

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-Q  
September 25, 2014

**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, New York  
(Address of principal executive offices)

10036  
(Zip code)

John H. Gernon

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

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

Date of fiscal year end: October 31, 2014

Date of reporting period: July 31, 2014

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**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:

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Portfolio of Investments

Third Quarter Report

July 31, 2014 (unaudited)

(Showing Percentage of Total Value of Investments)

|  | Face<br>Amount<br>(000) | Value<br>(000) |
|--|-------------------------|----------------|
| <b>Fixed Income Securities (99.6%)</b>                                 |                         |                |
| <b>Brazil (8.0%)</b>   |                         |                |
| <b>Sovereign (8.0%)</b>  |                         |                |
| Banco Nacional de Desenvolvimento Economico e Social,                  |                         |                |
| 5.50%, 7/12/20   | \$ 32,318               | \$ 34,984      |
| 6.50%, 6/10/19   | 5,095                   | 5,732          |
| Brazil Notas do Tesouro Nacional, Series F,                            |                         |                |
| 10.00%, 1/1/17   | BRL 166,900             | 71,455         |
|  |                         | 112,171        |
| <b>Chile (0.6%)</b>  |                         |                |
| <b>Sovereign (0.6%)</b>  |                         |                |
| Chile Government International Bond,                                   |                         |                |
| 5.50%, 8/5/20  | CLP 4,665,000           | 8,693          |
| <b>Colombia (4.0%)</b>   |                         |                |
| <b>Sovereign (4.0%)</b>  |                         |                |
| Colombia Government International Bond,                                |                         |                |
| 7.75%, 4/14/21   | COP 29,000,000          | 17,464         |
| 9.85%, 6/28/27   | 46,000,000              | 31,744         |
| 12.00%, 10/22/15   | 11,000,000              | 6,405          |
|  |                         | 55,613         |
| <b>Hungary (6.6%)</b>  |                         |                |
| <b>Sovereign (6.6%)</b>  |                         |                |
| Hungary Government Bond,   |                         |                |
| 6.75%, 2/24/17   | HUF 8,500,000           | 39,536         |
| 7.50%, 11/12/20  | 10,480,000              | 52,963         |
|  |                         | 92,499         |
| <b>Indonesia (5.9%)</b>  |                         |                |
| <b>Sovereign (5.9%)</b>  |                         |                |
| Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes,    |                         |                |
| 10.00%, 7/17/17 (a)(b)   | IDR 360,000,000         | 33,122         |
| Credit Suisse, Indonesia Government Bonds, Credit Linked Notes,        |                         |                |
| 10.00%, 7/17/17  | 154,683,530             | 14,232         |
| Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked |                         |                |
| Notes,   |                         |                |
| 11.00%, 12/15/20 (a)(b)  | 60,000,000              | 5,981          |
| JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked |                         |                |
| Notes,   |                         |                |
| 8.25%, 7/17/21   | 135,000,000             | 11,846         |
| 10.00%, 7/19/17(b)   | 192,525,000             | 17,713         |
|  |                         | 82,894         |

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**Malaysia (9.5%)**

**Sovereign (9.5%)**

Malaysia Government Bond,

|                |     |         |         |
|----------------|-----|---------|---------|
| 3.48%, 3/15/23 | MYR | 224,480 | 68,241  |
| 3.84%, 8/12/15 |     | 110,000 | 34,656  |
| 4.18%, 7/15/24 |     | 95,000  | 30,445  |
|                |     |         | 133,342 |

