

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
April 25, 2008

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-5078

MFS GOVERNMENT MARKETS INCOME TRUST

(Exact name of registrant as specified in charter)

500 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

500 Boylston Street

Boston, Massachusetts 02116

(Name and address of agents for service)

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Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: February 29, 2008

ITEM 1. SCHEDULE OF INVESTMENTS.

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/29/08

| Issuer | Shares/Par | Value (\$) |
|--|--------------|----------------------|
| Bonds 95.9% | | |
| U.S. Bonds 91.4% | | |
| Agency - Other 13.0% | | |
| Financing Corp., 10.7%, 2017 | \$ 4,095,000 | \$ 6,157,541 |
| Financing Corp., 9.4%, 2018 | 3,085,000 | 4,355,739 |
| Financing Corp., 9.8%, 2018 | 4,350,000 | 6,300,331 |
| Financing Corp., 10.35%, 2018 | 6,820,000 | 10,242,235 |
| Financing Corp., STRIPS, 0%, 2017 | 5,000,000 | 3,340,550 |
| | | \$ 30,396,396 |
| Asset Backed & Securitized 0.9% | | |
| Merrill Lynch Mortgage Trust, FRN, 5.829%, 2050 | \$ 750,000 | \$ 549,337 |
| Prudential Securities Secured Financing Corp., FRN, 7.258%, 2013 (z) | 1,819,000 | 1,560,609 |
| | | \$ 2,109,946 |
| Brokerage & Asset Managers 0.3% | | |
| Merrill Lynch & Co., Inc., 6.05%, 2016 | \$ 750,000 | \$ 741,825 |
| Medical & Health Technology & Services 0.2% | | |
| Covidien Ltd., 6.55%, 2037 (n) | \$ 500,000 | \$ 516,568 |
| Mortgage Backed 63.8% | | |
| Fannie Mae, 5.78%, 2008 | \$ 884,942 | \$ 884,575 |
| Fannie Mae, 4.79%, 2012 | 3,522,804 | 3,598,418 |
| Fannie Mae, 4.542%, 2013 | 835,121 | 838,143 |
| Fannie Mae, 5%, 2013 - 2027 | 2,805,274 | 2,860,822 |
| Fannie Mae, 5.06%, 2013 | 395,268 | 402,853 |
| Fannie Mae, 5.37%, 2013 | 1,025,600 | 1,071,031 |
| Fannie Mae, 4.556%, 2014 | 850,463 | 847,617 |
| Fannie Mae, 4.621%, 2014 | 2,030,930 | 2,031,298 |
| Fannie Mae, 4.77%, 2014 | 485,153 | 486,783 |
| Fannie Mae, 4.854%, 2014 | 3,100,019 | 3,129,682 |
| Fannie Mae, 4.871%, 2014 | 1,778,623 | 1,800,589 |
| Fannie Mae, 5.1%, 2014 | 519,856 | 533,265 |
| Fannie Mae, 4.7%, 2015 | 475,831 | 476,586 |
| Fannie Mae, 4.74%, 2015 | 385,302 | 383,236 |
| Fannie Mae, 4.78%, 2015 | 539,873 | 540,985 |
| Fannie Mae, 4.815%, 2015 | 543,000 | 541,236 |
| Fannie Mae, 4.82%, 2015 | 1,444,583 | 1,447,428 |
| Fannie Mae, 4.85%, 2015 | 339,052 | 342,527 |
| Fannie Mae, 4.86%, 2015 | 160,386 | 162,487 |
| Fannie Mae, 4.87%, 2015 | 359,270 | 362,573 |
| Fannie Mae, 4.89%, 2015 | 402,591 | 407,304 |
| Fannie Mae, 4.925%, 2015 | 1,331,072 | 1,339,240 |
| Fannie Mae, 5.471%, 2015 | 912,947 | 941,758 |
| Fannie Mae, 5.09%, 2016 | 500,000 | 505,601 |
| Fannie Mae, 5.423%, 2016 | 793,058 | 814,981 |
| Fannie Mae, 5.845%, 2016 | 475,282 | 504,933 |
| Fannie Mae, 6.5%, 2016 - 2036 | 7,361,217 | 7,690,137 |

