

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
April 29, 2005

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)

James F. DesMarais
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: February 28, 2005

ITEM 1. SCHEDULE OF INVESTMENTS.

MFS(R) Mutual Funds

QUARTERLY PORTFOLIO HOLDINGS 2/28/05

MFS(R) GOVERNMENT MARKETS INCOME TRUST

[graphic omitted]

[logo] M F S(R)
INVESTMENT MANAGEMENT

THE TRUST IS A CLOSED-END INVESTMENT PRODUCT. SHARES OF THE TRUST ARE ONLY AVAILABLE FOR PURCHASE/SALE ON THE NYSE AT THE CURRENT MARKET PRICE. SHARES MAY TRADE AT A PREMIUM OR DISCOUNT TO NAV.

Visit MFS.COM for the latest information about your investment.

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- o Annual and semiannual reports contain information regarding the specific securities held in the fund and how the fund has performed over the period.
- o Week in Review provides a look at key events influencing U.S. and global financial markets for the week.
- o MFS Global Perspective is a commentary and analysis of markets around the globe.
- o Chief Investment Strategist Corner is a commentary by James Swanson, MFS' Chief Investment Strategist.

A fact sheet, annual, and semiannual report for the fund can be accessed by clicking "Closed End Funds" on the home page. Week in Review, MFS Global Perspective, and Chief Investment Strategist Corner are located under "Updates and Announcements."

The portfolio is actively managed, and current holdings may be different.

MFS Government Markets Income Trust
PORTFOLIO OF INVESTMENTS (Unaudited) 02/28/2005

ISSUER

BONDS - 94.3%

U.S. BONDS - 80.3%

AGENCY - OTHER - 5.8%

Financing Corp., 10.7%, 2017

Financing Corp., 9.8%, 2018

Financing Corp., 10.35%, 2018

ASSET BACKED & SECURITIZED - 0.7%

Freddie Mac, 3.108%, 2035

Prudential Securities Secured Financing Corp., 7.3874%, 2013##

FINANCIAL INSTITUTIONS - 0.8%

SLM Corp., 2.92%, 2007

MORTGAGE BACKED - 47.7%

Fannie Mae, 6.942%, 2007

Fannie Mae, 4.79%, 2012

Fannie Mae, 5%, 2013 - 2019

Fannie Mae, 4.8%, 2013

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Fannie Mae, 4.845%, 2013

Fannie Mae, 5.06%, 2013

Fannie Mae, 4.65%, 2013

Fannie Mae, 4.45%, 2014

Fannie Mae, 4.652%, 2014

Fannie Mae, 4.771%, 2014

Fannie Mae, 4.846%, 2014

Fannie Mae, 5.1%, 2014

Fannie Mae, 4.62%, 2015

Fannie Mae, 4.82%, 2015

Fannie Mae, 6.5%, 2016 - 2033

Fannie Mae, 6%, 2016 - 2034

Fannie Mae, 5.5%, 2017 - 2034

Fannie Mae, 4.5%, 2019

Freddie Mac, 7.5%, 2028

U.S. GOVERNMENT AGENCIES - 13.1%

Aid to Israel, 0%, 2024

Fannie Mae, 3.41%, 2007

Fannie Mae, 4.625%, 2014

Freddie Mac, 5.05%, 2015

Overseas Private Investment Corp., 0%, 2007

Small Business Administration, 8.875%, 2011

Small Business Administration, 6.35%, 2021

Small Business Administration, 6.34%, 2021

Small Business Administration, 6.44%, 2021

Small Business Administration, 6.625%, 2021

Small Business Administration, 4.98%, 2023

Small Business Administration, 4.72%, 2024

Small Business Administration, 4.34%, 2024

Small Business Administration, 4.77%, 2024

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 Small Business Administration, 5.52%, 2024

