

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Form N-Q
September 25, 2008

[Annotated Form N-Q]

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

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-22011

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

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

10036
(Zip code)

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

Registrant's telephone number, including area code: 1-800-281-2715

Date of fiscal year end: 10/31

Date of reporting period: 7/31/08

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-S (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under The Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

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

Item 1. Schedule of Investments.

The Fund's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

July 31, 2008 (unaudited)

Portfolio of Investments

(Showing Percentage of Total Value of Investments)

| | | Face Amount (000) | Value (000) |
|---|-----|----------------------|----------------|
| Debt Instruments (98.4%) | | | |
| Brazil (20.0%) | | | |
| Sovereign (20.0%) | | | |
| Federative Republic of Brazil, 10.00%, 1/1/14 | BRL | 494,989 | \$ 271,758 |
| Nota do Tesouro Nacional, 10.00%, 7/1/10 | | 109,030 | 64,984 |
| | | | 336,742 |
| Colombia (5.3%) | | | |
| Corporate (0.9%) | | | |
| MFI WWB Cali, 12.50%, 2/28/11 (e)(f) | COP | 15,103,760 | 8,412 |
| MFI WWB Popoyan, 12.50%, 2/28/11 (e)(f) | | 13,215,790 | 7,361 |
| | | | 15,773 |
| Sovereign (4.4%) | | | |
| Jupiter, S.p.V., Colombian Peso Linked Bonds, 13.50%, 9/15/14 | \$ | 75,000 | 73,912 |
| | | | 89,685 |
| Egypt (4.1%) | | | |
| Sovereign (4.1%) | | | |
| Arab Republic of Egypt, 8.75%, 7/18/12 | EGP | 398,400 | 68,715 |
| Hungary (13.7%) | | | |
| Sovereign (13.7%) | | | |
| Republic of Hungary, 6.25%, 8/24/10 | HUF | 10,750,000 | 68,202 |
| 6.75%, 2/24/17 | | 4,834,840 | 29,839 |
| 7.25%, 6/12/12 | | 20,460,000 | 131,011 |
| | | | 229,052 |
| Indonesia (8.7%) | | | |
| Corporate (0.7%) | | | |
| Pindo Deli Finance B.V., Tranche A, 4.83%, 4/28/15 - 4/28/18 (a)(b) | \$ | 10,032 | 4,406 |
| Pindo Deli Finance B.V., Tranche B, 4.83%, 4/28/15 (a) | | 167 | 126 |
| Pindo Deli Finance B.V., Tranche C, Zero Coupon, 4/28/25 | | 2,227 | 145 |
| Tjiwi Kimia Finance B.V., Tranche A, 4.83%, 4/28/15 - 4/28/18 (a)(b) | | 14,392 | 7,309 |
| Tjiwi Kimia Finance B.V., Tranche B, 4.83%, 4/28/15 (a) | | 760 | 574 |
| Tjiwi Kimia Finance B.V., Tranche C, Zero Coupon, 4/28/27 (a)(b) | | 998 | 55 |
| | | | 12,615 |

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Sovereign (8.0%)

| | | | |
|---|-----|-------------|---------|
| Barclays Bank plc, Indonesian Government Bond Linked Notes, 10.00%, 7/17/17 | IDR | 750,000,000 | 74,216 |
| Citigroup, Inc., Indonesian Indexed Credit Linked Unsecured Notes, Zero Coupon, 7/19/17 | \$ | 28,828 | 24,259 |
| Credit Suisse, Republic of Indonesia Government Bonds Credit Linked Notes, 10.00%, 7/17/17 | IDR | 154,683,530 | 15,307 |
| JPMorgan Chase & Co., London, Indonesian Treasury Bill Linked Notes, 10.00%, 7/15/17 | | 192,525,000 | 19,059 |
| | | | 132,841 |
| | | | 145,456 |

Kazakhstan (0.4%)

Corporate (0.4%)

| | | | |
|------------------------------------|-----|---------|-------|
| MFI KMF, 15.50%, 2/28/11 (e)(f) | KZT | 905,197 | 7,532 |
|------------------------------------|-----|---------|-------|

Malaysia (1.9%)

Sovereign (1.9%)

| | | | |
|---|-----|---------|--------|
| Government of Malaysia, 3.72%, 6/15/12 | MYR | 105,000 | 31,912 |
|---|-----|---------|--------|

Mexico (13.3%)

Corporate (1.0%)

| | | | |
|---------------------------------------|-----|---------|--------|
| MFI Finsol, 14.00%, 2/28/11 (e)(f) | MXN | 161,685 | 16,106 |
|---------------------------------------|-----|---------|--------|

