

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
October 26, 2006

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)

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

Date of fiscal year end: November 30

Date of reporting period: August 31, 2006

ITEM 1. SCHEDULE OF INVESTMENTS.

MFS(R) Government Markets Income Trust

8/31/06

Quarterly portfolio holdings

[graphic omitted]

M F S(R)
INVESTMENT MANAGEMENT

MFS Government Markets Income Trust
PORTFOLIO OF INVESTMENTS (Unaudited) 08/31/2006

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ISSUER

BONDS - 97.3%

U.S. BONDS - 86.6%

AGENCY - OTHER - 7.9%

Financing Corp., 10.7%, 2017

\$

Financing Corp., 9.4%, 2018

Financing Corp., 9.8%, 2018

Financing Corp., 10.35%, 2018

Financing Corp., STRIPS, 0%, 2017

ASSET BACKED & SECURITIZED - 0.5%

Prudential Securities Secured Financing Corp., FRN, 7.4499%, 2013 (z)

\$

MORTGAGE BACKED - 48.9%

Fannie Mae, 7.007%, 2007

\$

Fannie Mae, 4.79%, 2012

Fannie Mae, 4.543%, 2013

Fannie Mae, 4.65%, 2013

Fannie Mae, 4.8%, 2013

Fannie Mae, 4.845%, 2013

Fannie Mae, 5%, 2013 - 2027

Fannie Mae, 5.06%, 2013

Fannie Mae, 5.37%, 2013

Fannie Mae, 4.45%, 2014

Fannie Mae, 4.519%, 2014

Fannie Mae, 4.6%, 2014

Fannie Mae, 4.667%, 2014

Fannie Mae, 4.77%, 2014

Fannie Mae, 4.847%, 2014

Fannie Mae, 4.871%, 2014

Fannie Mae, 5.1%, 2014

Fannie Mae, 4.56%, 2015

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Fannie Mae, 4.62%, 2015

Fannie Mae, 4.665%, 2015

Fannie Mae, 4.69%, 2015

Fannie Mae, 4.7%, 2015

Fannie Mae, 4.74%, 2015

Fannie Mae, 4.815%, 2015

Fannie Mae, 4.82%, 2015

Fannie Mae, 4.85%, 2015

Fannie Mae, 4.87%, 2015

Fannie Mae, 4.89%, 2015

Fannie Mae, 4.925%, 2015

Fannie Mae, 5.48%, 2015

Fannie Mae, 5.423%, 2016

Fannie Mae, 6.5%, 2016 - 2036

Fannie Mae, 5.5%, 2017 - 2035

Fannie Mae, 6%, 2017 - 2034

Fannie Mae, 4.5%, 2019

Fannie Mae, 4.88%, 2020

Freddie Mac, 4.5%, 2013 - 2015

Freddie Mac, 4.375%, 2015

Freddie Mac, 5%, 2016 - 2025

Freddie Mac, 6%, 2021 - 2035

Freddie Mac, 5.5%, 2025 - 2035

Ginnie Mae, 5.5%, 2033

U.S. GOVERNMENT AGENCIES - 14.6%

Aid-Egypt, 4.45%, 2015

\$

Aid-Israel, 0%, 2021 - 2024

Fannie Mae, 4.625%, 2013

Farmer Mac, 5.5%, 2011 (a)

Federal Home Loan Bank, 4.5%, 2007

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Federal Home Loan Bank, 4.625%, 2008

Freddie Mac, 4.2%, 2007

Overseas Private Investment Corp., 0%, 2007

Small Business Administration, 8.875%, 2011

Small Business Administration, 6.34%, 2021

Small Business Administration, 6.35%, 2021

Small Business Administration, 6.44%, 2021

Small Business Administration, 6.625%, 2021

Small Business Administration, 4.98%, 2023

Small Business Administration, 4.34%, 2024

Small Business Administration, 4.72%, 2024

Small Business Administration, 4.77%, 2024

Small Business Administration, 4.86%, 2024 - 2025

Small Business Administration, 4.87%, 2024

Small Business Administration, 5.52%, 2024

Small Business Administration, 4.76%, 2025

Small Business Administration, 5.11%, 2025

U.S. Department of Housing & Urban Development, 6.36%, 2016

U.S. Department of Housing & Urban Development, 6.59%, 2016

U.S. TREASURY OBLIGATIONS - 14.7%

U.S. Treasury Bonds, 10.375%, 2012

\$

U.S. Treasury Bonds, 12%, 2013

U.S. Treasury Bonds, 8.75%, 2017

U.S. Treasury Bonds, 4.5%, 2036

U.S. Treasury Notes, 6.5%, 2010 (f)