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| | | |
|--------------------------------|------------|------------|
| Fannie Mae, 5.05%, 2017 | 525,300 | 529,583 |
| Fannie Mae, 5.3%, 2017 | 594,624 | 607,870 |
| Fannie Mae, 5.5%, 2017 - 2035 | 58,121,784 | 58,736,427 |
| Fannie Mae, 6%, 2017 - 2037 | 18,020,170 | 18,501,533 |
| Fannie Mae, 4.88%, 2020 | 336,234 | 341,930 |
| Freddie Mac, 4.5%, 2013 - 2021 | 1,154,921 | 1,158,151 |
| Freddie Mac, 5%, 2016 - 2027 | 7,507,567 | 7,631,493 |
| Freddie Mac, 6%, 2021 - 2036 | 2,705,940 | 2,771,203 |
| Freddie Mac, 5.5%, 2022 - 2035 | 13,314,984 | 13,521,078 |

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/29/08 - continued

| Issuer | Shares/Par | Value (\$) |
|--|--------------|-----------------------|
| Bonds continued | | |
| U.S. Bonds continued | | |
| Mortgage Backed continued | | |
| Freddie Mac, 3.75%, 2024 | 593,449 | \$ 593,580 |
| Freddie Mac, 4%, 2024 | 634,849 | 636,665 |
| Freddie Mac, 6.5%, 2037 | 2,850,744 | 2,962,122 |
| Ginnie Mae, 5.5%, 2033 | 6,591,320 | 6,753,443 |
| | | \$ 149,691,166 |
| Municipals 2.0% | | |
| California Educational Facilities Authority Rev. (Stanford University), T-1, 5%, 2039 | \$ 3,075,000 | \$ 3,008,549 |
| Gwinnett County Development Authority, GA, Certificates of Participation (Gwinnett County Public Schools Project), 5.25%, 2014 (c) | 755,000 | 820,693 |
| Minnesota Public Facilities Authority, Water Pollution Control Rev., B, 5%, 2018 | 895,000 | 950,669 |
| | | \$ 4,779,911 |
| Other Banks & Diversified Financials 0.3% | | |
| UBS Preferred Funding Trust V, 6.243% to 2016, FRN to 2049 | \$ 750,000 | \$ 702,573 |
| Real Estate 0.3% | | |
| Simon Property Group, Inc., REIT, 5.875%, 2017 | \$ 750,000 | \$ 714,539 |
| Retailers 0.1% | | |
| Target Corp., 6.5%, 2037 | \$ 231,000 | \$ 226,809 |
| U.S. Government Agencies 7.7% | | |
| Aid-Egypt, 4.45%, 2015 | 1,755,000 | \$ 1,843,136 |
| Farmer Mac, 5.5%, 2011 (n) | 3,010,000 | 3,256,188 |
| Small Business Administration, 8.875%, 2011 | 120,358 | 122,076 |
| Small Business Administration, 6.34%, 2021 | 896,570 | 947,867 |
| Small Business Administration, 6.35%, 2021 | 1,053,390 | 1,113,364 |
| Small Business Administration, 6.44%, 2021 | 881,486 | 933,738 |
| Small Business Administration, 6.625%, 2021 | 1,027,597 | 1,103,661 |
| Small Business Administration, 5.52%, 2024 | 1,154,906 | 1,205,484 |
| U.S. Department of Housing & Urban Development, 6.36%, 2016 | 1,580,000 | 1,712,865 |
| U.S. Department of Housing & Urban Development, 6.59%, 2016 | 5,612,000 | 5,693,256 |
| | | \$ 17,931,635 |
| U.S. Treasury Obligations 2.8% | | |
| U.S. Treasury Bonds, 11.25%, 2015 | \$ 499,000 | \$ 752,281 |
| U.S. Treasury Bonds, 4.375%, 2038 | 3,096,000 | 3,072,539 |
| U.S. Treasury Notes, 4.125%, 2012 (f) | 2,605,000 | 2,794,675 |
| | | \$ 6,619,495 |
| Total U.S. Bonds | | \$ 214,430,863 |

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Foreign Bonds 4.5%

Chile 0.8%

| | | |
|--|--------------|--------------|
| Codelco, Inc., 6.15%, 2036 | \$ 1,092,000 | \$ 1,083,482 |
| HQI Transelec Chile S.A., 7.875%, 2011 | 680,000 | 732,748 |
| | | \$ 1,816,230 |