Sovereign (12.3%)

| | | | |
|-----------------------------------|--|---------|---------|
| Mexican Bonos, 8.00%, 12/17/15 | | 800,000 | 76,341 |
| 9.50%, 12/18/14 | | 370,000 | 38,111 |
| 10.00%, 12/5/24 - 11/20/36 | | 837,849 | 92,255 |
| | | | 206,707 |
| | | | 222,813 |

Multi-Country (1.9%)

Sovereign (1.9%)

| | | | |
|---|----|--------|--------|
| Standard Bank plc, African Currency Basket Linked Bonds, Zero Coupon, 12/15/08 | \$ | 30,000 | 31,788 |
|---|----|--------|--------|

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

July 31, 2008 (unaudited)

Portfolio of Investments (cont d)

(Showing Percentage of Total Value of Investments)

| | Face Amount (000) | Value (000) |
|--|------------------------------|------------------|
| Nigeria (1.6%) | | |
| Corporate (1.6%) | | |
| Shell Petroleum Development Co., Credit Linked Notes, Zero Coupon, 8/22/08 - 5/15/09 | \$ 27,637 | \$ 27,223 |
| Peru (0.2%) | | |
| Corporate (0.2%) | | |
| MFI Confranz, 10.40%, 2/28/11 (e)(f) | PEN 8,672 | 3,085 |
| South Africa (9.9%) | | |
| Sovereign (9.9%) | | |
| Republic of South Africa, 13.00%, 8/31/10 (g) | ZAR 1,159,000 | 165,834 |
| Thailand (7.1%) | | |
| Sovereign (7.1%) | | |
| Kingdom of Thailand, 4.25%, 3/13/13 | THB 2,203,720 | 64,598 |
| 5.25%, 7/13/13 | 1,766,120 | 53,868 |
| | | 118,466 |
| Turkey (10.3%) | | |
| Sovereign (10.3%) | | |
| Republic of Turkey, Zero Coupon, 8/5/09 - 4/14/10 | TRY 231,683 | 153,096 |
| 16.00%, 3/7/12 | 24,060 | 19,716 |
| | | 172,812 |
| Total Debt Instruments (Cost \$1,669,775) | | 1,651,115 |
| | Shares | |
| Short-Term Investments (1.6%) | | |
| United States (1.5%) | | |
| Investment Companies (1.5%) | | |
| Morgan Stanley Institutional Liquidity Money Market Portfolio - Institutional Class (c) | 25,005,334 | 25,005 |
| | Face Amount (000) | |
| U.S. Treasury Security (0.1%) | | |
| United States Treasury Bill, 1.85%, 10/9/08 (d) | \$ 1,525 | 1,521 |
| Total Short-Term Investments (Cost \$26,526) | | 26,526 |
| | | 1,677,641 |

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| | |
|--|--------------|
| Total Investments (100.0%) | |
| (Cost \$1,696,301) + | |
| Liabilities in Excess of Other Assets | (351,989) |
| Net Assets | \$ 1,325,652 |

- (a) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on July 31, 2008.
- (b) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (c) The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Money Market Portfolio - Institutional Class (the Liquidity Fund), an open-end management investment company managed by the Adviser. Investment Advisory fees paid by the Portfolio are reduced by an amount equal to its pro-rata share of the advisory and administration fees paid by the Liquidity Fund. For the nine months ended July 31, 2008, advisory fees paid were reduced by approximately \$17,000 relating to the Fund's investment in the Liquidity Fund. For the same period, income distributions earned by the Fund are recorded as interest from affiliates and totaled approximately \$684,000. For the nine months ended July 31, 2008, the approximate cost of purchases and sales in the Liquidity Fund were \$758,866,000 and \$755,591,000, respectively.
- (d) Rate shown is the yield to maturity at July 31, 2008
- (e) Securities were valued at fair value At July 31, 2008, the Fund held approximately \$42,496,000 of fair valued securities, representing 3.2% of net assets.
- (f) Security has been deemed illiquid at July 31, 2008
- (g) Denotes all or a portion of securities subject to repurchase under the Reverse Repurchase Agreements as of July 31, 2008
- @ Value is less than \$500.
- + At July 31, 2008, the U.S. Federal income tax cost basis of investments was approximately \$1,696,301,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was \$18,660,000 of which \$39,796,000 related to appreciated securities and \$58,456,000 related to depreciated securities.

| | |
|-----|----------------------|
| BRL | Brazilian Real |
| COP | Colombian Peso |
| EGP | Egypt Pound |
| EUR | Euro |
| HUF | Hungary Forint |
| IDR | Indonesian Rupiah |
| KZT | Kazakhstan Tenge |
| MXN | Mexican Peso |
| MYR | Malaysian Ringgit |
| PEN | Peruvian Sol |
| THB | Thai Baht |
| TRY | Turkish Lira |
| USD | United States Dollar |
| ZAR | South African Rand |