Small Business Administration, 4.86%, 2024 - 2025

Small Business Administration, 4.87%, 2024

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

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

 U.S. TREASURY OBLIGATIONS - 12.2%

U.S. Treasury Bonds, 10.375%, 2012

U.S. Treasury Bonds, 12%, 2013

U.S. Treasury Bonds, 8.875%, 2017

U.S. Treasury Notes, 3.375%, 2007

U.S. Treasury Notes, 3.625%, 2008###

U.S. Treasury Notes, 2%, 2014

U.S. Treasury STRIPS, 0%, 2016

 Total U.S. Bonds

FOREIGN BONDS - 14.0%

AUSTRALIA - 0.1%

Commonwealth of Australia, 6%, 2017

AUD

 AUSTRIA - 0.6%

Republic of Austria, 5.5%, 2007

EUR

Republic of Austria, 5%, 2012

EUR

Republic of Austria, 4.65%, 2018

EUR

 BELGIUM - 0.3%

Kingdom of Belgium, 3.75%, 2009

EUR

Kingdom of Belgium, 5%, 2012

EUR

 BRAZIL - 0.4%

Federal Republic of Brazil, 8%, 2014

CANADA - 1.0%

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| | |
|---|-----|
| Canada Housing Trust, 4.65%, 2009 | CAD |
| Government of Canada, 5.25%, 2008 | |
| Government of Canada, 5.5%, 2010 | CAD |
| Government of Canada, 5.25%, 2012 | CAD |
| Government of Canada, 8%, 2023 | CAD |
| ----- | |
| CHILE - 0.1% | |
| ----- | |
| Compania Nacional de Transmision Electrica S.A. (Transelec), 7.875%, 2011 | |
| ----- | |
| FINLAND - 0.7% | |
| ----- | |
| Republic of Finland, 2.75%, 2006 | EUR |
| Republic of Finland, 3%, 2008 | EUR |
| Republic of Finland, 5.375%, 2013 | EUR |
| ----- | |
| FRANCE - 0.8% | |
| ----- | |
| Republic of France, 4.75%, 2007 | EUR |
| Republic of France, 4%, 2009 | EUR |
| ----- | |
| GERMANY - 1.8% | |
| ----- | |
| Federal Republic of Germany, 4%, 2007 - 2009 | EUR |
| Federal Republic of Germany, 3.5%, 2008 | EUR |
| Federal Republic of Germany, 3.75%, 2015 | EUR |
| Federal Republic of Germany, 6.25%, 2030 | EUR |
| ----- | |
| IRELAND - 1.0% | |
| ----- | |
| Republic of Ireland, 4.25%, 2007 | EUR |
| Republic of Ireland, 4.6%, 2016 | EUR |
| ----- | |
| MALAYSIA - 0.2% | |
| ----- | |
| Petroliam Nasional Berhad, 7.75%, 2015 | |
| ----- | |
| MEXICO - 0.9% | |
| ----- | |
| Pemex Project Funding Master Trust, 9.375%, 2008## | |

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 Pemex Project Funding Master Trust, 8.625%, 2022

United Mexican States, 8.125%, 2019

United Mexican States, 8%, 2022

 NETHERLANDS - 1.0%

Kingdom of Netherlands, 5.75%, 2007

EUR

Kingdom of Netherlands, 3.75%, 2009

EUR

 NEW ZEALAND - 0.7%

Government of New Zealand, 7%, 2009

NZD

Government of New Zealand, 6.5%, 2013

NZD

 PANAMA - 0.3%

Republic of Panama, 9.375%, 2023 - 2029

Republic of Panama, 8.875%, 2027

 QATAR - 0.4%

State of Qatar, 9.75%, 2030

RUSSIA - 0.8%

Russian Federation, 3%, 2008

Russian Federation, 11%, 2018

Russian Ministry of Finance, 12.75%, 2028

 SOUTH AFRICA - 0.5%

Republic of South Africa, 9.125%, 2009

Republic of South Africa, 8.5%, 2017

 SPAIN - 1.6%

Kingdom of Spain, 7%, 2005

Kingdom of Spain, 6%, 2008

EUR

Kingdom of Spain, 5.35%, 2011

EUR

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UNITED KINGDOM - 0.8%

United Kingdom Treasury, 7.25%, 2007 GBP

United Kingdom Treasury, 5.75%, 2009 GBP

United Kingdom Treasury, 8%, 2015 GBP

Total Foreign Bonds

Total Bonds (Identified Cost, \$364,695,871)

REPURCHASE AGREEMENT - 4.3%

Goldman Sachs, 2.61%, dated 2/28/2005, due 3/01/2005, total to be received
\$17,086,239 (secured by various U.S. Treasury and Federal Agency obligations
in a jointly traded account), at Cost

Total Investments (Identified Cost, \$381,780,871)

OTHER ASSETS, LESS LIABILITIES - 1.4%

Net Assets - 100.0%

SEC Rule 144A restriction

Security segregated as collateral for open futures contracts.

