principal Executive Officer

January 2004

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MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

STATEMENT OF NET ASSETS
December 31, 2003

STATEMENT OF NET ASSETS

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(SHOWING PERCENTAGE OF TOTAL VALUE OF INVESTMENTS)

	FACE AMOUNT (000)	VALUE (000)

DEBT INSTRUMENTS (100.0%)		
ARGENTINA (1.1%)		
SOVEREIGN (1.1%)		
Republic of Argentina		
2.063%, 3/31/23	\$ 1,790 (d)	\$ 895
76.953%, 4/10/05	4,290 (d)	1,437
Republic of Argentina Par Bond		
6.00%, 3/31/23	644 (d)	319

		2,651
=====		
BRAZIL (24.8%)		
SOVEREIGN (24.8%)		
Federative Republic of Brazil		
8.875%, 4/15/24	13,980 (a)	13,648
11.00%, 8/17/40	14,370	15,879
11.25%, 7/26/07	5,340	6,274
12.25%, 3/6/30	4,200	5,250
14.50%, 10/15/09	7,500	9,844
Federative Republic of Brazil, PIK		
8.00%, 4/15/14	7,438 (a)	7,354

		58,249
=====		
BULGARIA (1.6%)		
SOVEREIGN (1.6%)		
Republic of Bulgaria		
8.25%, 1/15/15	3,189	3,765

CHILE (2.0%)		
CORPORATE (2.0%)		
Empresa Nacional de Petroleo		
6.75%, 11/15/12	4,170 (b)	4,599

COLOMBIA (1.5%)		
SOVEREIGN (1.5%)		
Republic of Colombia		
9.75%, 4/9/11	3,133	3,572

DOMINICAN REPUBLIC (0.7%)		
SOVEREIGN (0.7%)		
Dominican Republic		
9.04%, 1/23/13	2,140	1,594

ECUADOR (4.6%)		
SOVEREIGN (4.6%)		
Republic of Ecuador		
7.00%, 8/15/30	13,980 (c)	10,835

INDIA (0.0%)		
CORPORATE (0.0%)		
Surashtra Cement and Chemical Ltd.		
19.00%	INR 30,000 (d) (f)	--@

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=====			
INDONESIA (2.0%)			
CORPORATE (2.0%)			
Pindo Deli Finance (Mauritius)			
10.75%, 10/1/07	\$	11,610 (b) (d)	\$ 2,438
Tjiwi Kimia Finance Mauritius Ltd.			
10.00%, 8/1/04		1,630 (d)	530
Tjiwi Kimia International Global Bond			
13.25%, 8/1/49		4,990 (d)	1,622

			4,590
=====			
IVORY COAST (0.1%)			
SOVEREIGN (0.1%)			
Republic of Ivory Coast			
2.00%, 3/29/18		2,045	327
=====			
MALAYSIA (1.5%)			
SOVEREIGN (1.5%)			
Government of Malaysia			
7.50%, 7/15/11		3,060	3,628
=====			
MEXICO (20.7%)			
CORPORATE (6.2%)			
Pemex Project Funding Master Trust			
2.95%, 10/15/09		2,410 (b) (g)	2,464
9.125%, 10/13/10		4,040	4,818
Petroleos Mexicanos			
9.50%, 9/15/27		2,700	3,227
Petroleos Mexicanos (Registered)			
8.625%, 12/1/23		1,740	1,918
Satelites Mexicanos SA de CV, 'B'			
10.125%, 11/1/04		4,433 (d)	2,017

			14,444

SOVEREIGN (14.5%)			
United Mexican States			
8.375%, 1/14/11		7,080	8,425
10.375%, 2/17/09		1,510	1,918
11.375%, 9/15/16		16,680	23,685

			34,028

			48,472
=====			
NIGERIA (1.1%)			
SOVEREIGN (1.1%)			
Central Bank of Nigeria Par Bond			
6.25%, 11/15/20		3,000 (c)	2,670
=====			
PANAMA (1.6%)			
SOVEREIGN (1.6%)			
Republic of Panama			
9.375%, 4/1/29		1,890	2,136
9.625%, 2/8/11		1,370	1,589

			3,725
=====			

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

STATEMENT OF NET ASSETS
December 31, 2003

STATEMENT OF NET ASSETS (CONT'D)

	FACE AMOUNT (000)	VALUE (000)

PERU (3.2%)		
SOVEREIGN (3.2%)		
Republic of Peru		
8.75%, 11/21/33	\$ 2,360	\$ 2,372
9.875%, 2/6/15	4,320	5,033

		7,405
=====		
PHILIPPINES (1.7%)		
SOVEREIGN (1.7%)		
Republic of Philippines		
9.375%, 1/18/17	3,686	3,990
=====		
QATAR (0.8%)		
SOVEREIGN (0.8%)		
State of Qatar		
9.75%, 6/15/30	1,260	1,783
=====		
RUSSIA (20.6%)		
SOVEREIGN (20.6%)		
Russian Federation		
5.00%, 3/31/30	25,885 (c)	25,044
5.00%, 3/31/30	4,684 (b) (c)	4,532
8.25%, 3/31/10	3,760	4,202
11.00%, 7/24/18	7,051	9,501
12.75%, 6/24/28	3,120	4,968