U.S. Treasury Notes, 4.25%, 2015

U.S. Treasury Notes, TIPS, 3.875%, 2009

Total U.S. Bonds

FOREIGN BONDS - 10.7%

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AUSTRALIA - 0.0%		
Commonwealth of Australia, 6.5%, 2013		AUD

AUSTRIA - 0.5%		
Republic of Austria, 5.5%, 2007		EUR

BRAZIL - 0.0%		
Federative Republic of Brazil, 8%, 2018		\$

CANADA - 0.1%		
Government of Canada, 4.5%, 2015		CAD
Government of Canada, 8%, 2023		CAD

CAYMAN ISLANDS - 0.0%		
Petroleum Export/Cayman, 5.265%, 2011 (a)		\$

CHILE - 0.4%		
HQI Transelec Chile S.A., 7.875%, 2011		\$
Republic of Chile, FRN, 5.9%, 2008		

DENMARK - 0.1%		
Kingdom of Denmark, 4%, 2015		DKK

FINLAND - 0.9%		
Republic of Finland, 5.375%, 2013		EUR

FRANCE - 1.1%		
Republic of France, 4.75%, 2007		EUR
Republic of France, 4.75%, 2012		EUR
Republic of France, 6%, 2025		EUR

GERMANY - 1.5%		
Federal Republic of Germany, 3.5%, 2008		EUR
Federal Republic of Germany, 3.75%, 2015		EUR
Federal Republic of Germany, 6.25%, 2030		EUR
KfW Bankengruppe, FRN, 3.164%, 2007		EUR
Landesbank Baden-Wurttemberg, 3.217%, 2007		EUR

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Landesbank Baden-Wurttemberg, FRN, 3.092%, 2007	EUR
Landesbank Baden-Wuttemberg, FRN, 2.961%, 2007	EUR

IRELAND - 1.2%	
Republic of Ireland, 4.25%, 2007	EUR
Republic of Ireland, 4.6%, 2016	EUR

MALAYSIA - 0.1%	
Petronas Capital Ltd., 7.875%, 2022	\$

MEXICO - 0.7%	
Pemex Project Funding Master Trust, 9.375%, 2008	\$
United Mexican States, 8.125%, 2019	
United Mexican States, 8.3%, 2031	

NETHERLANDS - 0.9%	
Kingdom of Netherlands, 5.75%, 2007	EUR
Kingdom of Netherlands, 3.75%, 2009	EUR

NORWAY - 0.0%	
Kingdom of Norway, 5%, 2015	NOK

PANAMA - 0.2%	
Republic of Panama, 9.375%, 2029	\$

RUSSIA - 0.4%	
Russian Federation, 3%, 2008	\$

SOUTH AFRICA - 0.3%	
Republic of South Africa, 9.125%, 2009	\$

SPAIN - 0.8%	
Kingdom of Spain, 6%, 2008	EUR
Kingdom of Spain, 5.35%, 2011	EUR

UNITED KINGDOM - 1.5%	

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Network Rail MTN Finance PLC, FRN, 3.255%, 2007	EUR
United Kingdom Treasury, 5.75%, 2009	GBP
United Kingdom Treasury, 5%, 2012	GBP
United Kingdom Treasury, 8%, 2015	GBP

Total Foreign Bonds

TOTAL BONDS

REPURCHASE AGREEMENTS - 2.2%

Merrill Lynch & Co., 5.28%, dated 8/31/06, due 9/01/06, total to be received \$8,260,211 (secured by various U.S. Treasury and Federal Agency obligations and Mortgage Backed securities in a jointly traded account) \$

TOTAL INVESTMENTS (k)