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

July 31, 2008 (unaudited)

Portfolio of Investments (cont d)

Foreign Currency Exchange Contract Information:

The Fund had the following foreign currency exchange contract(s) open at period end:

| | Currency to Deliver (000) | | Value (000) | Settlement Date | In Exchange For (000) | | Value (000) | | Net Unrealized Appreciation (Depreciation) (000) |
|-----|------------------------------------|----|----------------|--------------------|--------------------------------|---------|----------------|---------|--|
| BRL | 153,495 | \$ | 97,998 | 8/4/08 | USD | 94,435 | \$ | 94,435 | \$ (3,563) |
| BRL | 169,900 | | 108,471 | 8/4/08 | USD | 104,567 | | 104,567 | (3,904) |
| BRL | 2,000 | | 1,277 | 8/4/08 | USD | 1,276 | | 1,276 | (1) |
| BRL | 153,495 | | 97,185 | 9/3/08 | USD | 97,321 | | 97,321 | 136 |
| BRL | 169,900 | | 107,573 | 9/3/08 | USD | 107,750 | | 107,750 | 177 |
| COP | 121,900,000 | | 67,843 | 8/8/08 | USD | 65,538 | | 65,538 | (2,305) |
| COP | 33,300,000 | | 18,533 | 8/8/08 | USD | 18,000 | | 18,000 | (533) |
| HUF | 8,978 | | 60 | 8/4/08 | USD | 60 | | 60 | @ |
| USD | 98,111 | | 98,111 | 8/4/08 | BRL | 153,495 | | 97,998 | (113) |
| USD | 108,632 | | 108,632 | 8/4/08 | BRL | 169,900 | | 108,472 | (160) |
| USD | 137,729 | | 137,729 | 8/15/08 | EUR | 87,614 | | 136,584 | (1,145) |
| USD | 16,535 | | 16,535 | 8/5/08 | TRY | 19,213 | | 16,531 | (4) |
| USD | 20,660 | | 20,660 | 8/5/08 | TRY | 24,059 | | 20,700 | 40 |
| USD | 4,506 | | 4,506 | 8/5/08 | TRY | 5,256 | | 4,522 | 16 |
| USD | 16,535 | | 16,535 | 8/5/08 | TRY | 19,288 | | 16,596 | 61 |
| | | \$ | 901,648 | | | | \$ | 890,350 | \$ (11,298) |

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

July 31, 2008 (unaudited)

Portfolio of Investments (cont d)

At July 31, 2008, the Fund had a reverse repurchase agreement outstanding with Lehman Brothers as follows:

| | | Maturity in less than 365 Days |
|--|----|---|
| Lehman Brothers Agreement | | |
| Value of Securities Subject to Repurchase (000) | \$ | 94,292 |
| Liability Under Reverse Repurchase Agreement (000) | \$ | 85,451 |
| Weighted Average Days to Maturity | | 8.17 |

Interest Rate Swap Contracts

The Portfolio had the following interest rate swap agreement(s) open at period end:

| Swap Counterparty | Floating Rate Index | Pay/Receive Floating Rate | Fixed Rate | Termination Date | Notional Amount (000) | Unrealized Appreciation (000) |
|-------------------|---------------------|---------------------------|------------|------------------|-----------------------|-------------------------------|
| JPMorgan Chase | MXN-TIE Banxico | Pay | 9.41% | 07/08/13 | \$ 259,500 | \$ 761,699 |

MXN-TIE Mexican Inter Bank Equilibrium Interest Rate

Total Return Swap Contracts

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

| Swap Counterparty | Pay | Receive | Termination Date | Notional Amount (000) | Unrealized Appreciation (000) |
|-------------------|-----------------------|---------|------------------|-----------------------|-------------------------------|
| Citigroup | USD-LIBOR-BBA + 0.20% | 7.34% | 02/13/17 | RUB 982,224 | \$ 4,258 |

BBA British Bankers Association
LIBOR London Inter Bank Offer Rate

RUB Russian Ruble

Item 2. Controls and Procedures.

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Item 3. Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|--------------|---|
| (Registrant) | Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. |
| By: | /s/ Randy Takian |
| Name: | Randy Takian |
| Title: | Principal Executive Officer |
| Date: | September 18, 2008 |

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | |
|--------|-----------------------------|
| By: | /s/ Randy Takian |
| Name: | Randy Takian |
| Title: | Principal Executive Officer |
| Date: | September 18, 2008 |

| | |
|--------|-----------------------------|
| By: | /s/ James Garrett |
| Name: | James Garrett |
| Title: | Principal Financial Officer |
| Date: | September 18, 2008 |