		48,247
=====		
SOUTH AFRICA (1.9%)		
SOVEREIGN (1.9%)		
Republic of South Africa		
8.50%, 6/23/17	3,630	4,347
=====		
SOUTH KOREA (0.6%)		
SOVEREIGN (0.6%)		
Republic of Korea		
4.25%, 6/1/13	1,525	1,476
=====		
TUNISIA (0.4%)		
CORPORATE (0.4%)		
Banque Centrale de Tunisie		
7.375%, 4/25/12	750	846
=====		

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TURKEY (2.9%)		
SOVEREIGN (2.9%)		
Republic of Turkey		
11.50%, 1/23/12	2,890	3,692
11.75%, 6/15/10	1,110	1,410
12.375%, 6/15/09	1,380	1,773

6,875
=====

UKRAINE (1.0%)		
SOVEREIGN (1.0%)		
Ukraine Government		
11.00%, 3/15/07	2,202	2,460

VENEZUELA (3.6%)		
SOVEREIGN (3.6%)		
Republic of Venezuela		
9.25%, 9/15/27	\$ 2,820	\$ 2,580
10.75%, 9/19/13	5,420 (b)	5,813

8,393
=====

TOTAL DEBT INSTRUMENTS		
(Cost \$218,659)		234,499

NO. OF
WARRANTS

WARRANTS (0.0%)		
COLOMBIA (0.0%)		
Occidente y Caribe Celular,		
expiring 3/15/04	69,200 (e) (f)	--@

NIGERIA (0.0%)		
Central Bank of Nigeria,		
expiring 11/15/20	8,750 (e) (f)	--@

VENEZUELA (0.0%)		
Republic of Venezuela Oil-		
Linked Payment Obligation		
0.00%, 4/15/20	11,350 (e) (g)	--@

TOTAL WARRANTS		
(Cost \$44)		--@

FACE
AMOUNT
(000)

FOREIGN CURRENCY ON DEPOSIT WITH CUSTODIAN (0.0%)			
Euro	EUR	46	58
Indian Rupee	INR	--@	--@

TOTAL FOREIGN CURRENCIES		
(Cost \$54)		58

TOTAL INVESTMENTS (100.0%)	
(Cost \$218,757)	234,557

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

STATEMENT OF NET ASSETS
December 31, 2003

STATEMENT OF NET ASSETS (CONT'D)

	AMOUNT (000)	AMOUNT (000)
OTHER ASSETS		
Cash	\$ 5	
Interest Receivable	5,212	
Due from Broker	1,783	
Other	8	\$ 7,008
LIABILITIES		
Payable For:		
Dividends Declared	(5,984)	
Reverse Repurchase Agreements	(9,440)	
Investment Advisory Fees	(193)	
Directors' Fees and Expenses	(83)	
Custodian Fees	(10)	
Administrative Fees	(11)	
Other Liabilities	(60)	(15,781)
NET ASSETS		
Applicable to 22,046,681, issued and outstanding \$ 0.01 par value shares (100,000,000 shares authorized)		\$ 225,784
NET ASSET VALUE PER SHARE		\$ 10.24
AT DECEMBER 31, 2003, NET ASSETS CONSISTED OF:		
Common Stock		\$ 220
Paid-in Capital		279,066
Undistributed (Distributions in Excess of) Net Investment Income		(523)
Accumulated Net Realized Gain (Loss)		(67,880)
Unrealized Appreciation (Depreciation) on Investments, Futures and Foreign Currency Translations		14,901
TOTAL NET ASSETS		\$ 225,784

- (a) -- Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of December 31, 2003. See note A-3 to financial statements
- (b) -- 144A Security - Certain conditions for public sale may exist.
- (c) -- Step Bond - coupon rate increases in increments to maturity. Rate disclosed is as of December 31, 2003. Maturity date disclosed is ultimate maturity.
- (d) -- Security is in default.
- (e) -- Non-income producing.
- (f) -- Securities valued at fair value - see note A-1 to financial statements. At December 31, 2003, the Fund held less than \$500 of fair-valued securities representing less than 0.05% of net assets.
- (g) -- Variable/floating rate security - rate disclosed is as of December 31, 2003.
- @ -- Face Amount/Value is less than \$500.
- PIK -- Payment-in-Kind. Income may be paid in additional securities or cash at the discretion of the issuer.