OTHER ASSETS, LESS LIABILITIES - 0.5%

NET ASSETS - 100.0%

- (a) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities transactions exempt from registration, normally to qualified institutional buyers. At period end these securities was \$3,151,381, representing 0.9% of net assets.
- (f) All or a portion of the security has been segregated as collateral for an open futures contract.
- (k) As of August 31, 2006, the trust held securities fair valued in accordance with the policies of the Trustees, aggregating \$355,829,300 and 96.74% of market value, of which 96.57% of market value was obtained from an independent pricing service using an evaluated bid.
- (z) Restricted securities are not registered under the Securities Act of 1933 and are subject to restrictions. These securities generally may be resold in transactions exempt from registration or to the public if subsequently registered. Disposal of these securities may involve time-consuming negotiations and an acceptable price may be difficult. The trust holds the following restricted security:

RESTRICTED SECURITIES	ACQUISITION DATE	ACQUISITION COST	CURRENT MARKET VALUE	TOTAL NET
Prudential Securities Secured Financing Corp., FRN, 7.4499%, 2013	12/06/04	\$2,019,445	\$1,923,107	

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

FRN Floating Rate Note. The interest rate is the rate in effect as of period end.
 STRIPS Separate Trading of Registered Interest and Principal of Securities
 TIPS Treasury Inflation Protected Security

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

AUD Australian Dollar
 CAD Canadian Dollar
 DKK Danish Krone
 EUR Euro
 GBP British Pound
 NOK Norwegian Krone
 NZD New Zealand Dollar

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See attached schedules. For more information see notes to financial statements as disclosed in the annual report.

MFS GOVERNMENT MARKETS INCOME TRUST

SUPPLEMENTAL SCHEDULES (UNAUDITED) 08/31/2006

(1) PORTFOLIO SECURITIES

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

Aggregate Cost	\$377,408,617
	=====
Gross unrealized appreciation	\$ 2,402,346
Gross unrealized depreciation	(11,985,283)

Net unrealized appreciation (depreciation)	\$ (9,582,937)
	=====

(2) FINANCIAL INSTRUMENTS

DERIVATIVES

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

Sales and Purchases in the table below are reported by currency.

	CONTRACTS TO DELIVER/RECEIVE	SETTLEMENT DATE	IN EXCHANGE FOR	CONTRACTS AT VALUE	NET U APPRE (DEPR

SALES					

AUD	138,988	10/10/06	\$ 105,673	\$ 106,070	\$ (
DKK	956,487	10/25/06	164,538	164,840	(
EUR	20,970,926	10/04/06 - 10/20/06	27,015,550	26,948,929	66,
GBP	2,323,571	10/02/06	4,340,804	4,428,167	(87,
NOK	998,635	9/11/06	159,020	158,101	(9,
NZD	248,939	10/10/06	153,623	162,815	(9,
			-----	-----	-----
			\$31,939,208	\$31,968,922	\$ (29,
			=====	=====	=====
PURCHASES					

EUR	263,734	10/04/06	\$ 336,487	\$ 338,654	\$ 2,
NZD	261,094	10/10/06	166,244	170,765	4,
			-----	-----	-----
			\$ 502,731	\$ 509,419	\$ 6,
			=====	=====	=====

At August 31, 2006, forward foreign currency purchases and sales under master netting agreements above amounted to a net payable of \$3,984 with Merrill Lynch International.

FUTURES CONTRACTS

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	CONTRACTS	VALUE	EXPIRATION DATE	UNREALIZED APPRECIATION (DEPRECIATION)
U.S. Treasury Bond 10 yr (Long)	31	\$3,328,625	Dec-06	\$ 6,431
U.S. Treasury Note 5 yr (Short)	54	5,675,906	Dec-06	(14,533)
U.S. Treasury Bond (Short)	59	6,552,688	Dec-06	(14,957)
				\$ (23,059)
				=====

At August 31, 2006, the trust had sufficient cash and/or securities to cover any commitments under 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 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

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By (Signature and Title)* MARIA F. DWYER

Maria F. Dwyer, President

Date: October 19, 2006

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)* MARIA F. DWYER

Maria F. Dwyer, President (Principal Executive Officer)

Date: October 19, 2006

By (Signature and Title)* TRACY ATKINSON

Tracy Atkinson, Treasurer (Principal Financial Officer and Accounting Officer)

Date: October 19, 2006

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