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|   |     |           |         |
|---|-----|-----------|---------|
| <b>Mexico (13.7%)</b>                           |     |           |         |
| <b>Sovereign (13.7%)</b>                        |     |           |         |
| Mexican Bonos,                                  |     |           |         |
| 7.50%, 6/3/27                                   | MXN | 72,585    | 6,160   |
| 8.00%, 6/11/20                                  |     | 1,094,027 | 95,164  |
| 8.50%, 5/31/29                                  |     | 290,400   | 26,510  |
| Petroleos Mexicanos (Units),                    |     |           |         |
| 7.65%, 11/24/21 (a)(c)                          |     | 791,300   | 64,829  |
|   |     |           | 192,663 |
| <b>Nigeria (3.0%)</b>                           |     |           |         |
| <b>Sovereign (3.0%)</b>                         |     |           |         |
| Nigeria Government Bond,                        |     |           |         |
| 13.05%, 8/16/16                                 | NGN | 6,500,000 | 41,754  |
| <b>Peru (3.8%)</b>                              |     |           |         |
| <b>Sovereign (3.8%)</b>                         |     |           |         |
| Peru Government Bond,                           |     |           |         |
| 7.84%, 8/12/20                                  | PEN | 37,745    | 15,643  |
| Peruvian Government International Bond, (Units) |     |           |         |
| 7.84%, 8/12/20 (c)                              |     | 57,000    | 23,624  |
| 8.20%, 8/12/26 (c)                              |     | 32,110    | 14,181  |
|   |     |           | 53,448  |
| <b>Philippines (1.2%)</b>                       |     |           |         |
| <b>Sovereign (1.2%)</b>                         |     |           |         |
| Philippine Government International Bond,       |     |           |         |
| 4.95%, 1/15/21                                  | PHP | 648,000   | 16,103  |
| <b>Poland (11.0%)</b>                           |     |           |         |
| <b>Sovereign (11.0%)</b>                        |     |           |         |
| Poland Government Bond,                         |     |           |         |
| 3.75%, 4/25/18                                  | PLN | 18,547    | 6,143   |
| 5.25%, 10/25/20                                 |     | 314,000   | 113,030 |
| 5.50%, 10/25/19                                 |     | 98,947    | 35,591  |
|   |     |           | 154,764 |
| <b>Romania (1.3%)</b>                           |     |           |         |
| <b>Sovereign (1.3%)</b>                         |     |           |         |
| Romania Government Bond,                        |     |           |         |
| 5.90%, 7/26/17                                  | RON | 53,290    | 17,537  |
| <b>Russia (9.6%)</b>                            |     |           |         |
| <b>Sovereign (9.6%)</b>                         |     |           |         |
| Russian Federal Bond - OFZ,                     |     |           |         |
| 7.05%, 1/19/28                                  | RUB | 1,775,000 | 41,532  |
| 8.15%, 2/3/27                                   |     | 2,171,800 | 56,318  |
| Russian Foreign Bond - Eurobond,                |     |           |         |
| 7.85%, 3/10/18                                  |     | 290,000   | 7,800   |
| 7.85%, 3/10/18 (a)                              |     | 1,095,000 | 29,452  |
|   |     |           | 135,102 |
| <b>South Africa (9.0%)</b>                      |     |           |         |
| <b>Sovereign (9.0%)</b>                         |     |           |         |
| Eskom Holdings SOC Ltd.,                        |     |           |         |
| 5.75%, 1/26/21                                  | \$  | 47,400    | 48,832  |
| South Africa Government Bond,                   |     |           |         |
| 6.75%, 3/31/21                                  | ZAR | 766,200   | 67,461  |
| 7.25%, 1/15/20                                  |     | 114,524   | 10,488  |
|   |     |           | 126,781 |

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|   |     |         |                   |
|---|-----|---------|-------------------|
| <b>Thailand (0.9%)</b>                                  |     |         |                   |
| <b>Sovereign (0.9%)</b>                                 |     |         |                   |
| Thailand Government Bond,<br>3.63%, 6/16/23             | THB | 380,000 | 11,895            |
| <b>Turkey (8.3%)</b>                                    |     |         |                   |
| <b>Corporate Bond (3.4%)</b>                            |     |         |                   |
| Turkiye Garanti Bankasi AS,<br>7.38%, 3/7/18 (a)        | TRY | 111,480 | 48,066            |
| <b>Sovereign (4.9%)</b>                                 |     |         |                   |
| Turkey Government Bond,<br>10.50%, 1/15/20              |     | 135,825 | 68,870<br>116,936 |
| <b>Venezuela (3.2%)</b>                                 |     |         |                   |
| <b>Sovereign (3.2%)</b>                                 |     |         |                   |
| Petroleos de Venezuela SA,<br>8.50%, 11/2/17            | \$  | 47,250  | 44,120            |
| <b>Total Fixed Income Securities (Cost \$1,428,198)</b> |     |         | <b>1,396,315</b>  |