All amounts are stated in U.S. dollars unless otherwise indicated.

Abbreviations have been used throughout this report to indicate amounts shown in currencies other than the U.S. dollar. A list of abbreviations is shown below

AUD = Australian Dollar
CAD = Canadian Dollar
CHF = Swiss Franc
DKK = Danish Krone
EUR = Euro
GBP = British Pound
NOK = Norwegian Krone
NZD = New Zealand Dollar
SEK = Swedish Krona

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

MFS GOVERNMENT MARKETS INCOME TRUST
SUPPLEMENTAL SCHEDULES (UNAUDITED)

(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:

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| | |
|--|---------------|
| Aggregate cost | \$386,105,825 |
| | ----- |
| Gross unrealized appreciation | \$ 7,677,166 |
| Gross unrealized depreciation | (4,190,041) |
| | ----- |
| Net unrealized appreciation (depreciation) | \$ 3,487,125 |
| | ===== |

(2) FINANCIAL INSTRUMENTS

The trust trades financial instruments with off-balance-sheet risk in the normal course of its investing activities in order to manage exposure to market risks such as interest rates and foreign currency exchange rates. These financial instruments include forward foreign currency exchange contracts and futures contracts. The notional or contractual amounts of these instruments represent the investment the trust has in particular classes of financial instruments and does not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

Forward Foreign Currency Exchange Contracts

| SETTLEMENT DATE | CONTRACTS TO DELIVER/RECEIVE | IN EXCHANGE FOR | CONTRACTS AT VALUE | NET APP (DEP) | |
|---------------------|---------------------------------|-----------------|-----------------------|---------------------|-----|
| SALES | | | | | |
| 4/11/2005 | AUD | 916,819 | \$ 697,947 | \$ 723,476 | (\$ |
| 3/4/2005-4/25/2005 | EUR | 20,634,429 | 26,526,855 | 27,363,742 | |
| 3/10/2005 | GBP | 1,719,058 | 3,214,639 | 3,302,356 | |
| 4/11/2005 | NZD | 3,815,347 | 2,646,840 | 2,763,544 | |
| | | | ----- | ----- | --- |
| | | | \$ 33,086,281 | \$ 34,153,118 | (\$ |
| | | | ===== | ===== | === |
| PURCHASES | | | | | |
| 4/11/2005 | AUD | 464,615 | \$ 364,521 | \$ 366,635 | \$ |
| 4/11/2005 | CHF | 1,162,135 | 957,278 | 1,003,399 | |
| 4/11/2005 | DKK | 391,346 | 67,305 | 69,729 | |
| 4/25/2005 | EUR | 616,210 | 814,815 | 817,387 | |
| 3/4/2005 | NOK | 6,220,000 | 983,508 | 1,002,879 | |
| 3/14/2005-4/14/2005 | SEK | 15,587,218 | 2,209,115 | 2,281,695 | |
| | | | ----- | ----- | --- |
| | | | \$ 5,396,542 | \$ 5,541,724 | \$ |
| | | | ===== | ===== | === |

At February 28, 2005, forward foreign currency purchases and sales under master netting agreements excluded above amounted to a net payable of \$39,776 with Merrill Lynch International.

At February 28, 2005, the trust had sufficient cash and/or securities to cover any commitments under these contracts.

Futures Contracts

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| Description | Expiration | Contracts | Position | Unrealized Appreciation (Depreciation) |
|----------------------------|------------|-----------|----------|--|
| U.S. Treasury Note 10 Year | March 2005 | 115 | Long | (\$ 63,813) |
| U.S. Treasury Note 2 Year | March 2005 | 87 | Short | \$ 98,876 |
| U.S. Treasury Note 5 Year | March 2005 | 54 | Short | \$ 65,937 |
| U.S. Treasury Long Bond | March 2005 | 39 | Long | (22,152) |
| | | | | ----- |
| | | | | \$ 78,848 |
| | | | | ===== |

At February 28, 2005, the trust had sufficient cash and/or securities to cover any margin requirements under these contracts.

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ITEM 2. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the registrant's disclosure controls and procedures 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 Investment Company Act of 1940 (the "Act")) that occurred during the registrant's last fiscal quarter that has materially affected, or is 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.

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 22, 2005

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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 22, 2005

By (Signature and Title)* RICHARD M. HISEY

Richard M. Hisey, Treasurer (Principal Financial Officer and Accounting Officer)

Date: April 22, 2005

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