Italy 0.4%

| | | |
|--|------------|------------|
| Enel Finance International S.A., 6.8%, 2037 (n) | \$ 750,000 | \$ 768,278 |
| Unicredito Luxembourg Finance S.A., 6%, 2017 (n) | 200,000 | 201,730 |
| | | \$ 970,008 |

Malaysia 0.6%

| | | |
|---|------------|------------|
| Petroliam Nasional Berhad, 7.625%, 2026 | \$ 739,000 | \$ 908,596 |
|---|------------|------------|

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MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/29/08 - continued

| Issuer | Shares/Par | Value (\$) |
|---|--------------|----------------|
| Bonds continued | | |
| Foreign Bonds continued | | |
| Malaysia continued | | |
| Petronas Capital Ltd., 7.875%, 2022 | \$ 433,000 | \$ 540,320 |
| | | \$ 1,448,916 |
| Mexico 0.8% | | |
| Pemex Project Funding Master Trust, 9.375%, 2008 | \$ 541,000 | \$ 564,263 |
| United Mexican States, 8.3%, 2031 | 128,000 | 165,120 |
| United Mexican States, 6.75%, 2034 | 932,000 | 1,024,268 |
| | | \$ 1,753,651 |
| Portugal 0.0% | | |
| EDP Finance B.V., 6%, 2018 (n) | \$ 100,000 | \$ 102,014 |
| Russia 1.0% | | |
| Gazprom International S.A., 7.201%, 2020 | \$ 670,331 | \$ 687,893 |
| OAO Gazprom, 6.51%, 2022 | 1,078,000 | 982,381 |
| OAO Gazprom, 7.288%, 2037 (n) | 315,000 | 293,360 |
| TransCapitalInvest Ltd., 5.67%, 2014 | 430,000 | 408,414 |
| | | \$ 2,372,048 |
| United Kingdom 0.5% | | |
| Diageo Capital PLC, 5.75%, 2017 | \$ 520,000 | \$ 535,229 |
| Royal Bank of Scotland Group PLC, 6.99% to 2017, FRN to 2049 (n) | 750,000 | 722,648 |
| | | \$ 1,257,877 |
| Trinidad & Tobago 0.4% | | |
| Republic of Trinidad & Tobago, 9.75%, 2020 | \$ 676,000 | \$ 905,164 |
| Total Foreign Bonds | | \$ 10,625,908 |
| Total Bonds | | \$ 225,056,771 |
| Repurchase Agreements 4.1% | | |
| Merrill Lynch, 3.20%, dated 2/29/08, due 3/03/08, total to be received \$9,617,564 (secured by various U.S. Treasury and Federal Agency obligations and Mortgage Backed securities in a jointly traded account) | \$ 9,615,000 | \$ 9,615,000 |
| Total Investments | | \$ 234,671,771 |
| Other Assets, Less Liabilities 0% | | (96,662) |
| Net Assets 100.0% | | \$ 234,575,109 |

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- (c) Refunded bond.
- (f) All or a portion of the security has been segregated as collateral for an open futures contract.
- (n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$5,860,786, representing 2.5% of net assets.
- (z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

| Restricted Securities | Acquisition Date | Acquisition Cost | Current Market Value |
|--|---------------------|---------------------|-------------------------|
| Prudential Securities Secured Financing Corp., FRN, 7.258%, 2013 | 12/06/04 | \$ 2,019,445 | \$ 1,560,609 |
| % of Net Assets | | | 0.7% |

The following abbreviations are used in this report and are defined:

- FRN Floating Rate Note. Interest rate resets periodically and may not be the rate reported at period end.
- REIT Real Estate Investment Trust
- STRIPS Separate Trading of Registered Interest and Principal of Securities

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/29/08 - continued

Abbreviations indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

DKK Danish Krone

EUR Euro

JPY Japanese Yen

SEK Swedish Krona

See attached supplemental information. For more information see notes to financial statements as disclosed in the most recent semiannual or annual report.

MFS Government Markets Income Trust

Supplemental Information (Unaudited) 2/29/08

(1) Fair Value Disclosure

The fund adopted FASB Statement No. 157, Fair Value Measurements (the Statement) in this reporting period. This Statement provides a single definition of fair value, a hierarchy for measuring fair value and expanded disclosures about fair value measurements.