|   | Shares    | Value<br>(000)      |
|---|-----------|---------------------|
| <b>Short-Term Investment (0.4%)</b>   |           |                     |
| <b>Investment Company (0.4%)</b>  |           |                     |
| Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional<br>Class (d) (Cost \$5,320) | 5,319,867 | 5,320               |
| <b>Total Investments (100.0%) (Cost \$1,433,518) +</b>  |           | <b>1,401,635</b>    |
| <b>Liabilities in Excess of Other Assets</b>  |           | <b>(355,122)</b>    |
| <b>Net Assets</b>   |           | <b>\$ 1,046,513</b> |

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

(b) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on July 31, 2014.

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

(d) The Fund invests in the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (the Liquidity Funds), an open-end management investment company managed by the Adviser. Advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Funds with respect to assets invested by the Fund in the Liquidity Funds.

+ At July 31, 2014, the U.S. Federal income tax cost basis of investments was approximately \$1,433,518,000 and, accordingly, net unrealized depreciation for U.S. Federal income tax purposes was approximately \$31,883,000 of which approximately \$41,834,000 related to appreciated securities and approximately \$73,717,000 related to depreciated securities.

OFZ Obilgatsyi Federal novo Zaima (Russian Federal Loan Obligation)

BRL Brazilian Real

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|     |                   |
|-----|-------------------|
| CLP | Chilean Peso      |
| COP | Colombian Peso    |
| HUF | Hungarian Forint  |
| IDR | Indonesian Rupiah |
| MXN | Mexican Peso      |
| MYR | Malaysian Ringgit |

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|     |                    |
|-----|--------------------|
| NGN | Nigerian Naira     |
| PEN | Peruvian Nuevo Sol |
| PHP | Philippine Peso    |
| PLN | Polish Zloty       |
| RON | Romanian New Leu   |
| RUB | Russian Ruble      |
| THB | Thai Baht          |
| TRY | Turkish Lira       |
| ZAR | South African Rand |

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

**Notes to the Portfolio of Investments • July 31, 2014 (unaudited)**

**Security Valuation:** (1) Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker-dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities; (2) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the Adviser) determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors (the Directors). Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange (NYSE). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (3) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; (4) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day; and (5) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

Under procedures approved by the Directors, the Fund's 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. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

**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 Funds would receive to sell an investment or pay to transfer a liability in a timely

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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 Funds' 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.

The following is a summary of the inputs used to value the Fund's investments as of July 31, 2014.

| Investment Type                      | Level 1<br>Unadjusted<br>quoted<br>prices<br>(000) | Level 2<br>Other<br>significant<br>observable<br>inputs<br>(000) | Level 3<br>Significant<br>unobservable<br>inputs<br>(000) | Total<br>(000)      |
|--------------------------------------|--|--|---|---------------------|
| <b>Assets:</b>                       |  |  |   |                     |
| <b>Fixed Income Securities</b>       |  |  |   |                     |
| Corporate Bonds                      | \$   | \$ 48,066  | \$  | \$ 48,066           |
| Sovereign                            |  | 1,348,249  |   | 1,348,249           |
| <b>Total Fixed Income Securities</b> |  | <b>1,396,315</b>   |   | <b>1,396,315</b>    |
| <b>Short-Term Investment</b>         |  |  |   |                     |
| Investment Company                   |  | 5,320  |   | 5,320               |
| <b>Total Assets</b>                  | <b>\$ 5,320</b>                                    | <b>\$ 1,396,315</b>  | <b>\$</b>   | <b>\$ 1,401,635</b> |

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 July 31, 2014, the Fund did not have any investments transfer between investment levels.



**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.**

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

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**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.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ John H. Gernon  
John H. Gernon  
Principal Executive Officer  
September 18, 2014

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.

/s/ John H. Gernon  
John H. Gernon  
Principal Executive Officer  
September 18, 2014

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
September 18, 2014

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