FUTURES CONTRACTS:

The Fund had the following futures contract(s) open at period end:

	NUMBER OF CONTRACTS	VALUE (000)	EXPIRATION DATE	NET UNREALIZED APPRECIATION (DEPRECIATION) (000)

SHORT:				
5 Year U.S. Treasury Note	869	\$ 97,002	March-04	\$ (720)
10 Year U.S. Treasury Note	215	\$ 24,137	March-04	(184)

				\$ (904)
=====				

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

Financial Statements

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31, 2003 (000)

INVESTMENT INCOME	
Interest	\$ 19,588
=====	
EXPENSES	

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Investment Advisory Fees	2,113
Professional Fees	107
Interest Expense on Reverse Repurchase Agreements	96
Administrative Fees	76
Custodian Fees	56
Country Tax Expense	42
Directors' Fees and Expenses	25
Stockholder Reporting Expenses	23
Stockholder Servicing Agent	17
Other Expenses	78
=====	
TOTAL EXPENSES	2,633
=====	
NET INVESTMENT INCOME	16,955
=====	
NET REALIZED GAIN (LOSS) ON:	
Investments	26,492
Foreign Currency Transactions	(64)
Futures	(1,537)
=====	
NET REALIZED GAIN (LOSS)	24,891
=====	
CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON:	
Investments	14,734
Foreign Currency Translations	(1)
Futures	(537)
=====	
CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION)	14,196
=====	
NET REALIZED GAIN (LOSS) AND CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION)	39,087
=====	
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 56,042
=====	

STATEMENT OF CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31, 2003 (000)	YEAR ENDED DECEMBER 31, 2002 (000)

INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net Investment Income	\$ 16,955	\$ 14,837
Net Realized Gain (Loss)	24,891	4,226
Change in Unrealized Appreciation (Depreciation)	14,196	(117)
=====		
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	56,042	18,946
=====		
Distributions from and/or in excess of:		
Net Investment Income	(16,566)	(14,551)
=====		
TOTAL INCREASE (DECREASE)	39,476	4,395
=====		
Net Assets:		

Beginning of Period	186,308	181,913
=====		
END OF PERIOD (INCLUDING UNDISTRIBUTED (DISTRIBUTIONS IN EXCESS OF) NET INVESTMENT INCOME OF \$(523) AND \$(892), RESPECTIVELY)	\$ 225,784	\$ 186,308
=====		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

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MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

Financial Statements

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2003 (000)	

CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from Sales and Maturities of Long-Term Investments	\$	405,478
Purchases of Long-Term Investments		(407,551)
Net (Increase) Decrease in Short-Term Investments		1,803
Net (Increase) Decrease in Foreign Currency Holdings		(58)
Net Realized Gain (Loss) on Foreign Currency Translations		(64)
Net Realized Gain (Loss) on Futures Contracts		(1,537)
Net Investment Income		16,955
ADJUSTMENTS TO RECONCILE NET INVESTMENT INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net (Increase) Decrease in Receivables Related to Operations		(1,237)
Net Increase (Decrease) in Payables Related to Operations		(23)
Accretion/Amortization of Discounts and Premiums		(2,186)

Net Cash Provided by Operating Activities		11,580

CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash Received for Reverse Repurchase Agreements		478,146
Cash Paid for Reverse Repurchase Agreements		(476,109)
Cash Distributions Paid		(13,889)

Net Cash Used for Financing Activities		(11,852)

Net Increase (Decrease) in Cash		(272)
CASH AT BEGINNING OF PERIOD		277

CASH AT END OF PERIOD	\$	5
=====		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

Financial Highlights

SELECTED PER SHARE DATA AND RATIOS

	YEAR ENDED DECEMBER		
	2003	2002	2001
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 8.45	\$ 8.25	\$ 8.22
Net Investment Income	0.77+	0.67+	0.80
Net Realized and Unrealized Gain (Loss) on Investments	1.77	0.19	0.08
Total from Investment Operations	2.54	0.86	0.88
Distributions from and/or in excess of:			
Net Investment Income	(0.75)	(0.66)	(0.85)
NET ASSET VALUE, END OF PERIOD	\$ 10.24	\$ 8.45	\$ 8.25
PER SHARE MARKET VALUE, END OF PERIOD	\$ 9.76	\$ 7.55	\$ 7.40
TOTAL INVESTMENT RETURN:			
Market Value	40.21%	11.11%	20.65%
Net Asset Value (1)	31.44%	11.54%	12.50%
RATIOS, SUPPLEMENTAL DATA:			
NET ASSETS, END OF PERIOD (THOUSANDS)	\$ 225,784	\$ 186,308	\$ 181,913
Ratio of Expenses to Average Net Assets	1.25%	1.34%	1.61%
Ratio of Expenses Excluding Interest Expense to Average Net Assets	1.20%	1.29%	1.41%
Ratio of Net Investment Income to Average Net Assets	8.04%	8.11%	9.73%
Portfolio Turnover Rate	187%	149%	233%

(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 amounts are based on average shares outstanding.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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MORGAN STANLEY EMERGING MARKETS DEBT FUND, INC.

December 31, 2003

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 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.

A. ACCOUNTING POLICIES: The following significant accounting policies are in conformity with accounting principles generally accepted in the United States. Such policies are consistently followed by the Fund in the preparation of its financial statements. Accounting principles generally accepted in the United States 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: 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. Securities listed on a foreign exchange are valued at their closing price. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and asked prices obtained from reputable brokers. 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