Various inputs are used in determining the value of the fund's investments. These inputs are categorized into three broad levels. Level 1 include quoted prices in active markets for identical assets or liabilities. Level 2 include other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, credit risk, etc.). Level 3 include unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments not reflected in Total Investments, such as futures, forwards, swap contracts and written options, which are valued at the unrealized appreciation/depreciation on the instrument. The following is a summary of the levels used as of February 29, 2008 in valuing the fund's assets carried at market value:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|-----------|-------------|---------|-------------|
| Investments in Securities | | 234,671,771 | | 234,671,771 |
| Other Financial Instruments | (232,539) | | | (232,539) |

(2) Portfolio Securities

The cost and unrealized appreciation and depreciation in the value of the investments owned by the fund, as computed on a federal income tax basis, are as follows:

| | |
|--|----------------|
| Aggregate Cost | \$ 233,207,254 |
| Gross unrealized appreciation | \$ 3,521,524 |
| Gross unrealized depreciation | (2,057,007) |
| Net unrealized appreciation (depreciation) | \$ 1,464,517 |

The aggregate cost above includes prior fiscal year end tax adjustments.

(3) Derivative Contracts at 2/29/08

Forward Foreign Currency Exchange Contracts at 2/29/08

| Type | Currency | Contracts to Deliver/Receive | Settlement Date Range | In Exchange For | Contracts at Value | Net Unrealized Appreciation (Depreciation) |
|---------------------|----------|------------------------------|-----------------------|-----------------|--------------------|--|
| Appreciation | | | | | | |
| BUY | EUR | 999,300 | 3/17/08 | \$ 1,449,025 | \$ 1,517,380 | \$ 68,355 |
| BUY | JPY | 1,005,621,555 | 4/15/08 | 9,262,682 | 9,700,395 | 437,713 |
| BUY | SEK | 13,122 | 4/15/08 | 2,072 | 2,127 | 55 |
| | | | | | | \$ 506,123 |
| Depreciation | | | | | | |
| SELL | DKK | 32,471 | 4/15/08 | \$ 6,449 | \$ 6,611 | \$ (162) |
| SELL | EUR | 999,300 | 3/17/08 | 1,447,956 | 1,517,380 | (69,424) |

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| | | | | | | |
|------|-----|---------------|---------|-----------|-----------|--------------|
| SELL | JPY | 1,005,721,555 | 4/15/08 | 9,277,603 | 9,701,360 | (423,757) |
| | | | | | | \$ (493,343) |

Abbreviations indicate amounts shown in currencies other than the U.S. Dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below.

MFS Government Markets Income Trust - continued

Supplemental Information (Unaudited) 2/29/08

Futures contracts outstanding at 2/29/08

| Description | Contracts | Value | Expiration Date | Unrealized Appreciation (Depreciation) |
|----------------------------------|------------------|---------------|------------------------|---|
| U.S. Treasury Note 10 yr (Short) | 120 | \$ 14,073,750 | Jun-08 | \$ (361,036) |
| U.S. Treasury Note (Short) | 18 | 2,135,250 | Jun-08 | (67,703) |
| U.S. Treasury Note 5 yr (Long) | 96 | 10,968,000 | Jun-08 | 183,420 |
| | | | | \$ (245,319) |

At February 29, 2008, the fund had sufficient cash and/or other liquid securities to cover any commitments under these derivative contracts.

ITEM 2. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as conducted within 90 days of the filing date of this Form N-Q, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto.

Notice

A copy of the Amended and Restated Declaration of Trust, as amended, of the Registrant is on file with the Secretary of State of The Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

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: MFS GOVERNMENT MARKETS INCOME TRUST

By (Signature and Title)* ROBERT J. MANNING
Robert J. Manning, President

Date: April 14, 2008

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

By (Signature and Title)* ROBERT J. MANNING
Robert J. Manning, President

(Principal Executive Officer)

Date: April 14, 2008

By (Signature and Title)* MARIA F. DWYER
Maria F. Dwyer, Treasurer

(Principal Financial Officer and Accounting Officer)

Date: April 14, 2008

* Print name and title of each signing officer under his or her signature.